

July 26, 2010

REDUCE

Price Target Price
Rs 1,358 Rs 1,275

Sensex 18,131

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(1)	(6)	5
Rel. to Sensex	(5)	(5)	(12)	(12)

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	MRTI.BO
Bloomberg	MSIL@IN
Equity Capital (Rs mn)	1445
Face Value(Rs)	5
No of shares o/s (mn)	289
52 Week H/L	1,740/1,171
Market Cap (Rs bn/USD mn)	392/8,348
Daily Avg Volume (No of sh)	679504
Daily Avg Turnover (US\$m)	19.1

Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	54.2	54.2	54.2
FII/NRI	20.2	21.2	22.9
Institutions	17.0	16.7	16.3
Private Corp	6.0	5.6	4.6
Public	2.6	2.3	2.0

Source: Capitaline

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- Increase in royalty charge (at ~5.2% of sales vs ~3.6% earlier, results in sharp drop in APAT at Rs 5.1bn (24% below our est.). Royalty is now payable in Yen.
- The sudden change in royalty charge overshadows otherwise strong operating performance.
- Downgrade FY11E EPS by 16.6% to Rs 81.3 and FY12E EPS by 16.7% to Rs 88.9. Reduce TP to Rs 1,275 (down 23%) valuing at 7.5x EV/EBIDTA FY12 est (earlier 8.5x EV/EBIDTA).
- Downgrade rating to REDUCE from ACCUMULATE. Key upsides arise from price hikes. Expect price hike in Sept/Oct. 1% change in domestic prices can impact our EPS by 9%.

Net Sales – marginally below expectations

Net sales at Rs 82.3bn was below expectation of Rs 83.0bn due to lower than expected avg. realizations. Avg. realization per vehicle stood at Rs 284,151 was below expectation of Rs 288,030 mainly due to unfavorable product mix and exchange rate.

Product mix %	1QFY10	1QFY11	4QFY10
M-800	3.1	2.4	2.9
Omni, Versa	9.8	11.8	11.3
Alto, Wagon -R, Zen, Swift	64.7	60.2	60.4
Esteem, SX4, Dzire	8.8	10.2	10.3
Gypsy, Vitara	0.6	1.1	0.4
Exports	12.9	14.3	14.6
Units sold (nos)	226,729	283,324	287,422

Source: SIAM, Emkay research

EBIDTA – margin nosedive by 280 bps QoQ to 10.4%, due to higher royalty

EBIDTA of Rs 8.6bn was 15.6% below estimate due to an increase in royalty charge to Suzuki. MSIL accounted for royalty change of Rs 1.9bn (Rs 650mn pertaining to 4QFY10). We were surprised by the royalty charge as the Government notification had come in December 2009 and management never indicated the intent to increase the royalty. The higher charge for royalty now is post the RBI announcement in May 2010

APAT – Below expectation

Net profits at Rs 5.1bn was below expectation of Rs 6.2bn due to lower operating profit and lower other income. Other income stood at Rs 1.0bn against expectation of Rs 2.5bn. However, tax rate at 27.6 was below expectation of 32.0%.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY09	206,546	15,731	7.6	11,577	40.1	(33.7)	13.0	33.9	22.1	4.2
FY10	298,350	37,938	12.7	24,973	86.4	115.7	23.8	15.7	8.8	3.4
FY11E	358,687	35,356	9.9	23,489	81.3	(5.9)	18.5	16.7	9.3	2.9
FY12E	401,945	40,017	10.0	25,699	88.9	9.4	17.2	15.3	8.1	2.4

Source: Company, Emkay Research

Valuations and View

At Rs 1,358, the stock trades at PER of 16.7x and 15.3x and EV/EBIDTA of 9.3x and 8.1x our FY11 and FY12 estimates respectively. We have downgraded our EPS estimate by 16.6% and 16.7 % to Rs 81.3 and Rs 88.9 for FY11 and FY12 respectively. We have valued the stock at 7.5x (earlier 8.5x) FY12 EV/EBIDTA. We downgrade MSIL rating to REDUCE from ACCUMULATE. Key upside arises from price hikes. 1% change in domestic prices result incremental EPS of 9%.

Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,178,670	1,178,670	-	1,301,319	1,301,319	-
Sales	358,687	358,687	-	401,945	401,945	-
EBIDTA	41,804	35,356	(15.4)	47,072	40,017	(15.0)
EBIDTA margins (%)	11.7	9.9		11.7	10.0	
Net Profits	28,167	23,489	(16.6)	30,848	25,699	(16.7)
EPS	97.5	81.3	(16.6)	106.7	88.9	(16.7)

Quarterly Summary

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	64,930	72,026	75,029	84,246	82,315	26.8	(2.3)
Expenditure	56,999	62,865	63,689	73,135	73,739	29.4	0.8
<i>as % of sales</i>	<i>115.0</i>	<i>115.2</i>	<i>113.9</i>	<i>114.0</i>	<i>115.0</i>		
Consumption of RM	49,551	54,555	55,901	64,127	64,102	29.4	(0.0)
<i>as % of sales</i>	<i>76.3</i>	<i>75.7</i>	<i>74.5</i>	<i>76.1</i>	<i>77.9</i>		
Employee Cost	1,336	1,263	1,325	1,534	1,610	20.5	5.0
<i>as % of sales</i>	<i>2.1</i>	<i>1.8</i>	<i>1.8</i>	<i>1.8</i>	<i>2.0</i>		
Other expenditure	6,113	7,047	6,464	7,474	8,027	31.3	7.4
<i>as % of sales</i>	<i>9.4</i>	<i>9.8</i>	<i>8.6</i>	<i>8.9</i>	<i>9.8</i>		
EBITDA	7,931	9,161	11,339	11,111	8,577	8.1	(22.8)
Depreciation	1,961	2,031	2,028	2,230	2,417	23.3	8.4
EBIT	5,970	7,130	9,311	8,880	6,160	3.2	(30.6)
Other Income	2,165	1,100	913	790	1,002	(53.7)	26.9
Interest	63	60	84	129	80		
PBT	8,072	8,171	10,140	9,542	7,082	(12.3)	(25.8)
Total Tax	2,238	2,471	3,265	2,976	1,957	(12.6)	(34.3)
Adjusted PAT	5,835	5,700	6,875	6,566	5,125	(12.2)	(21.9)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
Adjusted PAT after MI	5,835	5,700	6,875	6,566	5,125	(12.2)	(21.9)
Extra ordinary items	0	0	0	0	-471		
Reported PAT	5,835	5,700	6,875	6,566	4,654	(20.2)	(29.1)
Reported EPS	20.2	19.7	23.8	22.7	16.1	(20.2)	(29.1)

Margins (%)						(bps)	(bps)
EBIDTA	12.2	12.7	15.1	13.2	10.4	(180)	(277)
EBIT	9.2	9.9	12.4	10.5	7.5	(171)	(306)
EBT	12.4	11.3	13.5	11.3	8.6	(383)	(272)
PAT	9.0	7.9	9.2	7.8	6.2	(276)	(157)
Effective Tax rate	27.7	30.2	32.2	31.2	27.6	(9)	(356)

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	206,546	298,350	358,687	401,945
Growth (%)	14.0	44.4	20.2	12.1
Expenditure	190,815	260,412	323,332	361,929
Materials Consumed	160,672	226,022	278,100	312,586
Employee Cost	4,711	5,456	6,077	6,767
Other Exp	25,432	28,935	39,155	42,575
EBITDA	15,731	37,938	35,356	40,017
Growth (%)	(33.8)	141.2	(6.8)	13.2
EBITDA margin (%)	7.6	12.7	9.9	10.0
Depreciation	7,065	8,250	8,834	11,113
EBIT	8,666	29,688	26,521	28,904
EBIT margin (%)	4.2	10.0	7.4	7.2
Other Income	7,992	6,570	6,862	7,592
Interest expenses	510	335	300	300
PBT	16,148	35,922	33,083	36,196
Tax	4,571	10,949	9,594	10,497
Effective tax rate (%)	28.3	30.5	29.0	29.0
Adjusted PAT	11,577	24,973	23,489	25,699
Growth (%)	(17.5)	115.7	(5.9)	9.4
Net Margin (%)	5.6	8.4	6.5	6.4
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	11,577	24,973	23,489	25,699
E/O items	610	-	-	-
Reported PAT	12,187	24,973	23,489	25,699
Growth (%)	(29.6)	115.7	(5.9)	9.4

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	8,156	29,353	26,221	28,604
Depreciation	7,065	8,250	8,834	11,113
Interest Provided	510	335	300	300
Other Non-Cash items	2,789	-	-	-
Chg in working cap	(2,063)	-5,426	1,829	-569
Tax paid	-4,524	-10,949	-9,594	-10,497
Operating Cashflow	11,933	21,563	27,591	28,951
Capital expenditure	(16,136)	(13,000)	(26,000)	(28,136)
Free Cash Flow	-4,203	8,563	1,591	815
Other income	3,469	6,570	6,862	7,592
Investments	22,181	-4,000	-12,000	-4,000
Investing Cashflow	25,650	2,570	-5,138	3,592
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(3,339)	1,500	-	-
Interest Paid	(579)	-335	-300	-300
Dividend paid (incl tax)	(1,444)	(2,016)	(2,199)	(2,406)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	-5,362	-851	-2,499	-2,706
Net chg in cash	16,085	10,281	-6,046	1,701
Opening cash position	3,305	19,390	29,671	23,625
Closing cash position	19,390	29,671	23,625	25,325

Balance Sheet

Y/E, Mar (Rs. Mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	114,961	136,251	159,545
Minority Interest	-	-	-	-
Net worth	93,449	116,406	137,696	160,990
Secured Loans	1	1,501	1,501	1,501
Unsecured Loans	6,988	6,988	6,988	6,988
Loan Funds	6,989	8,489	8,489	8,489
Net deferred tax liability	1,551	1,551	1,551	1,551
Total Liabilities	101,989	126,446	147,736	171,030
Gross Block	87,206	100,206	126,206	154,342
Less: Depreciation	46,498	54,748	63,582	74,695
Net block	40,708	45,458	62,624	79,647
Capital work in progress	8,613	8,613	8,613	8,613
Investment	31,733	35,733	47,733	51,733
Current Assets	54,911	77,006	80,500	88,945
Inventories	9,023	12,059	14,514	16,265
Sundry debtors	9,189	12,059	14,514	16,265
Cash & bank balance	19,390	29,671	23,625	25,325
Loans & advances	16,328	22,237	26,866	30,108
Other current assets	981	981	981	981
Current lia & Prov	33,976	40,364	51,733	57,909
Current liabilities	30,169	35,156	45,266	50,670
Provisions	3,807	5,208	6,467	7,239
Net current assets	20,935	36,642	28,767	31,036
Misc. exp	-	-	-	-
Total Assets	101,989	126,446	147,736	171,030

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	7.6	12.7	9.9	10.0
Net Margin	5.6	8.4	6.5	6.4
ROCE	16.9	31.7	24.4	22.9
ROE	13.0	23.8	18.5	17.2
RoIC	23.2	62.7	44.1	37.8
Per Share Data (Rs)				
EPS	40.1	86.4	81.3	88.9
CEPS	64.5	115.0	111.8	127.4
BVPS	323.4	402.8	476.5	557.1
DPS	3.5	6.0	6.5	7.1
Valuations (x)				
PER	33.9	15.7	16.7	15.3
P/CEPS	21.1	11.8	12.1	10.7
P/BV	4.2	3.4	2.9	2.4
EV / Sales	1.7	1.1	0.9	0.8
EV / EBITDA	22.1	8.8	9.3	8.1
Dividend Yield (%)	0.3	0.4	0.5	0.5
Gearing Ratio (x)				
Net Debt/ Equity	(0.4)	(0.5)	(0.4)	(0.4)
Net Debt/EBITDA	(2.6)	(1.4)	(1.6)	(1.6)
Working Cap Cycle (days)	(21.1)	(13.5)	(16.5)	(16.5)

Recommendation History: Maruti Suzuki India Ltd. – MSIL IN

Date	Reports	Reco	CMP	Target
27-04-2010	Maruti Q4FY10 Result Update	Accumulate	1,335	1,600
25-01-2010	Maruti Q3FY10 Result Update	Hold	1,440	1,480
26-10-2010	Maruti Q2FY10 Result Update	Hold	1,517	1,520
24-07-2010	Maruti Q1FY10 Result Update	Reduce	1,296	1,180

Recent Research Reports

Date	Reports	Reco	CMP	Target
23.07.2010	Bajaj Auto Q1FY11 Result Update.pdf	Accumulate	2,490	2,865
22.07.2010	TVS Motor Co Q1FY11 Result Update	Hold	133	133
05.07.2010	Hero Honda Management Meet Update	Accumulate	2,021	2,250
18.06.2010	Auto Sector - Passenger Vehicles			

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