

Maruti Suzuki India Ltd.

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Hit by macro uncertainties

We met the Maruti Suzuki India Ltd. (MSIL) management to ascertain the business outlook. Management appeared more concerned about the macro uncertainties, primarily, the lack of liquidity and risk aversion by lending institutions. MSIL emphasised its focus on new product introductions and a stable export strategy.

The stock price has run up over the last one month on account of a number of positive announcements from the government and the Central Bank. However, we do not see any substantial impact on MSIL's business performance in the near term. In view of continued uncertainty and a sharp stock price rally, we downgrade the stock to Underperformer with an unchanged target price of Rs 587. However, the stock may continue to see some interest due to bias towards interest rate-sensitive sectors. Will revisit our recommendation in case we sense any business turnaround, going ahead.

Demand scenario remains challenging: MSIL's management maintains that the customers are acting cautiously under the prevailing uncertain environment. Add to this, the lack of sufficient liquidity too is hurting the demand. Financing of vehicles for the company has dipped to ~65% from 75-80% earlier. ICICI has pulled back significantly, with the current share within MSIL sales falling to 5% vis-à-vis 50%+ in the past. PSU banks have seen a sharp increase in their share of financing for Maruti vehicles. Though the excise duty cut and reduction in fuel prices have led to an increase in foot falls, it is still very difficult to gauge the extent of recovery in demand. Contribution from sale to government employees has seen strong improvement (8k /mth against 3k/mth earlier) due to MSIL's focused strategy, which it would continue.

Export plans on track: Export plans of A-Star are on track. Shipments would start from Jan'09 and would contribute ~15,000 units in FY09. Management maintains that the demand for small cars in target markets have been witnessing a positive trend, barring few small exceptions. There has been no change in order book (till Jun'09) from Suzuki distributors in the EU. Key competition for A-Star in these markets will come from Toyota Aygo, Hyundai i-10 and Fiat Punto.

Will reduce waiting period for diesel cars soon: MSIL is working towards reducing the waiting period for diesel variants of *Swift* and *Dzire*, which it targets to achieve by the first half of Q4FY09. Currently, MSIL is facing assembly line bottlenecks for these products, which it targets to overcome by shifting the production to the Gurgaon plant and/or realigning the lines in Manesar.

Focus on engine capacity expansion: MSIL will focus on adding engine capacities. While the K-series (P) engine capacity will be raised from the current 2.4 lakh units to 5 lakh units over the next 2 years, the diesel engine capacity will go up from 1.3 lakh units to 2 lakh units by end Mar'09.

Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Sales	120,522	146,538	179,362	197,036	225,690
Growth, %	9.9	21.6	22.4	9.9	14.5
EBIDTA	18,295	21,746	25,053	21,510	25,994
EBIDTA margins, %	15.0	14.7	13.8	10.7	11.3
Net profit	11,837	15,160	16,838	13,915	16,957
Net profit margin, %	9.8	10.3	9.4	7.1	7.5
EPS, Rs	41.0	52.5	58.3	48.1	58.7
EPS Growth, %	48.5	28.1	11.1	(17.4)	21.9
PER, x	13.8	10.8	9.7	11.8	9.7
EV/EBIDTA, x	8.2	7.2	6.2	7.8	6.3
EV/Net Sales, x	1.2	1.1	0.9	0.8	0.7
Price/Book Value, x	3.0	2.4	2.0	1.7	1.5
ROIC, %	39.8	43.6	32.5	18.4	18.0
ROE, %	24.1	24.6	22.1	15.5	16.5
Dividend Yield, %	0.6	0.8	1.1	1.2	1.4

Source: Company, MF Global India Research Estimates

Downgrade to Underperformer
Rs 567 / Target Rs 587 (+3%)

Sector Rating

OW	N	UW

Stock Rating

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for

- Business Outlook
- Rating change

Bloomberg code : MUL IN
Reuters code : MRTI.BO
www.marutiudyog.com

BSE Sensex : 10076
NSE Nifty : 3061

Company data

O/S shares :	289mn
Market cap (Rs) :	155bn
Market cap (USD) :	3.3bn
52 - wk Hi/Lo (Rs) :	1043 / 433
Avg. daily vol. (3mth) :	1.3mn
Face Value (Rs) :	5

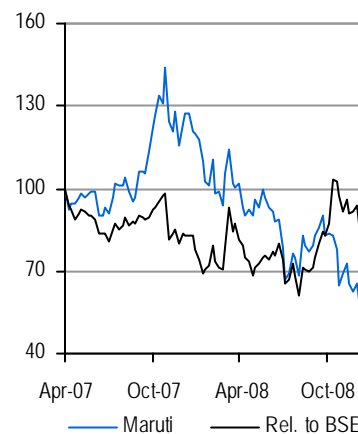
Share holding pattern, %

Promoters :	54.2
FII / NRI :	15.8
FI / MF :	23.5
Non Promoter Corp. Holdings :	3.5
Public & Others :	3.0

Price performance, %

	1mth	3mth	1yr
Abs	17.6	-24.8	-47.1
Rel to BSE	4.9	-0.5	0.1

Price vs. Sensex



Source: Bloomberg, MF Global India Research

Other Key takeaways:

- Input cost benefits to be visible from Q4FY09.
- May have to take the inventory hit of excise duty cut, though not finalized yet.
- Inventory stands at ~55,000 units, about 40 days of domestic sales.
- A-Star has received good market response, targets 50,000 units in the domestic market for FY10.
- Corporate sales (15% of volumes) may get impacted due to the ongoing slowdown and cost-cutting measures by the corporates.
- A fully Indian car is likely to be launched by MSIL by 2012/13. Capabilities for this will be in place by 2010/11.

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net sales	120,522	146,538	179,362	197,036	225,690
<i>Growth, %</i>	9.9	21.6	22.4	9.9	14.5
Op. Other income	1,629	1,749	2,430	3,187	3,725
Total income	122,151	148,287	181,792	200,223	229,416
Operating expenses	103,856	126,541	156,739	178,713	203,422
EBITDA	18,295	21,746	25,053	21,510	25,994
<i>Growth, %</i>	19.9	18.9	15.2	(14.1)	20.8
<i>Margin, %</i>	15.0	14.7	13.8	10.7	11.3
Depreciation	2,854	2,714	5,682	6,664	7,722
EBIT	15,441	19,032	19,371	14,846	18,272
<i>Growth, %</i>	44.4	23.3	1.8	(23.4)	23.1
<i>Margin, %</i>	12.8	13.0	10.8	7.5	8.1
Interest received	1,069	1,109	1,275	1,658	1,824
Interest paid	204	376	596	776	797
Net interest	-865	-733	-679	-882	-1,027
Forex gains/(losses)	-400	-94	810	-500	0
Non-recurring items	1,540	2,667	3,700	4,650	4,925
Pre-tax profit	17,446	22,338	24,560	19,878	24,224
Tax provided	5,609	7,178	7,722	5,963	7,267
MF Profit after tax	11,837	15,160	16,838	13,915	16,957
<i>Growth, %</i>	48.5	28.1	11.1	(17.4)	21.9
Reported PAT	11,891	15,619	17,308	13,915	16,957
Extraordinary items: Gains/(Losses)	54	459	470	0	0
Unadj. shares (m)	289	289	289	289	289
Wtd avg shares (m)	289	289	289	289	289

Cash Flow

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
PBT	17,446	22,338	24,560	19,878	24,224
Depreciation, amortisation	2,854	2,714	5,682	6,664	7,722
Chg in working capital	-276	4,406	-6,418	-3,333	-4,440
Total taxes paid	-5,609	-7,178	-7,722	-5,963	-7,267
Other operating activities	-78	459	0	0	0
Cash flow from operating activities (a)	14,337	22,739	16,102	17,245	20,239
Capex	-1,568	-13,828	-13,994	-19,003	-15,777
Investments dec (inc)	-5,346	-13,580	0	-7,500	0
Other investing activities	-98	380	470	0	0
Cash flow from investing activities (b)	-7,012	-27,028	-13,524	-26,503	-15,777
Free cash flow	7,325	-4,289	2,578	-1,758	4,461
Debt raised/(repaid)	-2,359	5,591	2,150	1,500	0
Dividend (incl tax)	-1,153	-1,519	-1,968	-2,296	-2,624
Other financial activities	-91	429	0	0	0
Cash flow from financing activities (c)	-3,603	4,501	182	-796	-2,624
Net Cash flow	3,722	212	2,760	-10,054	1,837

Balance Sheet

As at 31st Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Cash & bank	14,016	14,228	16,988	6,933	8,771
Marketable securities at cost	111	111	111	111	111
Debtors	6,461	7,474	9,828	11,876	14,840
Inventory	8,812	7,132	12,285	13,496	15,458
Loans & advances	7,662	9,241	10,762	12,807	14,670
Other current assets	458	384	384	384	384
Total current assets	23,393	24,231	33,259	38,563	45,352
Investments	20,401	33,981	33,981	41,481	41,481
Gross fixed assets	49,546	61,468	74,857	93,851	109,351
Less: Depreciation	32,594	34,871	40,553	47,217	54,938
Add: Capital WIP	920	2,389	2,994	3,003	3,281
Net fixed assets	17,872	28,986	37,299	49,638	57,693
Non-current assets	37,494	61,292	69,605	89,444	97,499
Total assets	75,014	99,862	119,962	135,051	151,733
Current liabilities	15,058	20,110	21,882	23,876	25,636
Provisions	4,713	4,905	5,744	5,720	6,309
Total current liabilities	19,771	25,015	27,625	29,596	31,945
Non-current liabilities	717	6,308	8,458	9,958	9,958
Total liabilities	20,488	31,323	36,083	39,554	41,903
Paid-up capital	1,445	1,445	1,445	1,445	1,445
Reserves & surplus	53,081	67,094	82,434	94,052	108,385
Shareholders' equity	54,526	68,539	83,878	95,497	109,830
Total equity & liabilities	75,014	99,862	119,962	135,051	151,733

Per-share data

	FY2006	FY2007	FY2008	FY2009E	FY2010E
MF EPS (INR)	41.0	52.5	58.3	48.1	58.7
Growth, %	48.5	28.1	11.1	(17.4)	21.9
Book NAV/share (INR)	188.7	237.2	290.2	330.4	380.0
FDEPS (INR)	41.0	52.5	58.3	48.1	58.7
CEPS (INR)	50.8	61.8	77.9	71.2	85.4
CFPS (INR)	43.4	71.0	42.9	43.6	53.0
DPS (INR)	3.5	4.5	6.0	7.0	8.0

Financial structure

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Operating cash flow/Total debt (x)	19.7	4.6	2.1	1.7	2.0
Total debt/Equity (x)	0.0	0.1	0.1	0.1	0.1
Net debt/Equity (x)	(0.2)	(0.1)	(0.1)	0.0	0.0

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Return on assets (%)	17.1	17.4	15.4	11.2	12.0
Return on equity (%)	24.1	24.6	22.1	15.5	16.5
Return on Invested capital (%)	39.8	43.6	32.5	18.4	18.0
RoIC/Cost of capital (x)	3.2	3.4	2.6	1.4	1.4
RoIC - Cost of capital (%)	27.2	30.7	19.8	5.7	5.3
Return on capital employed (%)	21.3	22.6	20.4	14.5	15.4
Cost of capital (%)	12.6	12.8	12.7	12.7	12.8
RoCE - Cost of capital (%)	8.6	9.8	7.7	1.8	2.7
Asset turnover (x)	4.6	4.9	4.4	3.5	3.2
Sales/Total assets (x)	1.7	1.7	1.6	1.5	1.6
Sales/Net FA (x)	6.5	6.3	5.4	4.5	4.2
Working capital/Sales (x)	0.1	0.0	0.0	0.0	0.1
Fixed capital/Sales (x)	0.1	0.2	0.0	0.0	0.0
Receivable days	20	19	20	22	24
Inventory days	27	18	25	25	25
Payable days	20	26	25	26	26
Current ratio (x)	2.5	1.5	1.7	1.5	1.7
Quick ratio (x)	1.9	1.2	1.3	1.0	1.2
Interest cover (x)	n/a	n/a	n/a	n/a	n/a
Dividend cover (x)	11.7	11.7	9.7	6.9	7.3
PER (x)	13.8	10.8	9.7	11.8	9.7
PEG (x) – 2yr CAGR			27.6		
PCE (x)	11.2	9.2	7.3	8.0	6.6
PCF (x)	13.1	8.0	13.2	13.0	10.7
Price/Book (x)	3.0	2.4	2.0	1.7	1.5
Yield (%)	0.6	0.8	1.1	1.2	1.4
EV/Net sales (x)	1.2	1.1	0.9	0.8	0.7
EV/EBITDA (x)	8.2	7.2	6.2	7.8	6.3
EV/EBIT (x)	9.7	8.2	8.0	11.2	9.0
EV/NOPLAT (x)	14.4	12.1	11.7	16.0	12.9
EV/CE	2.5	2.1	1.7	1.6	1.4
EV/IC (x)	5.7	5.3	3.8	3.0	2.3

Source: Company, MF Global India Research Estimates

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