India Infoline Result Update
Maruti Udyog Ltd (Q4 FY07)
CMP Rs796 Rating: HOLD
April 25, 2007

- ✓ Sales growth of 35.2% yoy during the quarter above expectations
- ✓ Input cost pressures, high promotions and loss at Manesar plant lead to OPM decline of 240bps yoy in quarter
- ✓ Other income helps PAT cause (up 24.3% yoy) in Q4 FY07 in spite of huge OPM decline

Table: Financial highlights

Period to	03/07	03/06	Growth	03/07	03/06	Growth
(Rs mn)	**(3)**	**(3)**	**(%)**	**(12)**	**(12)**	**(%)**
Gross sales	51,838	39,800	30.2	172,059	147,531	16.6
Excise duty	(7,541)	(7,030)	7.3	(25,520)	(27,009)	(5.5)
Net sales	44,298	32,770	35.2	146,539	120,522	21.6
Expenditure	(38,787)	(27,909)	39.0	(126,635)	(104,256)	21.5
Operating profit	5,510	4,862	13.3	19,904	16,266	22.4
Other income	2,050	1,153	77.8	5,984	4,292	39.4
Interest	(156)	(34)	356.3	(376)	(204)	84.6
Depreciation	(718)	(726)	(1.0)	(2,714)	(2,854)	(4.9)
PBT	6,686	5,255	27.2	22,798	17,500	30.3
Tax	(2,201)	(1,645)	33.8	(7,179)	(5,609)	28.0
PAT	4,485	3,609	24.3	15,620	11,891	31.4
OPM (%)	12.4	14.8	-	13.6	13.5	-
Equity capital	1,445	1,445	-	1,445	1,445	-
EPS (Rs) Annualized	62.1	50.0	-	54.1	41.2	-
P/E (x)	12.8			14.7		

Sales performance – above expectations, but margins sacrificed

Maruti Udyog Ltd (MUL) registered a 35.2% yoy increase in net sales during Q4 FY07. This was higher than our expectation of 30.4% yoy growth. However, this growth came at the cost of substantial margin reduction of 240bps yoy during the quarter. Factoring in margin pressures, we projected a 13.9% OPM for the quarter. However, the actual fall in OPM was even severe on account of loss at Manesar plant due to power issues.

Table: Cost analysis

Period	03/07	03/06	03/07	03/06
As % of sales	**(3)**	**(3)**	**(12)**	**(12)**
Raw Material	76.0	74.4	75.4	76.5
Staff Cost	1.8	1.7	2.0	1.9
Other expenditure	9.7	9.1	9.0	8.1
Total Expenditure	**87.6**	**85.2**	**86.4**	**86.5**

Source: India Infoline Research

Building a good product portfolio

Maruti sold a 674, 924 units, including exports of 39,295 units during FY07. The company has been building a good product portfolio. While it had planned to launch five new vehicles in five years, it has been successful in doing so in 2.5 years itself. Besides introducing the WagonR Duo and the Zen Estilo during FY07, MUL entered the diesel car segment with Swift Diesel.

Operating margins to remain under pressure

Pressure on operating profit margins is expected to continue with high marketing and promotion expenses. With the ongoing cricket world cup, other expenses have been high. Competitive pressures and promotions for new launches will keep margins in check. Mr. Khattar stated that he expects input pressures on account of rising commodity prices to continue. He also stated that near term focus would be on gaining market share rather than margins. We project a 100bps yoy decline in OPM during FY08 for MUL. While input cost and other expenses are likely to remain high, we expect MUL's realizations to marginally improve during the period.

Other income helps boost PAT growth

The net profit for MUL grew by 24.3% yoy during Q4 FY07, significantly higher than our expectation for the quarter. The prime reason for the same was the huge jump in other income earned during the quarter, growing by 77.8% yoy and accounting for 30.7% of the PBT income. The Board has recommended a final dividend of Rs4.5 per share for the year.

Valuations

With rising interest rate levels in the economy and over 80% of car sales through the financing route, we expect lower vehicle volume growth of 12.1% yoy during FY08 for MUL (Management did not provide volume guidance for FY08). A higher base effect will play a factor as well. MUL is trading at a P/E of 13.9x FY08E EPS of Rs57.4. We recommend a HOLD in the medium term.

Table: Key financials and ratios

Period to	FY04	FY05	FY06	FY07	FY08E
(Rs mn)	(12)	(12)	(12)	(12)	(12)
Net Sales	91,044	109,238	120,522	146,539	165,159
Operating expenses	(81,739)	(95,293)	(104,256)	(126,635)	(142,863)
EBIDTA	9,305	13,945	16,266	19,904	22,297
Depreciation	(4,949)	(4,568)	(2,854)	(2,714)	(3,474)
EBIT	4,356	9,377	13,412	17,191	18,823
Interest	(434)	(360)	(204)	(376)	(433)
Other Income	3,776	4,032	4,292	5,984	5,815
Profit before tax (PBT)	7,698	13,049	17,500	22,798	24,205
Tax	(2,277)	(4,513)	(5,609)	(7,179)	(7,625)
Profit after tax (PAT)	5,421	8,536	11,891	15,620	16,581
Extraordinary / prior period items	797	65	-	-	-
Adjusted profit after tax (APAT)	6,218	8,601	11,891	15,620	16,581
OPM (%)	10.2	12.8	13.5	13.6	13.5
Net profit margin (%)	6.8	7.9	9.9	10.7	10.0
EPS (Rs)	18.8	29.5	41.1	54.0	57.4
P/E (x)	42.4	26.9	19.3	14.7	13.9
M.cap/Sales (x)	2.5	2.1	1.9	1.6	1.4

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