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 |
| Total Income | 65,383 | 50,195 | 30.3 | 214,539 | 188,238 | 14.0 |
| Other Expenses | 4,910 | 2,877 | 70.7 | 23,067 | 9,825 | 134.8 |
| Total Expenditure | 59,836 | 42,568 | 40.6 | 190,205 | 156,929 | 21.2 |
| 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.

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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 gro | owth(%) | 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

28 April, 2009 Maruti Suzuki India Ltd.



| Particulars | Mar'08 | Mar'09 | Mar'10E | Mar'11E |
|------------------------------------|---------|---------|---------|---------|
| Net Sales | 178,603 | 203,583 | 228,646 | 245,641 |
| Income from services | 759 | 971 | 1,165 | 1,398 |
| Other Operating income | 5,595 | 3,972 | 4,210 | 4,463 |
| Total Income | 184,957 | 208,525 | 234,021 | 251,502 |
| Net Raw Material Cost | 136,468 | 162,427 | 178,243 | 191,924 |
| Power & Fuel | 1,473 | | 2,675 | 2,728 |
| Employee Cost | 3,562 | 4,711 | 5,141 | 5,454 |
| Other Mfg exp | 6,386 | | 9,659 | 10,364 |
| Selling & Distribution & Admin exp | 5,602 | | 9,022 | 9,583 |
| Other Expenses | 3,439 | 23,067 | 5,143 | 5,423 |
| Total Expenditure | 156,929 | 190,205 | 209,883 | 225,476 |
| Operating Profit | 28,028 | 18,321 | 24,138 | 26,025 |
| Other income | 3,281 | 6,013 | 6,759 | 7,719 |
| Interest | 596 | 510 | 510 | 510 |
| Gross Profit | 30,712 | 23,824 | 30,386 | 33,234 |
| Depreciation | 5,682 | 7,065 | 8,335 | 9,641 |
| Profit Before Tax & EO Items | 25,031 | 16,759 | 22,052 | 23,594 |
| Extra Ordinary Exps/(Income) | | 0 | 0 | 0 |
| Profit Before Tax | 25,031 | 16,759 | 22,052 | 23,594 |
| Tax | 7,722 | 4,571 | 6,175 | 6,606 |
| Current Tax | 7,633 | 4,571 | | |
| Deferred Tax | 89 | | | |
| Net Profit | 17,308 | 12,187 | 15,877 | 16,987 |
| EPS | 60 | 42 | 55 | 59 |

| Particulars | Mar'08 | Mar'09P | Mar'10E | Mar'11E |
|---|--------|---------|---------|---------|
| Sources of Funds | | | | |
| Equity Capital | 1,445 | 1,445 | 1,445 | 1,445 |
| Share Premium Account | 4,241 | 4,241 | 4,241 | 4,241 |
| Reserves (excl Rev Res) | 78,468 | 74,006 | 88,702 | 104,508 |
| Net Worth | 84,154 | 79,692 | 94,388 | 110,194 |
| Total Reserves | 78,468 | 74,006 | 88,702 | 104,508 |
| Secured Loans | 1 | 1 | 1 | 1 |
| Unsecured Loans | 9,001 | 8,500 | 8,500 | 8,500 |
| Total Loan Funds | 9,002 | 8,501 | 8,501 | 8,501 |
| Deferred Tax Liability | 2,697 | 2,832 | 2,973 | 3,122 |
| Total Capital Employed | 95,853 | 91,025 | 105,862 | 121,817 |
| | | | | |
| Applications of Funds | | | | |
| Gross Block | 72,853 | 88,853 | 106,853 | 126,853 |
| Less: Accumulated Depreciation | 39,888 | 46,953 | 55,288 | 64,929 |
| Net Block | 32,965 | 41,900 | 51,565 | 61,924 |
| Capital Work in Progress | 7,363 | 1,000 | 1,500 | 1,500 |
| Investments | 51,807 | 47,000 | 49,000 | 51,000 |
| Current Assets, Loans & Advances | | | | |
| Inventories | 10,380 | 12,905 | 15,664 | 17,974 |
| Sundry Debtors | 6,555 | 7,251 | 8,770 | 10,095 |
| Cash and Bank Balance | 3,240 | 2,256 | 2,070 | 2,339 |
| Loans and Advances | 10,403 | 11,443 | 12,588 | 13,846 |
| Other Current Assets | 331 | 364 | 401 | 441 |
| sub total | 30,909 | 34,220 | 39,492 | 44,695 |
| Less : Current Liabilities & Provisions | | | | |
| Current Liabilities | 24,492 | 30,260 | 32,719 | 34,178 |
| Provisions | 3,695 | 3,880 | 4,074 | 4,277 |
| sub total | 28,187 | 34,140 | 36,792 | 38,456 |
| Net Current Assets | 2,722 | 80 | 2,699 | 6,239 |
| Deferred Tax Asset | 996 | 1,046 | 1,098 | 1,153 |
| Total Assets | 95.853 | 91.025 | 105,862 | 121,817 |

| Particulars | Mar'08 | Mar'09P | Mar'10E | Mar'11E |
|--|----------|---------|----------|----------|
| Profit before tax. | 25,030 | 16,759 | 22,052 | 23,594 |
| Depreciation & w.o. | 5,682 | 7,065 | 8,335 | 9,641 |
| Net Interest Exp | (812) | 510 | 510 | 510 |
| Direct taxes paid | (8,647) | (4,571) | (6,175) | (6,606) |
| Change in Working Capital (Non Cash) | (83) | 1,659 | (2,806) | (3,271) |
| Other | (2,866) | | | |
| (A) Cash Flow from Operating Activities | 18,304 | 21,421 | 21,916 | 23,868 |
| Capex (Inc./ (Dec.) in Fixed Assets n WIP) | (16,930) | (9,637) | (18,500) | (20,000) |
| Free Cash Flow | 1,374 | 11,784 | 3,416 | 3,868 |
| Inc./ (Dec.) in Investments | (16,843) | 4,807 | (2,000) | (2,000) |
| Other | 3,158 | | | |
| (B) Cash Flow from Investing Activities | (30,615) | (4,830) | (20,500) | (22,000) |
| Issue of Equity/ Preference | 0 | 0 | 0 | 0 |
| Inc./(Dec.) in Debt | 3,365 | (501) | 0 | 0 |
| Interest exp net | (743) | (510) | (510) | (510) |
| Dividend Paid (Incl. Tax) | (1,299) | (1,178) | (1,347) | (1,347) |
| Other | | 85 | 89 | 94 |
| (C) Cash Flow from Financing | 1,323 | (2,104) | (1,767) | (1,763) |
| Net Change in Cash | (10,988) | 14,487 | (352) | 105 |
| Opening Cash balances | 14,228 | 3,240 | 2,256 | 2,070 |
| Closing Cash balances | 3,240 | 2,256 | 2,070 | 2,339 |

| IMPORTANT RATIOS | | | | |
|--|-----------|-----------|-----------|-----------|
| Particulars | Mar'08 | Mar'09P | Mar'10E | Mar'11E |
| Cost Analysis (%) | IVIAI UO | War USP | War IUE | IVIAI IIE |
| Excise/Gross Sales | 14.7 | 11.8 | 9.7 | 9.6 |
| Net Raw Material Cost/net sales | 76.4 | 79.8 | 78.0 | 78.1 |
| Power & Fuel/net sales | 0.8 | 0.0 | 1.1 | 1.1 |
| Employee Cost/net sales | 2.0 | 2.3 | 2.2 | 2.2 |
| Other Mfg exp/net sales | 3.5 | 0.0 | 4.1 | 4.1 |
| Selling & Distribution & Admin exp/net sales | 3.0 | 0.0 | 3.9 | 3.8 |
| Other Expenses/net sales | 1.9 | 11.3 | 2.2 | 2.2 |
| Cities Expenses/net sales | 1.0 | 11.0 | 2.2 | 2.2 |
| Operational Performance (%) | | | | |
| Operating Profit Margin (excl. O.I.) | 15.2 | 8.8 | 10.3 | 10.3 |
| Operating Profit Margin (incl. O.I.) | 16.9 | 11.7 | 13.2 | 13.4 |
| Other Income/net sales | 1.8 | 2.9 | 2.9 | 3.1 |
| Interest / Sales | 0.3 | 0.2 | 0.2 | 0.2 |
| Dep/Gross Block | 7.8 | 8.0 | 7.8 | 7.6 |
| Gross Profit Margin | 16.6 | 11.4 | 13.3 | 13.5 |
| Tax/PBT | 30.9 | 27.3 | 28.0 | 28.0 |
| Net Profit Margin | 9.4 | 5.8 | 6.8 | 6.8 |
| Net i folitiwargin | 3.4 | 3.0 | 0.0 | 0.0 |
| Financial Performance | | | | |
| Average Cost Of Debt (%) | 7.8 | 5.8 | 6.0 | 6.0 |
| Debtors Period (days) | 13.4 | 13.0 | 14.0 | 15.0 |
| Closing stock (days) | 26.3 | 29.0 | 30.0 | 32.0 |
| Fixed Assets Turnover (x) | 5.4 | 4.9 | 4.4 | 4.0 |
| Creditors Period (days) | 65.5 | 68.0 | 67.0 | 65.0 |
| Non-Cash Working Capital | -518.0 | -2176.7 | 629.6 | 3900.1 |
| Current Ratio (x) | 1.1 | 1.0 | 1.1 | 1.2 |
| - Curron radio (x) | | | | |
| Other Ratios | | | | |
| Debt / Equity (x) | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest Coverage (x) | 52.5 | 47.7 | 60.6 | 66.2 |
| ROANW (%) | 22.7 | 15.7 | 16.8 | 15.4 |
| ROCE (%) | 29.5 | 19.6 | 21.3 | 19.8 |
| | | | | |
| Per Share Data | | | | |
| Earnings Per Share (Rs.) | 59.9 | 42.2 | 54.9 | 58.8 |
| Cash Earnings Per Share (Rs.) | 79.6 | 66.6 | 83.8 | 92.1 |
| Dividend Per Share (Rs.) | 5.0 | 3.5 | 4.0 | 4.0 |
| Dividend Payout (%) | 1.0 | 1.0 | 1.0 | 1.0 |
| Book Value (Rs.) | 291.2 | 275.8 | 326.6 | 381.3 |
| | | | | |
| Valuation Ratios | | | | |
| Market Price (Rs.) | 807.0 | 807.0 | 807.0 | 807.0 |
| Price / Earnings Ratio (x) | 13.5 | 19.1 | 14.7 | 13.7 |
| Market Cap. (Rs. mn.) | 233,223.0 | 233,223.0 | 233,223.0 | 233,223.0 |
| Market Cap/Sales (x) | 1.3 | 1.1 | 1.0 | 0.9 |
| Enterprise Value (Rs. mn.) | 5762.0 | 6244.5 | 6431.3 | 6161.6 |
| EV/Sales (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/EBDITA (x) | 0.2 | 0.3 | 0.3 | 0.2 |
| Dividend Yield (%) | 0.6 | 0.6 | 0.6 | 0.6 |
| P=Balance sheet figs are projected. | | | | |

P=Balance sheet figs are projected.

E-estimates

28 April, 2009 Maruti Suzuki India Ltd.



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

 Upside
 Ratings

 > 25 %
 Buy

 15% - 25%
 Accumulate

 0% - 15%
 Reduce

 < 0 %</td>
 Sell

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