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

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

| Period to | $\mathbf{0 3 / 0 7}$ | $\mathbf{0 3 / 0 6}$ | Growth | $\mathbf{0 3 / 0 7}$ | $\mathbf{0 3 / 0 6}$ | Growth |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| (Rs mn) | $\mathbf{( 3 )}$ | $\mathbf{( 3 )}$ | $\mathbf{( \% )}$ | $\mathbf{( 1 2 )}$ | $\mathbf{( 1 2 )}$ | $\mathbf{( \% )}$ |
| 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 | $\mathbf{0 3 / 0 7}$ | $\mathbf{0 3 / 0 6}$ | $\mathbf{0 3 / 0 7}$ | $\mathbf{0 3 / 0 6}$ |
| :--- | ---: | ---: | ---: | ---: |
| As \% of sales | $\mathbf{( 3 )}$ | $\mathbf{( 3 )}$ | $\mathbf{( 1 2 )}$ | $\mathbf{( 1 2 )}$ |
| 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 | $\mathbf{8 7 . 6}$ | $\mathbf{8 5 . 2}$ | $\mathbf{8 6 . 4}$ | $\mathbf{8 6 . 5}$ |

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.

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## 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 Rs 4.5 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) | $(\mathbf{1 2 )}$ | $(12)$ | $(12)$ | $(\mathbf{1 2 )}$ | $(12)$ |
| 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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[^0]:    Published in April 2007. © India Infoline Ltd 2007-08.
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