Maruti Suzuki India Ltd

Q3 marginally ahead; stock correction a buying opportunity

Maruti Suzuki's (MSIL) Q3FY11 results were marginally ahead of our estimates, after adjusting for arrears paid to employees post wage settlement. The stock has corrected 21% post Q2 results, and is now trading at attractive valuations in our view. We maintain that though margins will remain subdued to flattish, volumes would stay robust. While we broadly maintain our estimates, we have slightly reduced our margin expectations, leading to 4%/5% lower earnings for FY12/FY13. The stock is now trading at 12.8x FY12E earnings and 6.1x EV/EBITDA. We value the stock at 15x Dec '12E earnings at Rs 1,575 (vs. Rs 1,600 earlier), and see a 28% upside from current levels. We hence upgrade MSIL from HOLD to BUY.

Q3 performance marginally ahead: MSIL reported net revenues of Rs 94.9bn (+26.5% YoY, +3.5% QoQ) for Q3FY11, largely driven by a robust volume growth (+28.2% YoY, +5.4% QoQ). Realisations dipped marginally (-1.3% YoY, -1.5% QoQ) due to an adverse product mix and lower export realisations. EBITDA margins stood at 9.5%, but adjusted for arrear payment to employees, would have come in at 10%—marginally ahead of our estimates. Reported net profit stood at Rs 5.6bn (-17.8% YoY, -5.5% QoQ) for the quarter.

Maintain healthy outlook on volumes; expect margins to remain flattish: We maintain our volume growth expectation of 18%/15% for FY12/FY13 as we expect discretionary spending to remain strong and competition to continue facing capacity constraints. MSIL is further de-bottlenecking its capacities so as to produce ~6,500 units more p.m. beginning April; moreover, its new plant is expected to come on stream in H2FY12.

We expect MSIL to continue clocking EBITDA margins of 10% in FY12 as we note that (a) with increased capacity, the company will benefit from a better product mix and operating leverage (b) a lower share of exports will lead to lower freight and royalty costs (c) a further 10% increase in key commodity costs can be offset by just a ~1.3% price increase and MSIL has effected price hikes in line with competition in FY11. This apart, the company could additionally benefit from depreciation in the Yen (note that S&P recently downgraded Japan) and every 1% depreciation could potentially add 2.5% to our EPS.

Upgrade to BUY, upside potential at 28%: While we broadly maintain our estimates for the company, we build in slightly lower margins, leading to 4%/5% lower EPS for FY12/FY13. We note that the stock has corrected 21% in the last quarter and is now trading at attractive valuations of 12.8x FY12E earnings and 6x EV/EBITDA. We hence upgrade the stock from HOLD to BUY.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 1,229	Rs 1,575	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532500	MARUTI	MSIL IN

Company data

Market cap (Rs mn / US$ mn)	355,172/7,762
Outstanding equity shares (mn)	289
Free float (%)	46
Dividend yield (%)	0.7
52-week high/low (Rs)	1,600/1,127
2-month average daily volume	325,092

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
MSIL	1,229	(13.3)	(20.8)	2.6
BSE Auto	8,842	(13.6)	(10.8)	5.0
Sensex	18,396	(10.3)	(8.2)	3.0

Valuation matrix

(x)	FY10	FY11	FY12E	FY13E
P/E @ CMP	13.4	15.3	12.8	11.3
P/E @ Target	18.4	21.0	17.5	15.5
EV/EBITDA @ CMP	6.6	7.4	6.1	5.5

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	296,238	356,702	429,610	505,887
Growth (%)	41.6	20.4	20.4	17.8
Adj net income	25,073	22,042	26,358	29,878
Growth (%)	103.6	(12.1)	19.6	13.4
FDEPS (Rs)	86.8	76.3	91.2	103.4
Growth (%)	103.6	(12.1)	19.6	13.4

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	13.4	10.0	10.0	9.5
EBIT margin	10.6	7.4	7.4	7.0
Adj PAT margin	8.5	6.2	6.1	5.9
ROE	23.7	17.2	17.6	17.1
ROIC	36.2	25.6	24.9	24.9
ROCE	22.3	16.6	17.4	16.9

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Result highlights

Adjusted for payment of arrears to employees, EBITDA margins were slightly ahead of estimates

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance	Consensus	% Variance
Revenue	94,945	97,642	(2.8)	95,595	(0.7)
EBITDA	9,018	9,321	(3.2)	9,501	(5.1)
Adj net income	5,652	5,676	(0.4)	6,027	(6.2)
FDEPS (Rs)	19.6	19.6	(0.4)	20.9	(6.3)

Source: RCML Research

Other expenses were below estimates on lower-than-expected selling, transportation and royalty expenses

Volumes grew 28% YoY and 5% QoQ to drive revenues

Fig 2 - Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Net sales	94,945	75,029	26.5	91,473	3.8
Expenditure	85,927	63,689	34.9	81,869	5.0
EBITDA	9,018	11,339	(20.5)	9,604	(6.1)
EBITDA Margin (%)	9.5	15.1	(560 bps)	10.5	(100 bps)
Other income	1,283	913	40.6	1,340	(4.3)
Interest	4	84	(95.7)	97	(96.3)
Depreciation	2,369	2,028	16.8	2,382	(0.5)
PBT	7,928	10,140	(21.8)	8,464	(6.3)
Tax	2,276	3,265	(30.3)	2,481	(8.3)
Adj net income	5,652	6,875	(17.8)	5,983	(5.5)
Adj. FDEPS (Rs)	19.6	23.8	(17.8)	20.7	(5.5)
Vehicles Sold (units)	330,687	258,026	28.2	313,654	5.4
Net Realizations (Rs)	280,529	284,226	(1.3)	284,935	(1.5)
RM Cost/unit (Rs)	225,152	216,649	3.9	225,586	(0.2)
PAT/unit (Rs)	17,091	26,646	(35.9)	19,075	(10.4)

Source: Company, RCML Research

Conference call highlights

On Q3 performance:

- Higher employee expenses on account of new long-term wage settlement, effective until CY12. Out of the total 70 bps QoQ increase in employee cost as a % of sales, 20 bps will be recurring in nature, while 50 bps were arrears paid post wage settlement. Employee cost to remain in the band of 2.0-2.2% of sales.

- Lower other operating expense on account of lower selling, transportation and royalty expenses. Lower exports lead to reduced transportation cost (on account of lower ocean freight) and lower royalty outgo (exports carry higher royalties).

Lower exports lead to reduced transportation cost on ocean freight and lower royalty outgo

- Discounts for the quarter stood at Rs ~10,700 per vehicle (Rs ~1,000 higher than previous quarter) - company expects discounts to normalise at levels, which prevailed prior to Q3FY11.

- Raw material cost increase 100 bps sequentially, out of which 60 bps was attributed to discounts and 20 bps on account of adverse yen movement

- Export revenues for the quarter stood at Rs 8,390 mn and scrap sales at Rs 685 mn

On currency exposure and hedges

- MSIL has hedged ~100% of estimated Euro exposure on exports until H1FY12

As MSIL expects JPY to depreciate against the US$, it has left its position unhedged

- Partial JPY hedges imports in place only until Feb '11; MSIL expects JPY to depreciate against USD going forward and hence has not hedged its JPY exposure currently
- In Q3, ~70% of total export were denominated in US$ and were not hedged

Other comments

- Demand environment remains strong with the Swift family still seeing waiting period of ~2 months. However the company has flagged-off caution against rising headwinds in the form of rising fuel prices, inflation, interest rates, and credit availability.

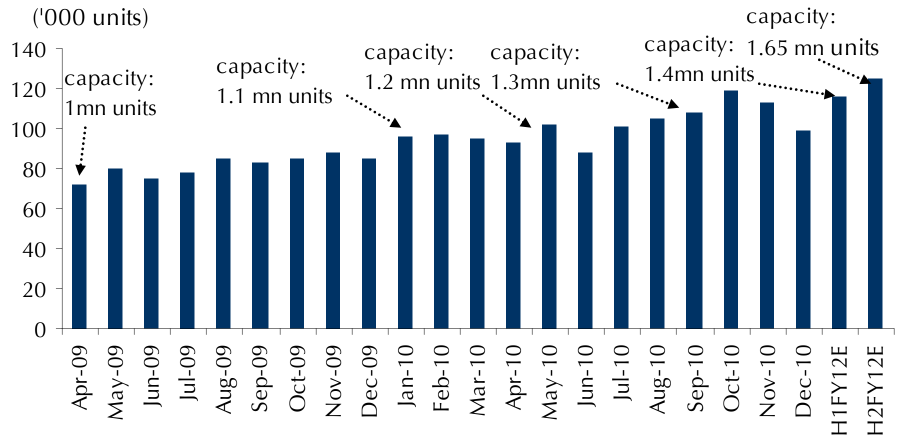
To increase capacity from 1.3mn units to 1.4mn units by April '11

- Capacity to increase to 1.4 mn (from 1.3 mn currently) beginning FY12; additional capacity of 250,000 units to come on-stream in H2FY12.
- Share of second time car buyers in total volumes has increased from 45% four years back, to 52% currently
- In Q3FY11, rural market accounted for 20% of the total volumes. Top 10 cities accounted for 40% of volumes.

Capacity expansion to keep volumes ticking

With the commissioning of its newest facility in H2FY12, MSIL would be the best placed amongst peers to capitalize on increase in passenger car demand

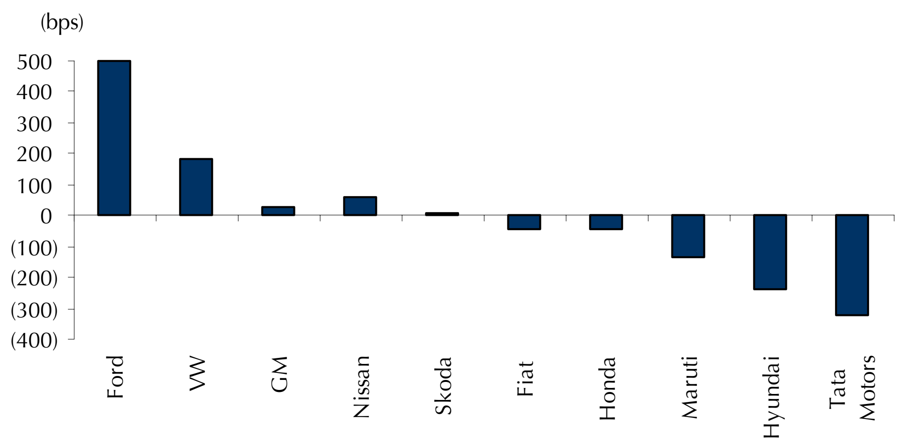
Fig 3 - Monthly volume have remained robust due to robust demand and capacity de-bottlenecking effort; we expect MSIL to see volume growth of 16% in FY12-13



Source: Company, RCML Research

While competition has been intense in the A2 segment, MSIL has lost just 130 bps market share YTD – Hyundai and Tata have between them lost 560 bps; MSIL has broadly grown in-line with the industry

Fig 4 - In its bread and butter A2 segment, Maruti has lost only a small market share YTD, while Hyundai and Tata Motors have lost bigger share to new competition



Source: SIAM, RCML Research

Higher input costs, royalty, adverse product mix and unfavourable currency impacted earnings in FY11

While realizations have declined by Rs 3,700/unit on a YoY basis in Q3, raw material costs have increased by Rs 8,500/unit

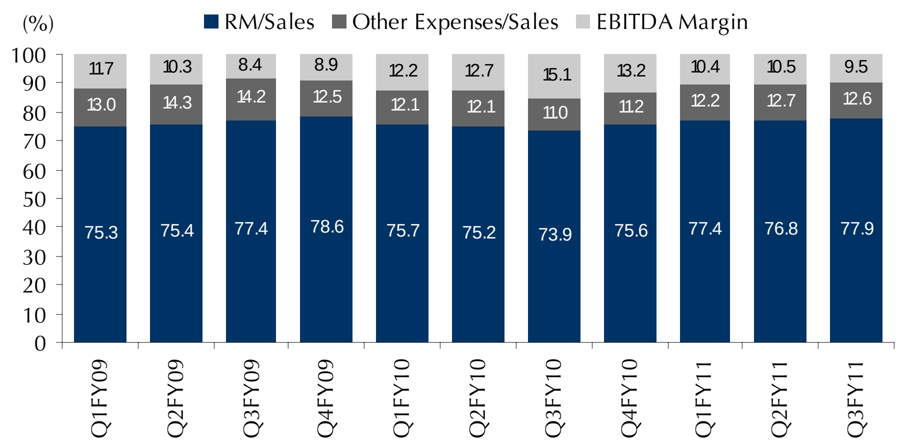
Fig 5 - MSIL has lost EBITDA/unit of ~Rs 11,000 in YTDFY11

(Rs./unit)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Per unit Metrics					
Volumes (units)	258,026	287,422	283,324	313,654	330,687
Realisation	290,779	293,107	290,534	291,636	287,113
RM Cost	216,649	223,111	226,251	225,586	225,152
Employee Cost	5,133	5,336	5,681	5,000	7,029
Other expenses	25,050	26,004	28,331	30,432	27,661
EBITDA	43,946	38,656	30,271	30,619	27,270
QoQ Change					
Realisation	(1,787)	2,329	(2,573)	1,102	(4,523)
RM Cost	(4,951)	6,461	3,140	(665)	(433)
Employee Cost	4	203	345	(681)	2,030
Other expenses	(3,573)	954	2,327	2,101	(2,771)
EBITDA	6,733	(5,290)	(8,385)	347	(3,349)

Source: Company, RCML Research

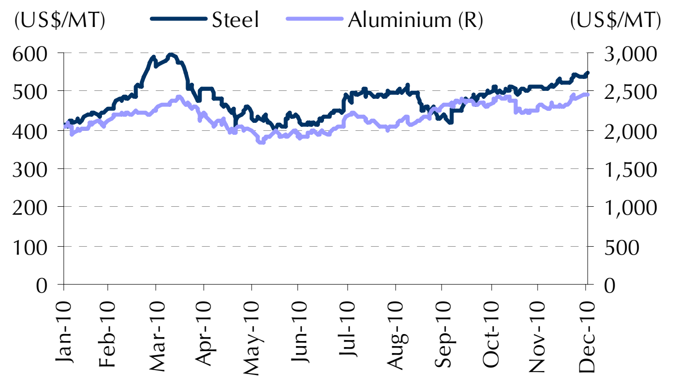
MSIL management expects long term sustainable margins to remain at around 10-11%

Fig 6 - Quarterly cost and margin trend



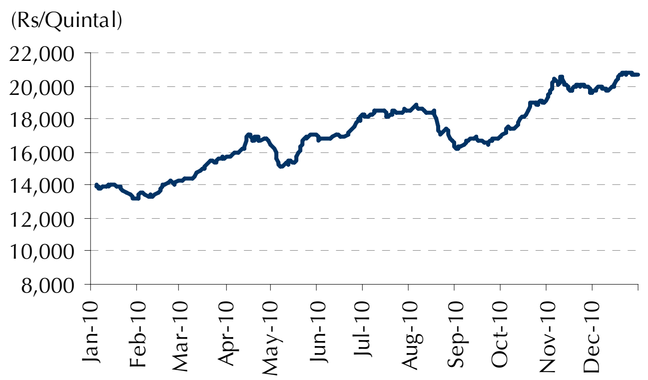
Source: Company, RCML Research

Fig 7 - Metals prices have trended-up…



Source: Bloomberg, RCML Research

Fig 8 - … with no respite from rubber(tyre) prices either



Source: Bloomberg, RCML Research

Robust demand to help maintain margins going forward

Increase in commodity prices over Apr-Dec '10 period, in our estimate, has resulted in an approximate cost push of Rs 6,800/car; a further 10% increase in commodity prices could translate into an increase of Rs ~4,400/unit

Fig 9 - Impact of higher raw material costs on margins: A10% increase in commodity prices from here could be offset by just a 1.3% vehicle price hike

EBITDA Margin Impact – Dec'10 vs. Mar'10 raw material prices	
Steel	130 bps
Iron	20 bps
Aluminium	10 bps
Tyres	40 bps
Total Impact (bps)	**200 bps**
EBITDA Margin Impact – of a further 10% increase in commodity prices from current levels	
Steel	70 bps
Iron	20 bps
Aluminium	10 bps
Tyres	30 bps
Total Impact (bps)	**130 bps**

Source: Crisil, RCML Research

Dealer interaction suggests that price hikes have not impacted demand until now

Fig 10 - Pricing action by car manufacturers in FY11 – MSIL has increased prices by a similar quantum as competition

(%)	Apr-10	May-10	Jul-10	Aug-10	Oct-10	Jan-11
Ford	-	↑ 2.0	-	↑ 1.2	-	-
Maruti	↑ 0.5-1.0	-	-	↑ 1.0	-	↑ 1.0-1.5
VW	-	-	-	-	-	↑ 3.0
Hyundai	↑ 1.2	-	-	↑ 1.2	-	↑ 1.0-1.5
GM	↑ 1.0-1.5	-	↑ 3.0	-	-	↑ 1.0-1.5
Tata Motors	-	-	-	-	↑ 1.0-1.5	↑ 1.0-1.5

Source: RCML Research

Due to an adverse shift in mix in FY11 owing to capacity constraints, MSIL has lost as much as 100 bps in margins, which could partially reverse with new capacities

Fig 11 - Maruti Suzuki model-wise volume mix: Capacity expansion to help produce more of better margin products and help improve mix (especially Swift family)

Model	FY06	FY07	FY08	FY09	FY10
Maruti 800	19.6	14.4	11.3	7.8	4.3
Alto	34.8	40.8	36.7	33.4	30.7
Wagon R	19.4	21.6	21.5	21.2	18.9
Swift	11.7	11.6	14.4	17.3	15.2
Estillo	0.0	5.0	8.2	5.1	5.4
Zen	7.6	1.2	-	-	-
Ritz	-	-	-	-	8.2
A-Star	-	-	-	3.3	4.2
SX4	-	-	5.0	2.2	2.1
Esteem	4.8	4.3	2.0	-	-
Baleno	2.2	1.1	-	-	-
Dzire	-	-	0.9	9.7	10.9

Source:Crisil, RCML Research

Freight costs and royalties on exports for MSIL were higher; exports mix in total volumes is set to decline for MSIL

Fig 12 - Share of exports in total volumes set to decline: Lower freight and royalty costs

	FY08A	FY09A	FY10A	FY11E	FY12E	FY13E
Domestic	93.2	91.2	85.5	88.7	90.0	90.5
Exports	6.8	8.8	14.5	11.3	10.0	9.5

Source: Company, RCML Research

Fig 13 - Though we build in currencies to remain at current levels, we note that Yen depreciation could help boost margins (note that S&P has recently downgraded Japan) – MSIL has not hedged its Yen exposure as it expects Yen appreciation to reverse

	FY11E	FY12 Scenarios				
Average Currency Rate				(Base case)		
INR/JPY	0.54	0.56	0.55	0.54	0.53	0.52
INR/Eur	60.0	60.0	61	62	63	64
Total Impact on Costs	1.5%	0.8%	0.4%	0.0%	-0.4%	-0.8%
- Royalty	0.3%	0.2%	0.1%	0.0%	-0.1%	-0.2%
- Direct/Indirect Material Cost	1.1%	0.6%	0.3%	0.0%	-0.3%	-0.6%
Euro impact on realizations						
Impact on realizations/profits	-0.6%	0.0%	0.1%	0.2%	0.3%	0.4%
Net impact on margins	(210 bps)	(80 bps)	(30 bps)	20 bps	70 bps	120bps

Source: Bloomberg, RCML Research

Fig 14 - Higher volumes to provide operating leverage benefit going forward

Per Unit Metrics (Rs.)	FY10A	FY11E	FY12E	FY13E
Volumes (units)	1,018,358	1,228,101	1,446,849	1,672,876
Gross Realizations	312,339	317,024	324,950	331,449
Net Realizations	290,898	290,450	296,928	302,405
RM Cost/Unit	220,094	226,842	233,385	240,110
RM/Sales (%)	75.7	78.1	78.6	79.4
Emp Cost/unit	5,358	5,954	5,939	5,746
Other Expenses/unit	26,503	28,610	28,009	27,775
EBITDA/Unit	38,943	29,044	29,595	28,775
EBITDA Margin (%)	***13.4***	***10.0***	***10.0***	***9.5***
PAT/Unit	24,621	17,948	18,218	17,860
Net Realizations	26,866	(447)	6,478	5,477
RM Cost/Unit	15,052	6,748	6,544	6,724
Emp Cost/unit	(589)	597	(16)	(193)
Other Expenses/unit	(2,458)	2,107	(601)	(234)
EBITDA/Unit	14,861	(9,899)	550	(820)
PAT/Unit	9,079	(6,673)	269	(358)

Source: Company, RCML Research

While we expect RM Cost increases to be higher than price hikes, we note operating expenses/unit are set to decline owing to higher volumes

We expect MSIL to largely maintain EBITDA/unit in FY12 as negatives like adverse currency, unfavorable mix and royalty costs which affected performance in FY11 are likely to stabilize or improve

Stock correction an opportunity to BUY

MSIL has corrected 21% since we downgraded the stock post Q2 results

Post its Q2 results, MSIL stock has corrected 21%. While Q3 performance was slightly better than expectations we continue to maintain that margins will remain subdued to flattish and volumes will continue to remain robust. MSIL's announcement to add ~6,500/units p.m. to production beginning April '11 augurs well for the stock as well. We have marginally revised our margin estimates lower to factor in a less-than-full pass through of costs, leading to a 4%/5% revision in our FY12/FY13 earnings. We expect the standalone business to report an EPS growth of 19.6%/13.4% in FY12/FY13 to Rs 91.2/Rs 103.4.

We value the standalone business at Rs 1,505 and subsidiaries/associates at Rs 64

Our one-year (Sep '11) target price for MSIL stands at Rs 1,575 providing an upside of ~30% from current levels. We value the standalone business at Rs 1,505 (15x Dec '12 earnings) and income from subsidiaries/associates at Rs 64 (15x trailing earnings—Rs 4.3). Currently, MSIL (standalone) is trading at 12.8xFY12E earnings and 6.1x FY12E EV/EBITDA, which we believe are attractive valuations given that the long term average trading range for the stock has been at 13.6x earnings. We upgrade the stock to BUY from HOLD.

Fig 15 - Maruti Suzuki Revised estimates

Key parameters (Rs mn)	FY11E			FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Volumes	1,256,536	1,228,101	(2.3)	1,451,882	1,446,849	(0.3)	1,667,342	1,672,876	0.3
Revenue	369,656	356,702	(3.5)	434,812	429,610	(1.2)	508,617	505,887	(0.5)
EBITDA margin (%)	10.1	10.0	(10 bps)	10.5	10.0	(50 bps)	10.4	9.5	(90 bps)
Net profit	22,865	22,042	(3.6)	27,469	26,358	(4.0)	31,473	29,878	(5.1)
FDEPS (Rs)	79.1	76.3	(3.6)	95.1	91.2	(4.0)	108.9	103.4	(5.1)

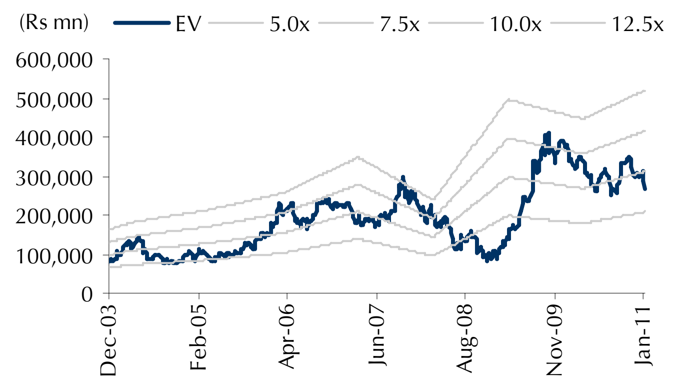
Source: Company, RCML Research

Fig 16 - Sensitivity of our FY12 EPS estimates to forex movements

		EUR/INR (exports)									
		FY12E (EPS)					% change from base case				
		58.0	60.0	62.0	64.0	66.0	58.0	60.0	62.0	64.0	66.0
JPY/INR (costs)	0.56	79.3	80.9	82.6	84.3	86.0	(13.1)	(11.3)	(9.4)	(7.6)	(5.7)
	0.55	83.6	85.2	86.9	88.6	90.3	(8.4)	(6.6)	(4.7)	(2.9)	(1.0)
	0.54	87.9	89.5	91.2	92.9	94.6	(3.7)	(1.8)	0.0	1.8	3.7
	0.53	92.2	93.9	95.5	97.2	98.9	1.0	2.9	4.7	6.6	8.4
	0.52	96.5	98.2	99.8	101.5	103.2	5.7	7.6	9.4	11.3	13.1

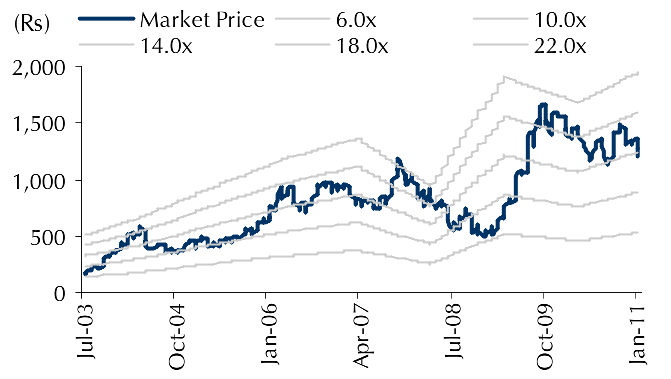
Source: RCML Research

Fig 17 - Maruti Suzuki -12m forward EV/EBITDA band chart



Source: Bloomberg, RCML Research

Fig 18 - Maruti Suzuki -12m forward P/E band chart



Source: Bloomberg, RCML Research

Key Risks

- Our 15%+ volume growth assumption is based on the hypothesis that consumption demand will continue to remain strong despite inflationary pressures due to wage/salary increases and job creation in the economy
- Though we note that interest rates are trending up, we expect availability of finance, which in our view is a bigger variable to affect vehicle demand, to remain strong. Our volume growth assumptions would be at risk if there is severe crunch in availability of finance
- Any price shock from higher commodity prices would put our margin assumptions at risk.

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	**296,238**	**356,702**	**429,610**	**505,887**
Growth (%)	41.6	20.4	20.4	17.8
EBITDA	**39,658**	**35,669**	**42,819**	**48,136**
Growth (%)	107.9	(10.1)	20.0	12.4
Depreciation & amortisation	8,250	9,384	11,113	12,683
EBIT	31,408	26,286	31,706	35,453
Growth (%)	161.4	(16.3)	20.6	11.8
Interest	335	264	339	339
Other income	4,852	5,024	5,757	6,967
EBT	35,925	31,046	37,124	42,081
Income taxes	10,949	9,003	10,766	12,204
Effective tax rate (%)	30.5	29.0	29.0	29.0
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	24,976	22,042	26,358	29,878
Adjustments	97	-	-	-
Adjusted net income	**25,073**	**22,042**	**26,358**	**29,878**
Growth (%)	103.6	(12.1)	19.6	13.4
Shares outstanding (mn)	288.9	288.9	288.9	288.9
FDEPS (Rs) (adj)	**86.8**	**76.3**	**91.2**	**103.4**
Growth (%)	103.6	(12.1)	19.6	13.4
DPS (Rs)	6.0	8.0	9.0	10.0

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	33,226	31,426	37,471	42,561
Non-cash adjustments	(1,923)	6,844	1,563	1,238
Changes in working capital	(117)	(2,267)	(2,721)	(2,164)
Cash flow from operations	31,186	36,003	36,313	41,634
Capital expenditure	(13,149)	(25,000)	(25,000)	(15,000)
Change in investments	(38,787)	-	(5,000)	(20,000)
Other investing cash flow	-	-	-	-
Cash flow from investing	(51,936)	(25,000)	(30,000)	(35,000)
Issue of equity	-	-	-	-
Issue/repay debt	3,353	(4,447)	-	-
Dividends paid	(1,011)	(2,021)	(2,658)	(2,990)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(18,408)	4,535	3,655	3,644
Closing cash & cash eq	982	5,517	9,172	12,817

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	982	5,517	9,172	12,817
Accounts receivable	8,099	9,284	10,005	11,088
Inventories	12,088	12,212	14,340	15,957
Other current assets	16,555	18,150	19,712	20,683
Investments	71,766	71,766	76,766	96,766
Gross fixed assets	104,067	129,067	154,067	169,067
Net fixed assets	50,247	65,863	79,750	82,067
CWIP	3,876	3,876	3,876	3,876
Intangible assets	-	-	-	-
Deferred tax assets, net	(1,370)	(1,170)	(970)	(770)
Other assets	-	-	-	-
Total assets	**162,243**	**185,499**	**212,651**	**242,483**
Accounts payable	23,181	22,897	23,128	23,110
Other current liabilities	6,213	7,134	8,592	10,118
Provisions	6,284	13,965	16,060	17,830
Debt funds	8,214	3,767	3,767	3,767
Other liabilities	-	-	-	-
Equity capital	1,445	1,445	1,445	1,445
Reserves & surplus	116,906	136,290	159,658	186,214
Shareholder's funds	118,351	137,735	161,103	187,658
Total liabilities	**162,243**	**185,499**	**212,651**	**242,483**
BVPS (Rs)	414.6	481.7	562.6	654.5

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	13.4	10.0	10.0	9.5
EBIT margin	10.6	7.4	7.4	7.0
Net profit margin	8.5	6.2	6.1	5.9
ROE	23.7	17.2	17.6	17.1
ROCE	22.3	16.6	17.4	16.9
Working Capital & Liquidity ratios				
Receivables (days)	11	9	8	8
Inventory (days)	17	16	14	14
Payables (days)	40	30	25	21
Current ratio (x)	1.3	1.5	1.7	1.8
Quick ratio (x)	0.3	0.5	0.6	0.7
Turnover & Leverage ratios (x)				
Gross asset turnover	3.1	3.1	3.0	3.1
Total asset turnover	2.0	2.1	2.2	2.2
Interest coverage ratio	93.8	99.7	93.5	104.6
Adjusted debt/equity	0.1	0.0	0.0	0.0
Valuation ratios (x)				
EV/Sales	0.9	0.7	0.6	0.5
EV/EBITDA	6.6	7.4	6.1	5.5
P/E	13.4	15.3	12.8	11.3
P/BV	2.8	2.4	2.1	1.8

Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	75,029	84,246	82,315	91,473	94,945
YoY growth (%)	62.5	30.5	27.0	26.8	26.5
QoQ growth (%)	4.0	12.3	(2.2)	11.0	3.8
EBITDA (Rs mn)	11,339	11,111	8,577	9,604	9,018
EBITDA margin (%)	15.1	13.2	10.4	10.5	9.5
Adj net income (Rs mn)	6,875	6,566	5,110	5,983	5,652
YoY growth (%)	185.2	100.3	(12.4)	5.0	(17.8)
QoQ growth (%)	20.6	(4.5)	(22.2)	17.1	(5.5)

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	209,157	296,238	356,702	429,610	505,887
Interest burden (PBT/EBIT)	12.2	41.6	20.4	20.4	17.8
EBIT margin (EBIT/Revenues)	12,312	25,073	22,042	26,358	29,878
Asset turnover (Revenues/Avg TA)	(31.2)	103.6	(12.1)	19.6	13.4
Leverage (Avg TA/Avg equtiy)	42.6	86.8	76.3	91.2	103.4
Return on equity	**(31.2)**	**103.6**	**(12.1)**	**19.6**	**13.4**

Company profile

Maruti Suzuki (MSIL) is India's largest passenger car manufacturer holding 50% domestic market share. It commands 56% market share in the A2 segment (compact car) and its foray in the A3 (entry level sedan) segment has helped it become the segment leader with 36% market share. MSIL has a production capacity of over 1.25 mn units at its plants in Gurgaon and Manesar.

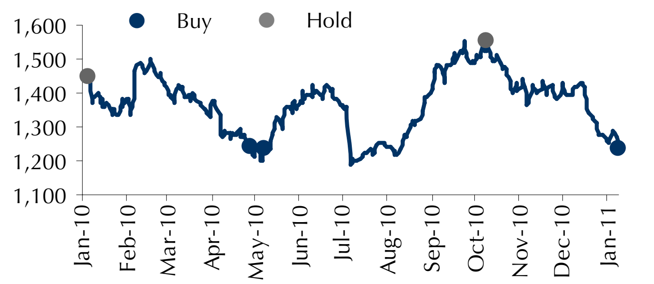
Shareholding pattern

(%)	June-10	Sep-10	Dec-10
Promoters	54.2	54.2	54.2
FIIs	20.1	20.1	21.0
Banks & FIs	17.0	17.0	17.0
Public	8.7	8.7	7.8

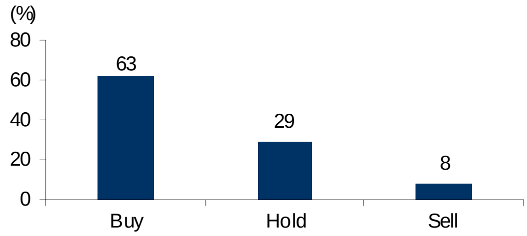
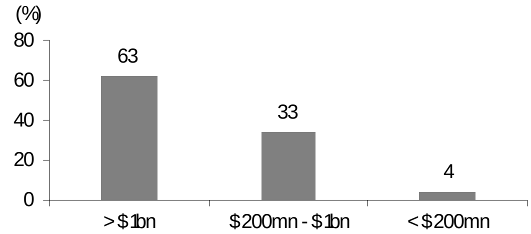
Recommendation history

Date	Event	Reco price	Tgt price	Reco
24-Jan-10	Results Review	1,444	1,551	Hold
18-May-10	Company Update	1,242	1,625	Buy
27-May-10	Alert	1,230	1,625	Buy
1-Nov-10	Company Update	1,552	1,600	Hold
30-Jan-11	Company Update	1,229	1,575	Buy

Stock performance



Coverage Profile

By recommendation	By market cap (US$)
	

Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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Disclaimer