

# Maruti Suzuki India Ltd.

**CMP: Rs 807**

**Target Price: Rs 769**

**Automobile / Sell**

MSIL's Q4FY09 results are slightly below estimates after adjusting for the one-time forex loss of Rs 1.2bn. In Q4FY09, net sales were up by 32.4% YoY on the back of strong volume and net realizations increase. However, the operating margins at 7% were dented by Yen appreciation impact on imports. Going forward, MSIL should benefit from lower commodity prices and mitigate some amount of currency risk through higher localization and exports. However, MSIL's current valuations have adequately discounted these positives and therefore we recommend a Sell on the stock with our revised price target of Rs 769 (14x FY10E EPS).

## Q4FY09 Results

Particulars-(Rs.mn)	Q4FY09	Q4FY08	% Y-o-Y	FY09	FY08	% Y-o-Y
Net Sales	63,083	47,629	32.4	203,583	178,603	14.0
Income From Services (Net)	260	210	24.1	971	759	27.8
Other operating income	985	1,593	-	3,972	5,595	-29.0
Total Income from Operations	64,328	49,432	30.1	208,525	184,957	12.7
Other Income	1,054	763	38.2	6,013	3,281	83.3
<b>Total Income</b>	<b>65,383</b>	<b>50,195</b>	<b>30.3</b>	<b>214,539</b>	<b>188,238</b>	<b>14.0</b>
Other Expenses	4,910	2,877	70.7	23,067	9,825	134.8
<b>Total Expenditure</b>	<b>59,836</b>	<b>42,568</b>	<b>40.6</b>	<b>190,205</b>	<b>156,929</b>	<b>21.2</b>
EBITDA (Exc O.I.)	4,492	6,863	-34.5	18,321	28,028	-34.6
Interest	89	161	-45.0	510	596	-14.5
Depreciation	1,971	3,111	-36.6	7,065	5,682	24.4
Profit Before Tax	3,487	4,354	-19.9	16,759	25,031	-33.0
Tax	1,056	1,377	-23.3	4,571	7,722	-40.8
Net Profit	2,431	2,977	-18.4	12,187	17,308	-29.6
OPM (%)	7.0	13.9		8.8		
NPM (%)	3.8	6.0		5.8		
Total Vehicles Sold (No.)	236,638	202,219	17.0	791,507	764,842	3.5
Net Realisation (Per Unit)	271,843	244,447	11.2	263,453	241,824	8.9

## Financial Highlights:

- During the quarter, net sales was up by 32.4% YoY on the back of volume growth of 17% YoY and 11.2% increase in net realizations. Volumes driven by excise benefits being passed on to customers along with richer product mix have been key contributors to growth in revenues.
- Other operating income in the previous year includes a write back of Rs 470 mn.
- EBIDTA margin was down by 690 bps to 7% in Q4FY09. Adverse impact of Yen appreciation (280 bps YoY) coupled with increase in commodity prices (120 bps YoY) has contributed in overall RM/Sales being up by 410 bps. Furthermore, other expenses include a one-time forex expense of Rs 1.2 bn.
- The depreciation expenses are not comparable since the company revised its depreciation policy of FY08, for which the entire impact was taken in Q4FY08 results.

## Key Developments:

- Q1FY10 onwards to see benefit of lower raw material prices:** Since most of the supply contracts are tied up on annual basis, MSIL expects the benefits of lower commodity prices to reflect from the subsequent quarter. Concurrently, the company is focusing on increasing localization, which would mitigate to some extent, its exposure to currency risk.
- Focus on Rural markets:** Continuous emphasis on rural penetration has enabled the company to increase sales in the rural markets. Currently, revenues from these markets have increased to 9% of total revenues, which is an increase of almost 600 bps YoY. The company plans to further strengthen its hold in rural and semi-urban markets.
- Capex plans:** MSIL has planned a capex of Rs 18 bn for FY10, which would be spent towards the KB series engine and creating additional marketing infrastructure. The current year marks the end of its massive Rs 90 bn spend towards increasing capacity at Manesar, KB series engine plant and model launches.

## Revision in Estimates

(Rs.mn)	Revised estimates	Old estimates	% Chg
	FY10E	FY10E	FY10E
Net Sales	228,646	209,176	9%
EBIDTA	24,138	24,853	-3%
PAT	15,877	16,865	-6%
EPS	54.9	58.4	-6%

- We have increased our FY10E Net Sales estimates by 9% based on higher net realizations on account of better product mix.
- We have lowered our EBIDTA margin estimates marginally to factor in higher transport freight due to higher exports in the subsequent year.

## Valuations and View

Despite a quarter of strong volume growth (17% YoY), MSIL's results were impacted by higher raw material expenses and one-time expense. Although near term volume outlook has improved, we believe several new launches in the A2 and A3 segment by the competition would result in MSIL losing market share going forward. In addition, prolonged slump in European markets would risk MSIL's ambitious export volume targets. At CMP, the stock is trading close to the upper end of its historical trading band. We believe the risk-reward ratio appears unfavorable and hence recommend a SELL on the stock with a revised price target of Rs 769 (14x FY10E EPS).

## Financials

Year	Net Sales	growth(%)	EBITDA	OPM(%)	PAT	growth(%)	EPS(Rs.)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY08	178,603	22.4	28,028	15.7	17,308	10.8	59.9	10.8	13.5	22.7	29.5
FY09P	203,583	14.0	18,321	9.0	12,187	-29.6	42.2	-29.5	19.1	15.7	19.6
FY10E	228,646	12.3	24,138	10.6	15,877	30.3	54.9	30.1	14.7	16.8	21.3
FY11E	245,641	7.4	26,025	10.6	16,987	7.0	58.8	7.1	13.7	15.4	19.8

P=Balance sheet figs are projected.

Figure in Rs.mn

3

The ratings are based on the absolute upside of our target price from the current price.

#### Upside

> 25 %  
15% - 25%  
0% - 15%  
< 0 %

#### Ratings

Buy  
Accumulate  
Reduce  
Sell

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