Maruti Suzuki India (MRTI.BO)

Equity

Buy: Aug09 – Domestic Growth Trajectory Improves

- **What's New?** — MSIL reported solid domestic sales growth over the month (+29% y/y, substantially above expectations) driven by the A2 segment (+c39% Y/Y) and the A3 segment, which continued its solid growth streak – up 44% y/y, though MoM sales reported a decline.
- **Domestic Volumes Guidance Revised Upwards for FY10** — to 10%, from earlier guidance of 5%. Management notes that both footfalls to showrooms and customer inquiries remain healthy. We factor 10% for FY10 but believe there are upside risks to these estimates.
- **Model Mix Continues to Improve** — The model/revenue mix is increasingly tilted toward fresher/younger products. Management noted that while models <5 years are now just <40% of volumes, from a revenue perspective these account for 60-67% of revenues, underscoring that the realisation mix continues to improve.
- **Exports strong, but growth rate not sustainable** — The growth this month is accentuated by a low base. Management also noted that export volumes are being stimulated by the fiscal incentives in Europe – the probability of volume growth decelerating from this monthly trend rate is somewhat low.
- **Mixed Impact of Festive Seasons** — Growth in the domestic market is also slightly accentuated because in Aug08, the period of 'Shraddh' had occurred – a period when buyers typically eschew purchases. This year, Shraadh will occur in the month of Sept, but mgmt doesn't expect it to impact volume growth as it will be offset by the "Navraatra" festival, an auspicious period when buying revives. Maintain Buy (1L).

Buy/Low Risk	**1L**
Price (01 Sep 09)	Rs1,545.95
Target price	Rs1,542.00
Expected share price return	-0.3%
Expected dividend yield	0.4%
Expected total return	**0.1%**
Market Cap	Rs446,641M
	US$9,173M

Price Performance (RIC: MRTI.BO, BB: MSIL IN)

Figure 1. MSIL – Aug09 Sales

	Aug-09 Nos	% chg YoY	% chg over July	FY10 YTD (Nos)	% chg YoY
A1 (M800)	2734	(26.4)	(2.2)	12649	-50.0
C (Omni, Versa)	6601	0.9	(9.6)	36136	7.7
A2	52473	39.3	9.1	247321	25.0
A3 (Dezire, SX4)	7821	44.1	(14.1)	36869	34.7
MUV (Gypsy, Vitara)	332	-56.4	55.1	1,929	-35.2
Total Domestic	**69,961**	**29.3**	**3.6**	**334,904**	**16.6**
Exports	14847	156.2	40.8	54,707	128.7
Overall	**84,808**	**41.6**	**8.6**	**389,611**	**25.3**

Source: Company

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See Appendix A-1 for Analyst Certification and important disclosures.

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	25.8	36.6	21.4	16.6	14.4
EV/EBITDA adjusted (x)	18.1	28.2	14.5	11.3	9.7
P/BV (x)	5.3	4.8	4.0	3.3	2.7
Dividend yield (%)	0.3	0.2	0.4	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	59.91	42.19	72.26	93.34	107.24
EPS reported	59.91	42.19	72.26	93.34	107.24
BVPS	291.28	323.45	389.28	475.60	575.82
DPS	5.00	3.50	5.50	6.00	6.00
Profit & Loss (RsM)					
Net sales	179,362	204,554	260,563	316,098	368,887
Operating expenses	-162,612	-197,270	-240,634	-290,172	-340,099
EBIT	**16,751**	**7,284**	**19,929**	**25,926**	**28,788**
Net interest expense	-596	-510	-450	-350	-300
Non-operating/exceptionals	8,876	9,985	10,344	12,948	15,773
Pre-tax profit	**25,030**	**16,759**	**29,824**	**38,524**	**44,261**
Tax	-7,722	-4,571	-8,947	-11,557	-13,278
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**17,308**	**12,188**	**20,876**	**26,967**	**30,983**
Adjusted earnings	17,308	12,188	20,876	26,967	30,983
Adjusted EBITDA	22,432	14,349	27,818	34,600	38,029
Growth Rates (%)					
Sales	22.4	14.0	27.4	21.3	16.7
EBIT adjusted	-2.6	-56.5	173.6	30.1	11.0
EBITDA adjusted	12.7	-36.0	93.9	24.4	9.9
EPS adjusted	10.8	-29.6	71.3	29.2	14.9
Cash Flow (RsM)					
Operating cash flow	**22,750**	**17,040**	**28,573**	**33,324**	**38,388**
Depreciation/amortization	5,682	7,065	7,889	8,674	9,240
Net working capital	-266	-2,063	-192	-2,316	-1,835
Investing cash flow	**-34,739**	**4,016**	**-45,725**	**-30,514**	**-36,860**
Capital expenditure	-17,024	-16,058	-18,000	-12,000	-12,000
Acquisitions/disposals	-17,715	20,074	-27,725	-18,514	-24,860
Financing cash flow	**1,001**	**-4,906**	**-520**	**-1,528**	**-1,528**
Borrowings	2,694	-2,013	1,339	500	500
Dividends paid	-1,691	-1,183	-1,859	-2,028	-2,028
Change in cash	**-10,988**	**16,150**	**-17,673**	**1,283**	**0**
Balance Sheet (RsM)					
Total assets	**123,044**	**135,965**	**158,949**	**187,492**	**219,546**
Cash & cash equivalent	3,240	19,390	1,717	3,000	3,000
Accounts receivable	6,555	9,189	11,422	13,856	16,170
Net fixed assets	40,328	49,321	59,432	62,758	65,518
Total liabilities	**38,890**	**42,516**	**46,483**	**50,087**	**53,186**
Accounts payable	8,549	4,553	10,708	12,990	15,160
Total Debt	9,002	6,989	8,328	8,828	9,328
Shareholders' funds	**84,154**	**93,449**	**112,466**	**137,405**	**166,360**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.5	7.0	10.7	10.9	10.3
ROE adjusted	22.7	13.7	20.3	21.6	20.4
ROIC adjusted	23.6	5.5	18.0	20.4	20.4
Net debt to equity	6.8	-13.3	5.9	4.2	3.8
Total debt to capital	9.7	7.0	6.9	6.0	5.3

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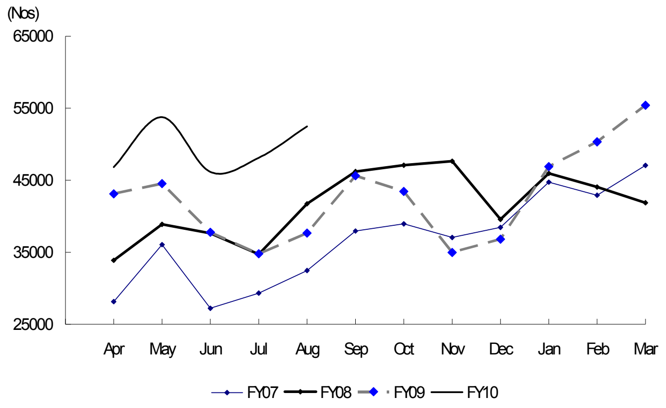
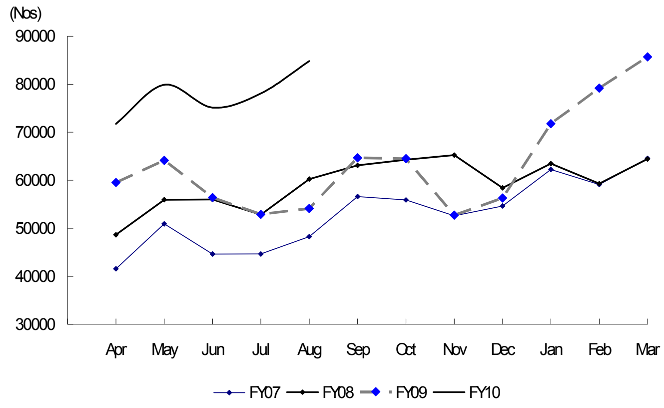
Figure 2. MSIL – A2 Segmental Sales



Source: Company

Figure 3. MSIL – Overall Sales



Source: Company

Maruti Suzuki India

Company description

Maruti is a subsidiary of Suzuki Motor Corp (holds a 54% equity stake). With its early-mover advantage in the Indian market, Maruti is a dominant player in the domestic passenger car market with a c.50% market share. It is re-positioning itself to become a global production hub of Suzuki over the medium term.

Investment strategy

We rate Maruti shares Buy. Over FY10-12e, we expect the Indian car market to resume growth at the trend rate of 12-15%, driven by a) low penetration levels, b) resumption of financing, and c) a decline of c10% in the overall cost of ownership. Maruti is best positioned to benefit from this growth, in our view, given its dominance in the domestic car market. The company's rising penetration in the diesel car market gives it a more balanced product mix than two years ago, while export initiatives will reduce its dependence on the domestic car market. We estimate earnings and cash earnings CAGRs of 36% and 28%, respectively, over FY09-12e, driven by unit sales CAGR of 16% and margin expansion.

Valuation

Our target price for Maruti of Rs1,542 is based on 12.5x Mar FY11e cash earnings (CEPS = PAT + depreciation). At 12.5x, we value MSIL at 25% over its historical average of 10x; given the earnings CAGR of 36% over FY09-FY12e, and the fact that the earnings upgrade cycle has yet to meaningfully commence, we believe that a higher multiple is justified. We estimate a cash earnings CAGR of 28% over FY09-FY12E, which should support valuations, in our view. On our target multiple, Maruti would trade at FY11E P/E of 16.5x, at a slight premium to broader Sensex valuations and merited, in our view given strong earnings CAGR over next few years. We prefer price/cash earnings as a valuation metric for the automobile sector, given the industry's high capital intensity (both in terms of capacity and product development). Moreover, MSIL's depreciation policy is per IFRS standards, and is thus more aggressive than those of peers.

Risks

We rate Maruti Low Risk. This is below our quantitative risk-rating system, which tracks 260-day historical share price volatility, but warranted by improving macro trends for the auto sector, in our view. Upside risks that could prevent the stock from reaching our target price include: 1) greater than forecast increase in volumes and realizations; and 2) decline in competitive intensity. Downside risks include: 1) sales of passenger vehicles are sensitive to economic variables with an appreciable rise in interest rates potentially hitting volume growth across the auto sector; 2) revised emission and safety norms could bring cost pressures; 3) competitive pressures in the Indian market continue to increase, which could impact margins over the longer term; 4) higher than forecast increase in commodity costs.

Appendix A-1

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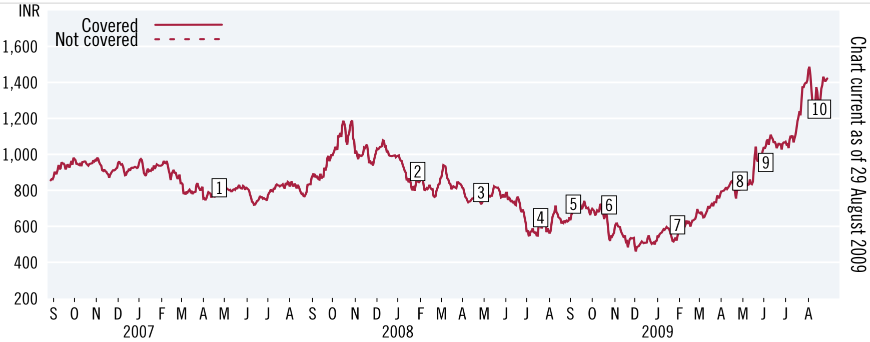
Maruti Suzuki India (MRTI.BO)
Ratings and Target Price History
Fundamental Research
Analyst: Jamshed Dadabhoy



	Date	Rating	Target Price	Closing Price
1	24-Apr-07	1L	*945.00	794.40
2	29-Jan-08	1L	*1,012.00	857.20
3	28-Apr-08	*2L	*807.00	722.35
4	21-Jul-08	2L	*713.00	648.20
5	4-Sep-08	2L	*716.00	683.90
6	24-Oct-08	*2M	*633.00	533.55
7	29-Jan-09	2M	*596.00	544.80
8	28-Apr-09	*2L	*863.00	800.65
9	3-Jun-09	2L	*1,079.00	1,045.70
10	18-Aug-09	*1L	*1,542.00	1,302.55

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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