

RESULTS

REVIEW

Maruti Suzuki India Ltd.

One-off employee cost hit profitability; margin woes to continue...

HOLD

Analyst

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Nifty: 5,512; Sensex: 18,396

CMP	Rs1,234
Target Price	Rs1,224
Potential Upside/Downside	(1)%

Key Stock Data

Sector	Automobiles
Bloomberg / Reuters	MSIL IN / MRTI.BO
Shares o/s (mn)	288.9
Market cap. (Rs mn)	356,385
Market cap. (US\$ mn)	7,792
3-m daily average vol.	38,317

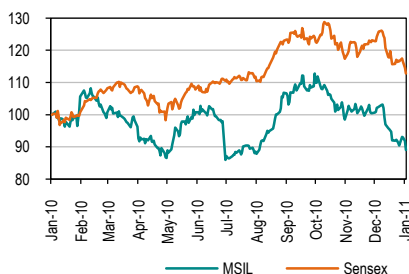
Price Performance

52-week high/low	Rs1,600/1,171
	-1m -3m -12m
Absolute (%)	(12) (19) (11)
Rel to Sensex (%)	(4) (11) (24)

Shareholding Pattern (%)

Promoters	54.2
FII/IRIs/OCBs/GDR	21.1
MFs/Banks/FIs	17.0
Non Promoter Corporate	5.2
Public & Others	2.5

Relative to Sensex



Source: Capitaline

Summary

Maruti Suzuki's Q3FY11 results were marginally below estimate on top line (lower than expected exports realization) and bottom line (one-off employee cost). The margin outlook for the company continues to be gloomy, despite expectation of strong volume momentum, led by rising commodity costs, deteriorating mix, unfavourable currency movement and limited pricing power. We continue to be cautious on the stock. Nonetheless, with recent price correction of ~13% over the past one month, we upgrade the stock to HOLD from REDUCE, with price target of Rs1,224 (13x FY12E).

Result highlights

Net sales grew 27% YoY to Rs95 bn (lower than estimate of Rs96 bn on lower than expected exports realisation), led by 28% volume growth and 1% dip in realization (despite price hikes, fall in blended realization is mainly attributable to weak product mix in domestic market and lower export realization on fall in exports to Europe and unfavourable forex movement – Euro depreciation).

EBITDA was below estimates at Rs9 bn, down 21% (vs. our estimate of Rs9.9 bn) with EBITDA margin at 9.5% (down 560bps YoY, 100bps QoQ), negatively impacted by higher input costs (RMC/sales at 78.4% vs. 74.5% in Q3FY10 and 77.4% in Q2FY11), led by weak product mix and unfavourable forex movement (Euro depreciation and Yen appreciation). The deviation from estimates was led primarily by higher than expected employee costs at Rs2.3 bn or 2.4% of sales vs. our estimate of Rs1.6 bn or 1.7% of sales. The higher employee cost included restructuring of employee compensation (recurring impact of ~20bps, one time impact of ~55bps as full year impact was given in Q3FY11). Adjusting for such deviation, EBITDA was only marginally below our estimate. Royalty came in line with our estimates at 5.1% of sales vs. 3.6% in Q3FY10.

PAT declined 18% to Rs5.7 bn (Rs6.2 bn), below our estimates, led by weak operating performance despite higher than expected other income (Rs1.3 bn vs. our estimate of Rs1.2 bn).

■ **Revising earnings estimates downwards by 1-2%; upgrade to HOLD**

We maintain our volume estimates for FY11/12 at 1.27/1.43 mn units. We downgrade our margin estimate for FY11 by 27bps to 10%, to factor in weak margin performance during Q3FY11. Nonetheless, we maintain our margin estimate for FY12 at 10.3%. Resultantly, **our earnings are revised downwards by 2%/0.6% for FY11/12 to Rs78.8/94.1 (YoY decline of 9%/growth of 19% for FY11/12).**

We continue to remain optimistic on Maruti's volume growth potential for FY11/FY12. Nonetheless, we expect margin pressures to continue in the wake of rising commodity prices, adverse mix, limited pricing power (as competition continues to intensify) and currency exposure. The stock trades at 15.7x FY11E and 13x FY12E. **We upgrade Maruti to HOLD from REDUCE, post price correction of ~13% over the past one month and price target of Rs1,224 (13x FY12E – lower than 5-year median forward PE of ~15x).**

Table: Financial snapshot

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY09	206,838	18,600	9.0	12,187	42.2	-	-	13.7	11.6
FY10	293,632	37,187	12.7	24,976	86.4	14.3	7.9	23.6	25.0
FY11E	368,827	36,791	10.0	22,768	78.8	15.7	7.9	17.7	19.6
FY12E	423,218	43,444	10.3	27,195	94.1	13.1	6.2	17.9	20.7

Source: Company; IDBI Capital Research

Table: Quarterly snapshot

(Rs mn)

	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)	9MFY11	9MFY10	YoY (%)
Net Sales	94,945	75,029	26.5	91,473	3.8	268,733	211,985	26.8
Stock Adjustment	1,498	(1,311)	(214.2)	(1,482)	(201.0)	565	(2,061)	(127.4)
Raw material	72,958	57,213	27.5	72,238	1.0	208,749	162,069	28.8
Raw mat cons	74,455	55,902	33.2	70,756	5.2	209,314	160,007	30.8
% net sales	78.4	74.5	(3.9)	77.4	(1.1)	77.9	75.5	(2.4)
Employee Expenses	2,325	1,325	75.5	1,568	48.2	5,502	3,923	40.3
% net sales	2.4	1.8	(0.7)	1.7	(0.7)	2.0	1.9	(0.2)
Other Expenses	9,147	6,464	41.5	9,545	(4.2)	27,370	19,623	39.5
% net sales	9.6	8.6	(1.0)	10.4	0.8	10.2	9.3	(0.9)
Total expenditure	85,927	63,690	34.9	81,870	5.0	242,186	183,553	31.9
EBITDA	9,018	11,339	(20.5)	9,603	(6.1)	26,546	28,432	(6.6)
Margin %	9.5	15.1	(5.6)	10.5	(1.0)	9.9	13.4	(3.5)
Other Income	1,283	913	40.6	1,340	(4.3)	3,624	4,178	(13.2)
Interest	4	84	(95.7)	97	(96.3)	181	207	(12.5)
Depreciation	2,369	2,028	16.8	2,382	(0.5)	7,168	6,020	19.1
PBT	7,928	10,140	(21.8)	8,464	(6.3)	22,822	26,383	(13.5)
Total tax	2,276	3,265	(30.3)	2,481	(8.3)	6,534	7,973	(18.0)
% PBT	28.7	32.2	(3.5)	29.3	(0.6)	28.6	30.2	(1.6)
PAT	5,652	6,875	(17.8)	5,982	(5.5)	16,288	18,410	(11.5)
Extraordinary Items	-	-	-	-	-	-	-	-
Reported PAT	5,652	6,875	(17.8)	5,982	(5.5)	16,288	18,410	(11.5)
NPM (%)	6.0	9.2	(3.2)	6.5	(0.6)	6.1	8.7	(2.6)
EPS (Rs)	19.6	23.8	(17.8)	20.7	(5.5)	56.4	63.7	(11.5)
Equity	1,445	1,445		1,445		1,445	1,445	

Source: Company; IDBI Capital Research

Key concall highlights

- The company continues to witness strong demand momentum on the ground. It believes that rising cost of credit, concerns of finance availability and higher fuel costs are key monitorables that impact demand in the long run, however, it has not seen any impact of these variables as of now.
- Production capacity slated to expand to 1.4 mn units (1.3 mn units currently) from April 2011 onwards. Capacity increase at Manesar of 250k units to come in during H2FY12.
- Management indicated that price hike taken in January 2011 is not sufficient to cover up for input cost pressures and that it will continue to fight margin pressures through internal cost efficiencies and productivity enhancement measures.
- During 9MFY11, unfavourable forex movement impacted margin by 1.2% of sales and adverse product mix impacted margin by 1% of sales.
- Exports revenue for Q3FY11/9MFY11 was at Rs8.4 bn/Rs29.6 bn (down 36%/17% YoY). 30% of its Q3FY11 exports were Euro denominated, while balance was US\$ denominated.
- The company has hedged its Yen exposure till February 2011, post which it has decided to keep its Yen position open as it expects Yen to depreciate against US\$. It has hedged first six months of FY12 exports for Euro hedge.
- The company's own localization level is at 90%, while including vendors, the localization level falls to 77%.
- Royalty outgo was down ~30bps QoQ on lower proportion of exports and higher proportion of non-royalty bearing exports.
- CNG launches have been able to achieve ~20% penetration in areas where they have been launched (NCR, Gujarat, Mumbai and some parts of Andhra Pradesh).
- Rural demand contributed ~20% of Q3FY11 volumes.
- Average discount for Q3FY11 was at Rs10,700 vs. ~Rs9,700 in Q3FY10 and ~Rs8,500 in Q2FY11, which impacted profitability in this quarter.
- The company has not seen any major impact of Toyota Etios launch and continues to witness waiting period of ~2 months for D'zire.
- Proportion of first time buyers for the company has come down to 45% from 52% four years back.
- 66% of company's vehicles have been financed during 9MFY11.
- Top 10 cities contributed ~40% of volumes in 9MFY11.
- 70% of Swift and D'zire volume and 55% of Ritz volume are from diesel variants.

Table: Vehicle sales

								Units
	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)	9MFY11	9MFY10	YoY (%)
Volumes	330,687	258,026	28.2	313,654	5.4	927,665	730,943	26.9
Domestic	299,527	218,910	36.8	277,936	7.8	820,350	625,408	31.2
Exports	31,160	39,116	(20.3)	35,718	(12.8)	107,315	105,535	1.7
Total Cars	286,184	232,920	22.9	271,240	5.5	804,238	659,249	22.0
Domestic Cars	255,024	193,804	31.6	235,522	8.3	696,923	553,714	25.9
M800	6,869	8,738	(21.4)	5,207	31.9	18,982	24,594	(22.8)
Alto, Zen, Wagon R, Swift	216,057	159,678	35.3	198,953	8.6	585,523	459,507	27.4
DZire, SX4	32,098	25,388	26.4	31,362	2.3	92,418	69,613	32.8
Exports Cars	31,160	39,116	(20.3)	35,718	(12.8)	107,315	105,535	1.7
Total MUVs	44,503	25,106	77.3	42,414	4.9	123,427	71,694	72.2
Omni, Versa, Eeco	43,612	24,426	78.5	41,596	4.8	118,729	68,859	72.4
Gypsy, Grand Vitara	891	680	31.0	818	8.9	4,698	2,835	65.7

Source: Company, SIAM

Table: Per vehicle

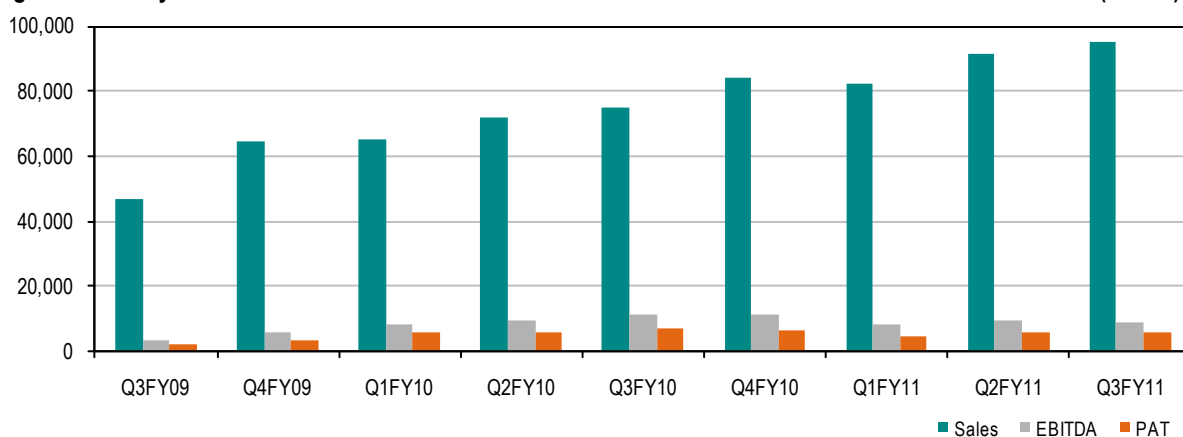
(Rs)

	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)	9MFY11	9MFY10	YoY (%)
Realisation - blended	287,113	290,779	(1.3)	291,636	(1.6)	289,687	290,015	(0.1)
Domestic realisation	288,971	283,771	1.8	293,423	(1.5)	291,488	282,098	3.3
Exports realisation	269,255	330,000	(18.4)	277,731	(3.1)	275,917	336,934	(18.1)
Material cost	225,152	216,651	3.9	225,587	(0.2)	225,635	218,906	3.1
Employee cost	7,029	5,133	36.9	5,000	40.6	5,931	5,367	10.5
Other expenses	27,661	25,051	10.4	30,432	(9.1)	29,505	26,845	9.9
EBITDA	27,270	43,944	(37.9)	30,617	(10.9)	28,616	38,897	(26.4)

Source: Company; IDBI Capital Research

Figure: Quarterly trend in financials

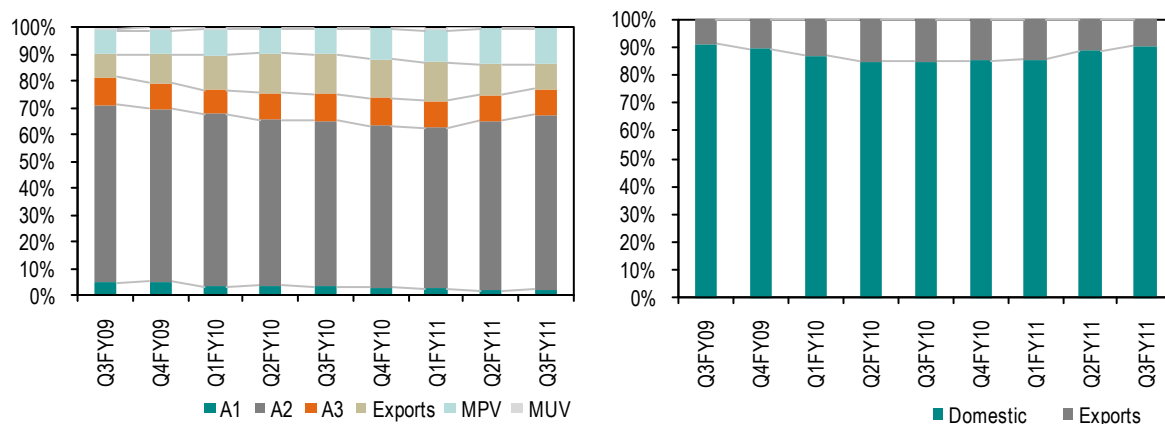
(Rs mn)



Source: Company; IDBI Capital Research

Figure: Volume and geography mix

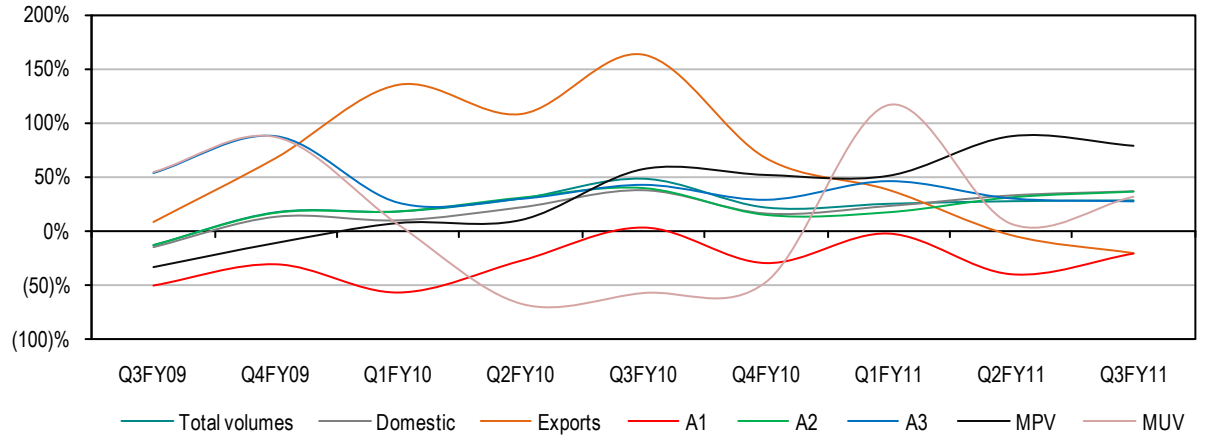
(%)



Source: Company; SIAM, IDBI Capital Research

Figure: Segment wise growth

(%)



Source: Company; SIAM; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
Net sales	206,838	293,632	368,827	423,218
Growth (%)	14.0	42.0	25.6	14.7
Operating expenses	(188,238)	(256,445)	(332,036)	(379,774)
EBITDA	18,600	37,187	36,791	43,444
Growth (%)	(25.6)	99.9	(1.1)	18.1
Depreciation	(7,065)	(8,250)	(9,556)	(10,219)
EBIT	11,535	28,937	27,235	33,225
Interest paid	(510)	(335)	(270)	(243)
Other income	5,733	7,323	4,942	5,320
Pre-tax profit	16,758	35,925	31,906	38,302
Tax	(4,571)	(10,949)	(9,138)	(11,108)
Effective tax rate (%)	27.3	30.5	28.6	29.0
Net profit	12,187	24,976	22,768	27,195
Adjusted net profit	12,187	24,976	22,768	27,195
Growth (%)	(31.6)	104.9	(8.8)	19.4
Shares o/s (mn nos)	289	289	289	289

Balance Sheet

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
Net fixed assets	49,321	54,123	72,191	78,472
Investments	120	120	120	120
Other non-curr assets	789	836	836	836
Current assets	86,524	109,370	116,962	140,299
Inventories	9,023	12,088	15,035	17,257
Sundry Debtors	9,189	8,099	10,183	11,687
Cash and Bank	51,003	72,628	74,403	94,008
Loans and advances	17,309	16,555	17,340	17,347
Total assets	136,754	164,449	190,109	219,727
Shareholders' funds	93,449	118,351	139,090	164,256
Share capital	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	116,906	137,645	162,812
Total Debt	6,989	8,214	7,179	6,115
Secured loans	1	265	265	265
Unsecured loans	6,988	7,949	6,914	5,850
Other liabilities	9,329	10,420	9,385	8,321
Curr Liab & prov	35,764	37,982	44,159	49,676
Current liabilities	33,976	35,678	41,634	47,150
Provisions	1,788	2,304	2,525	2,526
Total liabilities	43,305	46,098	51,019	55,471
Total equity & liabilities	136,754	164,449	190,109	219,727
Book Value (Rs)	323	410	481	569

Cash Flow Statement

(Rs mn)

Year-end: March	FY09	FY10	FY11E	FY12E
Pre-tax profit	16,758	35,925	31,906	38,302
Depreciation	6,610	7,322	9,556	10,219
Tax paid	(4,310)	(10,007)	(10,183)	(10,911)
Chg in working capital	(2,031)	(1,480)	1,178	1,587
Other operating activities	-	-	-	-
Cash flow from operations (a)	17,027	31,760	32,457	39,198
Capital expenditure	(15,603)	(12,124)	(27,624)	(16,500)
Chg in investments	20,074	(40,033)	7,930	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	4,471	(52,157)	(19,694)	(16,500)
Equity raised/(repaid)	(0)	-	-	-
Debt raised/(repaid)	(2,013)	1,225	(1,035)	(1,065)
Dividend (incl. tax)	(1,691)	(1,183)	(2,021)	(2,028)
Chg in minorities	-	-	-	-
Other financing activities	(1,709)	1,947	(1)	(0)
Cash flow from financing (c)	(5,414)	1,989	(3,057)	(3,093)
Net chg in cash (a+b+c)	16,085	(18,408)	9,706	19,605

Financial Ratios

Year-end: March	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	42.2	86.4	78.8	94.1
Adj EPS growth (%)	(31.6)	104.9	(8.8)	19.4
EBITDA margin (%)	9.0	12.7	10.0	10.3
Pre-tax margin (%)	8.1	12.2	8.7	9.1
ROE (%)	13.7	23.6	17.7	17.9
ROCE (%)	11.6	25.0	19.6	20.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.9	2.1	2.1
Leverage factor (x)	1.5	1.4	1.4	1.4
Net margin (%)	5.9	8.5	6.2	6.4
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)
Working Capital & Liquidity ratios				
Inventory days	16	15	15	15
Receivable days	16	10	10	10
Payable days	50	33	33	33

Valuation

Year-end: March	FY09	FY10	FY11E	FY12E
PER (x)	29.2	14.3	15.7	13.1
Price / Book value (x)	3.8	3.0	2.6	2.2
PCE (x)	18.5	10.7	11.0	9.5
EV / Net sales (x)	1.5	1.0	0.8	0.6
EV / EBITDA (x)	16.8	7.9	7.9	6.2
Dividend Yield (%)	0.3	0.5	0.5	0.5



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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