Auto & Auto Ancillaries 08 June 2010

Maruti Suzuki

Bloomberg: MSIL IN EQUITY **Recommendation: BUY**

Reuters: MRTI.BO

AMBIT Acumen at work

INITIATING COVERAGE

Tough times, tough people

Over the last six months Maruti has underperformed the BSE Auto Index by 25% on the back of heightened concerns regarding market share erosion and margin pressure on account of commodity cost increases and adverse currency movements. Although market share loss is a given in light of competitive launches (our est. ex-Nano, 280 bps decline between FY10-12E), we believe that Maruti's domestic volume growth in the passenger car segment over the next two years should remain robust at 13.5% CAGR. We have factored in a rebound in A1 segment volumes in FY12, based on expectation of a new launch by early CY11.

Robust volume growth despite market share loss

Despite several new launches in the compact car segment, we believe volume ramp up for the new entrants would take a few years. Maruti's strong distribution reach of 802 sales outlets and 2470 service stations remains a competitive edge. The company plans to focus on the largely under-penetrated rural markets, which currently contribute 16.5% of its domestic volumes (9 % in FY09). Furthermore, we note that Maruti's current product portfolio is fairly diversified with the revenue share from the compact car segment accounting for 56% of total sales.

Margin levers to partially offset input cost pressure

Maruti's calibrated capacity expansion would ensure high utilization levels over the next two years. The company has completed its platform rationalization and upgradation efforts in Q4FY10, which we feel could bring in cost efficiencies in the subsequent period. Further with the recent price hike of ~ 1% on blended basis, MSIL would be able to partially offset some portion of commodity cost increase. Adverse forex movement is likely to impact operating profits by ~2% in FY11E and FY12E, based on Maruti's unhedged exposure.

Valuations

Maruti's current valuations at 11.6x FY12E is at 16% discount to its five years median valuations and 7% discount to its domestic peers. Considering Maruti's ability to display strong performance during down cycles and its strong balance sheet and free cash flows, we believe the stock deserves to trade mid-cycle valuations. We initiate coverage with a BUY recommendation and set a TP of Rs 1582 (14xFY12E EPS).

Exhibit 1: Key financials

Rs mn	FY09	FY10P	FY11E	FY12E
Net Sales	208,525	296,230	348,935	401,893
% chg	*13%*	*42%*	*18%*	*15%*
EBIDTA	18,321	39,543	44,088	51,493
% chg	*-35%*	*116%*	*11%*	*17%*
PAT	12,187	24,976	27,795	32,654
% chg	*-30%*	*105%*	*11%*	*17%*
EPS	42.2	86.4	96.2	113.0
ROE %	*13.7*	*23.7*	*21.3*	*20.5*
ROCE %	*17.4*	*31.7*	*28.9*	*28.2*
P/E (x)	31.2	15.2	13.7	11.6
EV/EBIDTA (x)	18.5	8.1	7.2	5.9

Source: Company, Ambit Capital research

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Recommendation

CMP:	Rs1,315
Target Price (12 months)**:**	Rs1,582
Upside (%)	*20*
EPS (FY11E):	Rs96.2
Variance from consensus (%)	*2*

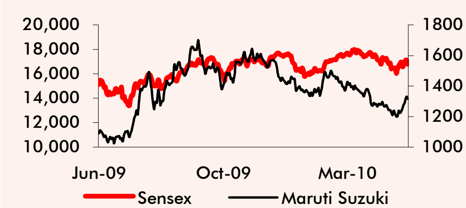
Stock Information

Mkt cap:	Rs380,047mn/US$8,113mn
52-wk H/L:	1,740/992
3M Avg. daily vol. (mn):	1
Beta (x):	0.8
BSE Sensex:	16781
Nifty:	5034

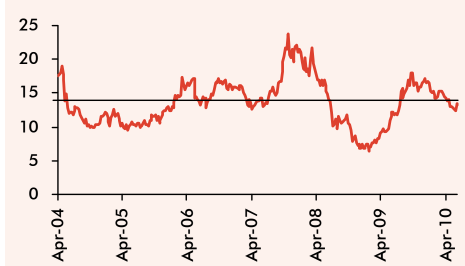
Stock Performance (%)

	1M	3M	12M	YTD
Absolute	2.8	-9.7	21.0	-15.7
Rel. to Sensex	2.8	-8.6	8.9	-12.2

Performance (%)



1-year forward P/E



Source: Bloomberg, Ambit Capital research

Company Financial Snapshot

Profit and Loss (Standalone)

	FY10	FY11E	FY12E
Net Sales	296,230	348,935	401,893
Optg. Exp (Adj for OI.)	251,720	299,405	343,578
EBIDTA	44,510	49,529	58,315
Depreciation	8,250	9,286	11,111
Interest Expense	335	250	220
PBT	35,925	39,993	46,984
Tax	10,949	12,198	14,330
Adj. PAT	24,976	27,795	32,654

Profit and Loss Ratios

EBIDTA Margin %	15.0	14.19	14.51
Net Margin %	8.4	8.0	8.1
P/E (x)	15.2	13.7	11.6
EV/EBIDTA(x)	8.1	7.2	5.9
Dividend Yield (%)	0.5	0.6	0.7

Company Background

Maruti Suzuki India Ltd is India's largest passenger car company, accounting for over 50 per cent of the domestic car market. Suzuki Motor Corporation is the parent company holding 54% stake in the company. Maruti's product portfolio with 13 models extends beyond the compact car segment to the entry levels sedans and MPV segment. The company's current installed capacity is 1 mn units, which would be expanded to 1.25 mn units by FY12. With a new R&D centre likely to be commissioned by the mid of FY11, Maruti is headed to become the R&D centre for Asia.

Balance Sheet (Standalone)

	FY10P	FY11E	FY12E
Total Assets	170,243	203,794	241,157
Net Fixed Assets	55,458	73,172	87,061
Current Assets	109,958	124,795	147,270
Other Assets	4,827	5,827	6,827
Total Liabilities	170,243	203,794	241,157
Networth	117,245	143,691	174,827
Debt	6,501	6,001	5,001
Current Liabilities	44,868	52,392	59,534
Deferred Tax	1,629	1,710	1,795

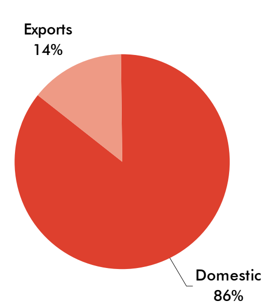
Balance Sheet Ratios

ROE %	23.7	21.3	20.5
ROCE %	31.7	28.9	28.2
Net Debt/Equity	-50.1	-44.3	-44.0
Equity/Total Assets	92.9	94.4	95.8
P/BV (x)	3.3	2.7	2.2

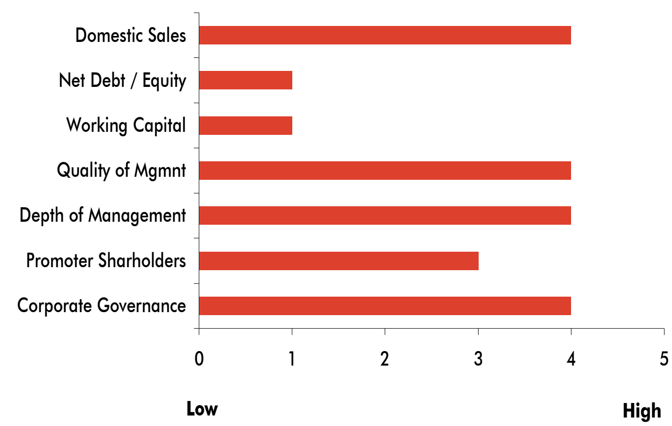
Cash Flow (Standalone)

	FY10P	FY11E	FY12E
EBIDTA	39,543	44,088	51,493
Other Income	4,968	5,441	6,822
Interest	(335)	(250)	(220)
Tax	(10,872)	(12,116)	(14,245)
Change in Wkg Cap	1,726	(2,983)	(3,044)
CF from Operations	35,030	34,179	40,806
Capex	(14,387)	(27,000)	(25,000)
Investment	(1,000)	(1,000)	(1,000)
CF from Investing	(15,387)	(28,000)	(26,000)
Change in Equity	0	0	0
Debt	(488)	(500)	(1,000)
Dividends	(1,180)	(1,349)	(1,518)
CF from Financing	(1,668)	(1,849)	(2,518)
Change in Cash	17,975	4,330	12,289

Volume Breakdown



Rating



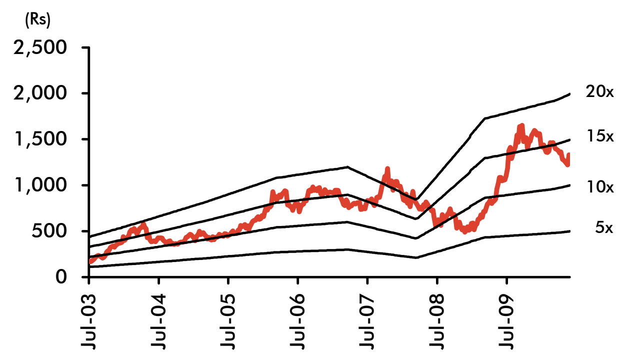
Valuations and Outlook

In the last six months Maruti's stock price has underperformed the BSE AUTO Index by 25% on the back of heightened concerns regarding market share erosion. We view the entry of new players in the compact car segment as a catalyst for accelerating the pace of industry growth in a relatively under-penetrated market. We expect Maruti's passenger car market share (ex Nano) to fall from 51.2% in FY10 to 48.4% in FY12E. In our view, Maruti's distribution network and low cost of ownership remain its competitive strengths which the company would leverage on to defend its market share.

We expect Maruti's domestic passenger car volumes to increase by 13.5% CAGR over the next two years. The company has expanded its portfolio from being a predominant compact car manufacturer to a leader in the entry level sedans. Further, with the launch of the Eeco, the company is aiming to augment its share in the MPV segment. Export market growth is likely to moderate as base effect and withdrawal of scrappage incentives in most European nations is likely to impact overall market volume growth.

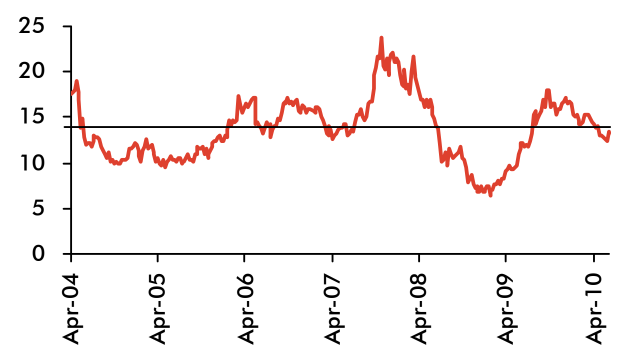
At CMP the stock is trading at 11.6x FY12E earnings. Given our forecast of earnings CAGR of 14% between FY10-12E, strong balance sheet and free cash flows over this period, we believe the stock should trade in-line with its historical median valuations over the last five years. We initiate coverage with a BUY rating and set a 12 months price target of Rs 1582 (14x FY12E EPS).

Exhibit 2: 1 year forward PE/ Band



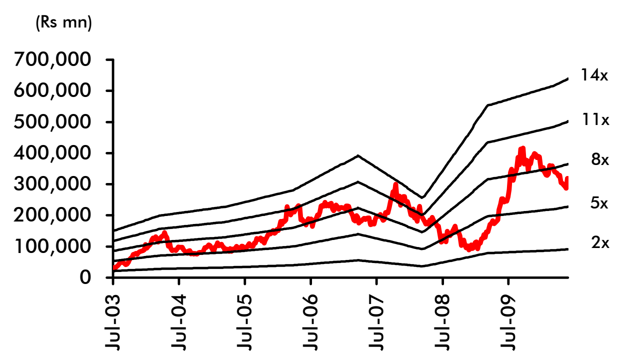
Source: Bloomberg, Ambit Capital research

Exhibit 3: 1 year forward PE (median line)



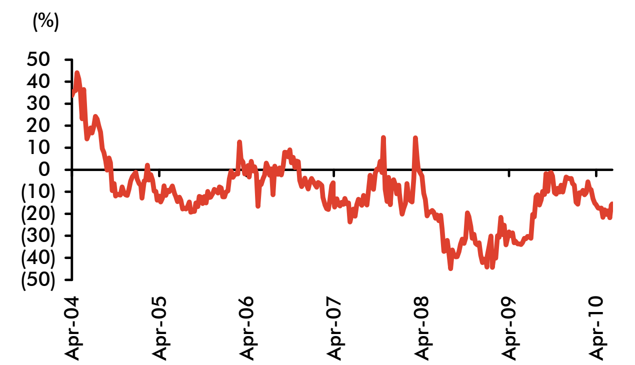
Source: Bloomberg, Ambit Capital research

Exhibit 4: 1 year forward EV/EBITDA Band



Source: Bloomberg, Ambit Capital research

Exhibit 5: 1 year forward premium/discount to Sensex



Source: Bloomberg, Ambit Capital research

Comparable valuations

Maruti Suzuki's current valuations are attractive based on relative comparison with global and domestic auto manufacturers. With India being one of the fastest growing automobile markets globally, we believe domestic players deserve richer valuations compared to the global auto companies, several of which operate in mature markets with lower industry growth rates.

On FY12 basis, Maruti trades at a PER of 11.6x and EV/EBIDTA of 5.9x. We believe the company deserves to trade at median valuations as it has shown lesser degree of cyclicality in its performance across business cycles. Further, its balance sheet and free cash flow characteristics remain favorable despite high level of investments planned over the next two years.

Exhibit 6: Valuation matrix

	Price*	MCAP	P/E		EV/EBIDTA		EV/Sales		ROE	
		US$ bn	CY10E/ FY11E	CY11E/ FY12E	CY10E/ FY11E	CY11E/ FY12E	CY10E/ FY11E	CY11E/ FY12E	CY10E/ FY11E	CY11E/ FY12E
Global										
Volkswagen	68	38.7	18.0	10.2	8.4	7.1	0.8	0.8	4.3	7.0
Honda Motors	2,825	56.3	13.1	10.4	8.6	7.4	0.9	0.8	8.7	10.2
Suzuki Motors	1,925	11.7	25.8	21.1	4.4	4.0	0.4	0.4	4.0	4.8
Nissan Motors	665	32.7	13.2	9.3	7.6	6.6	0.8	0.7	7.0	9.4
Renault	29	10.5	36.4	6.3	10.5	8.8	1.0	0.9	1.8	7.5
India										
Ashok Leyland	62	1.8	15.9	12.6	10.5	8.9	1.1	1.0	14.8	16.6
Tata Motors	737	9.1	13.6	9.4	6.9	5.3	0.7	0.6	26.6	27.7
M&M	580	7.1	14.5	12.3	10.2	9.3	1.6	1.5	23.0	21.6
Hero Honda	1978	8.6	16.2	14.7	11.8	10.1	1.9	1.7	57.8	46.7
Bajaj Auto	2184	6.9	15.3	13.2	10.0	8.2	2.0	1.7	57.8	47.4
Maruti Suzuki	1315	8.3	13.7	11.6	7.2	5.9	0.9	0.8	21.3	20.5

*Note: * Price is in local currency; Source: Bloomberg, Ambit Capital research*

Investment Summary

Maruti Suzuki is a market leader in the domestic passenger car market with a market share of 51.2% in FY10. The company has a strong product portfolio spanning across various price points. Maruti has made significant investments in building an elaborate distribution network with 802 sales and 2470 service outlets, which in our view remains a competitive edge for the company. In FY10, the company achieved a key milestone of vehicle sales in excess of 1 mn units.

We estimate volumes for the domestic passenger car industry (ex-Nano) to register 17% CAGR between FY10-12E on the back of strong macro trends and spate of new launches in the compact car segment. We expect Maruti to benefit from the exponential growth in the Indian passenger vehicle industry. We believe the company's product diversification strategy, shorter product development cycles with a new R&D centre in India and well entrenched distribution network would enable the company to partake in the growth opportunity. We forecast Maruti's overall domestic volume growth (Passenger cars +MPV's) at 15% CAGR between FY10-12E.

Despite increase in input costs on account of emission related upgrades and commodity cost increase, we believe the impact on margins is likely to be moderated through scale benefits flowing through with a rationalized engine portfolio and capacity utilization levels remaining higher than 100% levels.

Risks and Concerns

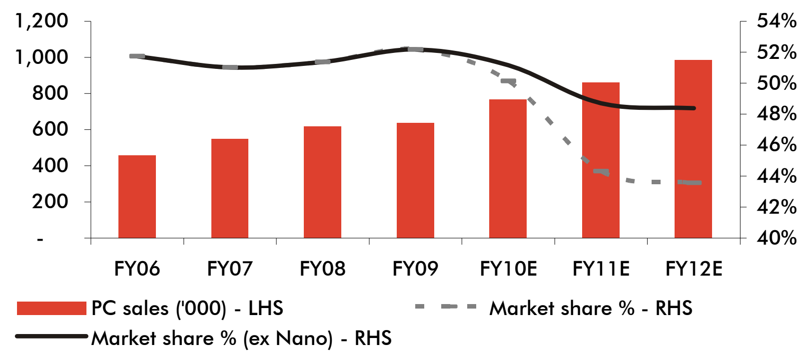
- Higher than forecasted increase in commodity prices could impact margins adversely as the company's competitive strength lies in low cost of ownership. Net of cost reductions expected from suppliers on an ongoing basis, we have factored in a 5% YoY increase in RM/per vehicle for FY11.
- Irrational discounts and incentive schemes to boost volumes by the new entrants could have a short term adverse impact on Maruti's volume growth. However we assign a low probability of the above in the short term as industry growth is likely to be strong.

Investment Rationale

Robust volume growth despite market share loss

The Indian passenger car market is set to expand with favorable trends in country's demography and affordability levels. With several new launches by global auto majors, we expect demand momentum to remain well above historical trend. We forecast domestic industry demand to increase at 17% CAGR between FY10-15E. We believe the passenger car industry is at an inflexion point with GDP per capita (PPP basis) crossing USD 3000 levels, a tipping point for motorization to take off. Further, we expect a significant expansion of the affordable population for passenger cars from 19% of total population to 30% by FY15.

Exhibit 7: Maruti – Passenger Car and Market Share trend



Source: SIAM, Ambit Capital Research

With competition intensifying in the Indian passenger car market, we expect Maruti's market share (ex Nano) to contract from 51.2% in FY10 to 48.4% in FY12E. In our view, excessive focus on market share loss concerns eclipses the fact that the company's domestic passenger car portfolio is estimated to grow at a healthy rate of 13.5% CAGR between FY10-12E.

Smaller cities witnessing higher growth

While the industry has grown at 13% CAGR between FY08-10, geographic segmentation of the market reveals that the higher growth has been coming from the smaller cities. Improvement in affordability levels in addition to the increasing aspiration levels are key demand drivers for passenger car sales in these smaller cities. Nevertheless, we believe the growth from Top 10 cities is likely to show a strong rebound in the near term as consumer sentiment has improved primarily driven by improvement in services sector hiring and salary levels.

Exhibit 8: Smaller cities to witness strong volume growth

Source: Company, Ambit Capital research

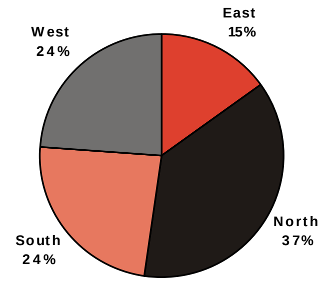
In our view, new entrants would first look at ramping-up dealer network in the Top 10 cities as more than 40% of passenger car demand emanates from these cities. However, with exorbitant real estate cost (~ 60% of total investment); ensuring dealer viability is a serious challenge. Further, with higher volume growth expected from the smaller cities mainly through first time buyers, dealers network of new entrants would require extensive financing support, till the time the brand has gained critical mass of vehicle park in the area.

Exhibit 9: Dealer Network - critical success factor

Company	Dealerships in Top 10 cities	% of total	Vehicles/per dealer/per month
Maruti	105	13%	88
Tata	60	12%	60
Hyundai	60	21%	86
Honda	40	50%	70
GM	30	15%	32
Toyota	28	29%	11

Source: Company, Media journals, Ambit Capital research

Exhibit 10: Maruti – split of dealerships across regions



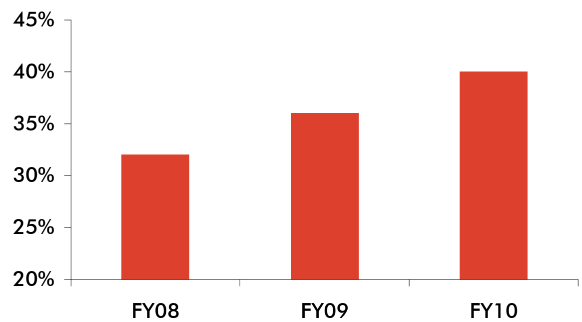
Source: Company, Ambit Capital research

Maruti dealership network remains its key competitive strength. In the Top 10 cities, the company has a dealer network which is 75% higher compared to the other incumbents. Further, with its car park of more than 7 mn vehicles and highest average vehicles sales/dealer, profitability for a Maruti dealership remains well ahead of industry levels.

Customer mix trending favorably for the incumbents

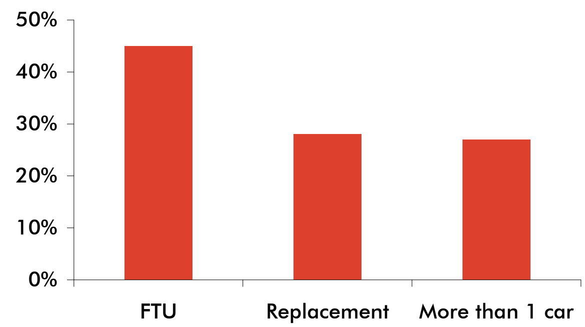
With favorable demographic trends and increasing proportion of population entering into the affordability net for passenger cars, the proportion of first time users (FTU) in total sales have been steadily rising. We believe this trend favors the incumbents which have a proven track record and a well entrenched sales and service network.

Exhibit 11: PV Industry – Increasing trend in FTU's



Source: Company, Ambit Capital research

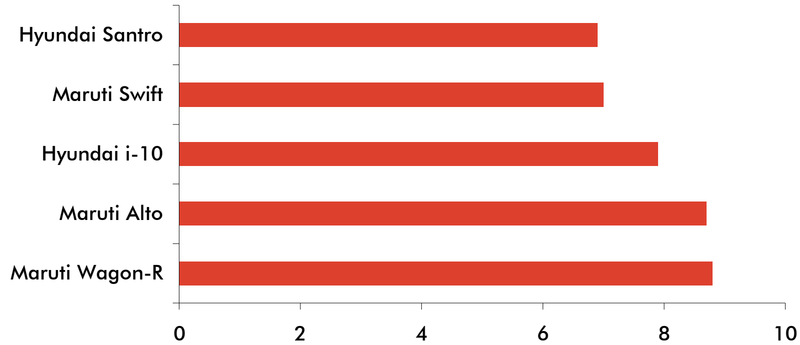
Exhibit 12: Maruti Suzuki – Customer mix



Source: Company, Ambit Capital research

We believe Maruti's strong franchise value in addition to its extensive reach would continue to find favor with the FTU segment. As per a study carried out by TNS Automotive covering recent buyers, current owners and prospective buyers, three out the five top models in terms of creation of brand experience are from Maruti's stable.

Exhibit 13: Maruti ranks high on brand experience

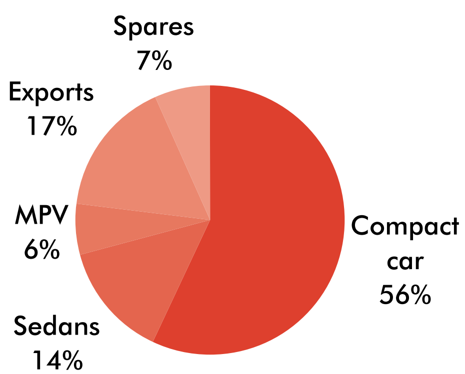


Source: TNS Automotive, Ambit Capital Research

Maruti's diversification efforts have been well timed

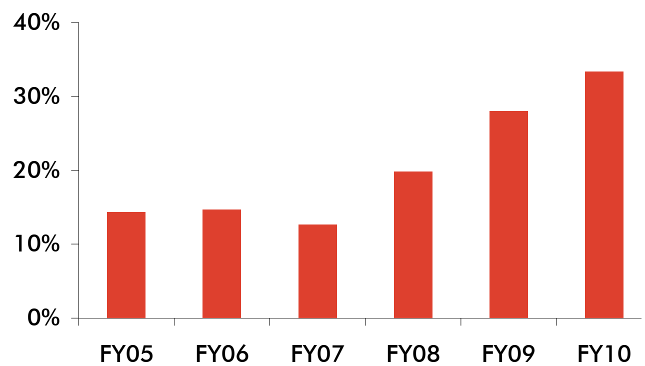
In the past couple of years, Maruti has consciously reduced its revenue share from the domestic compact car segment by expanding presence in new product segments and geographies. Leveraging on its 'value for money' brand image, the company has gained substantial market share in the entry level sedans and more recently augmented presence in the MPV segment with the launch of the Eeco.

Exhibit 14: Maruti – Est. revenue mix in FY10



Source: Company, Ambit Capital research

Exhibit 15: Market share gains in mid-sized cars



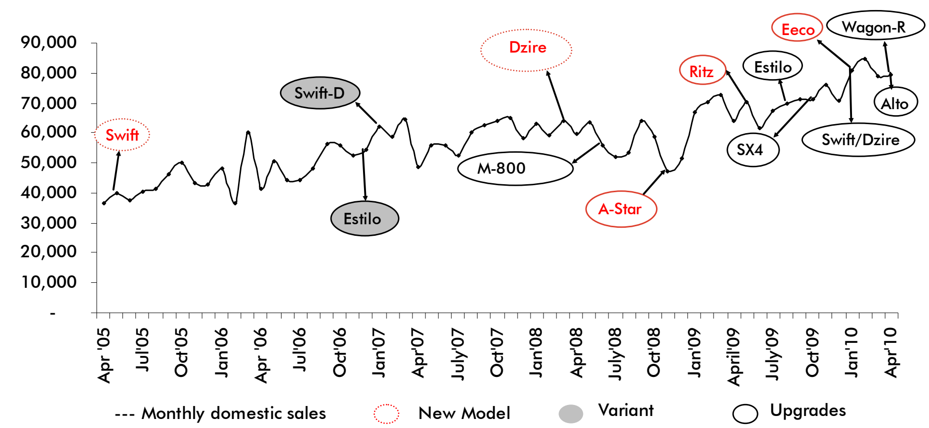
Source: SIAM, Ambit Capital research

Besides product diversification, Maruti's focus on exports has paid off well with ~ 17% of the company's revenue's coming from exports. Significant portion of exports growth came from the launch of the A-star in the European markets. Maruti plans to further expand its foot print into other markets such as Australia, New Zealand and Chile.

Expect frequency of new launches to accelerate

Maruti has been consistently launching one new model every year in addition to refreshers of its existing models. In the context of emission norms change, the company has upgraded most of its existing models to BS-IV emission standards. In addition to one new model launch, we expect Maruti to undertake model face-lifts at regular intervals.

Exhibit 16: Maruti - History of launches over last five years



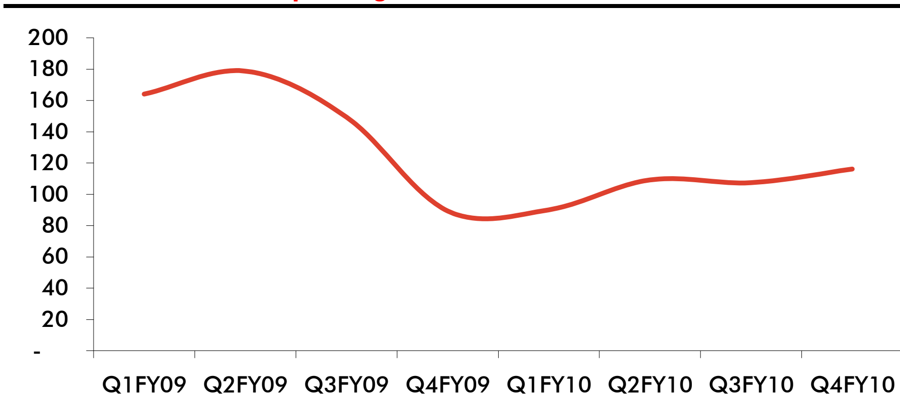
Source: Company, Ambit Capital research

With the recent change in emission norms to BS-IV, Maruti has upgraded its portfolio of models with the exception of the M-800, its only A1 segment offering. We believe this price point would be plugged with a new launch at a comparable or lower price point to the existing offering so as to revive its market share in the A1 segment. Further, with the commencement of the full fledged R&D centre at Rohtak by the mid of the year, Maruti product development plans would be fast tracked. We forecast a strong rebound in Maruti's A1 segment volumes in FY12. On a base case assumption, we expect Maruti's A1 segment volumes to increase by 120% YoY to ~ 50k units by FY12.

Margin levers to partially offset input cost pressure

Maruti is currently under negotiations with its vendors for raw material contracts for the next six months. While there is an upward bias in almost all key commodity prices, the recent price correction following the European crises might result in passing on lower price hikes than what was expected a month back. Our basic raw material index for passenger cars suggests an 8% increase since H2FY10, which was near about the price increases given for the preceding contracts; hence we do not expect any major spill over effect in the current contracts.

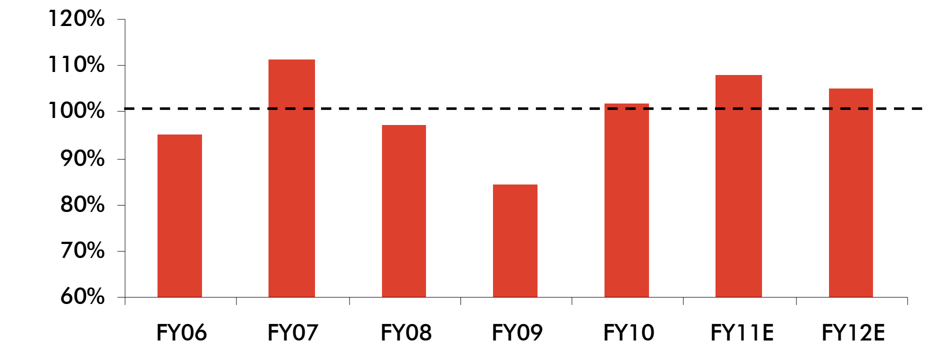
Exhibit 17: RM Index for passenger cars



Source: Cris Infac, Ambit Capital research

With the Manesar plant expansion likely to come on stream by FY12, and only marginal increase through de-bottlenecking in the near term, we expect utilization levels to remain above 100% for the next two years. We believe additional operating leverage benefits could accrue to the company.

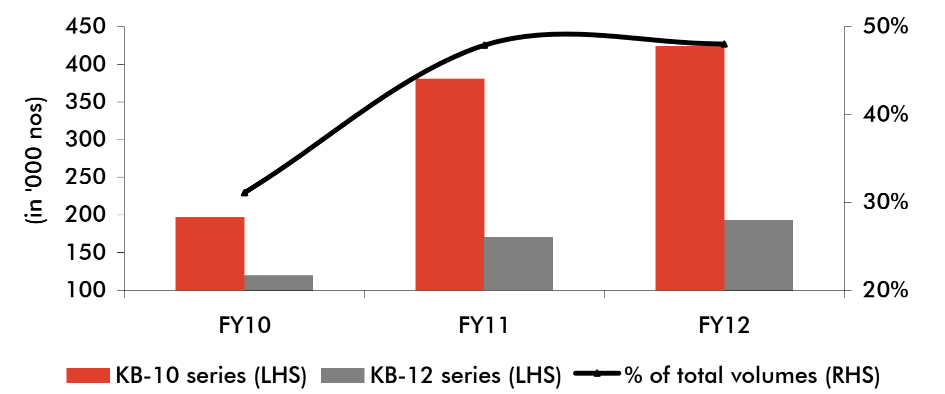
Exhibit 18: Maruti – Capacity Utilization levels to remain high



Source: Company, Ambit Capital research

Additionally, we expect the company to benefit from the engine rationalization efforts through its new K-series engines. A majority of the current models have been upgraded to the K-series engines to comply with the BS-IV emission norms. Cumulatively, we expect 48% of total passenger cars sold by Maruti to run on the KB-10 and KB-12 series engine. This is our view is likely to result in economies of scale as well as higher production efficiency levels.

Exhibit 19: Maruti – K-series engine production



Source: Company, Ambit Capital research

Expect calibrated pricing action

In concurrence with the above margin levers, we believe the current demand momentum and Maruti's franchise value confers it with reasonable pricing power. Notwithstanding this, we believe the company remains focused on maintaining its competitive edge through its low cost of ownership mantra. Consequently, baring runaway cost inflations, we believe the company would look at maximizing cost efficiencies before resorting to any significant pricing action.

Although the overall segmental volume mix is likely to show marginal improvement, within the A2 segment, share of premium compact cars is likely to increase. As per our estimates Maruti's ASP's in FY11 are likely to improve by 2.5-3% based on the mix change. Further the company has taken a blended price hike of 1% in April'10 on account of emission upgrade costs, which would reflect in FY11 realizations.

Volume outlook

We expect Maruti's domestic demand to grow by 15% CAGR between FY10-12E. Exports growth is likely to slowdown significantly from a high base of FY10 as scrappage schemes, which had boosted sales for compact cars, have been withdrawn in several markets.

Exhibit 20: Maruti Suzuki volume assumptions

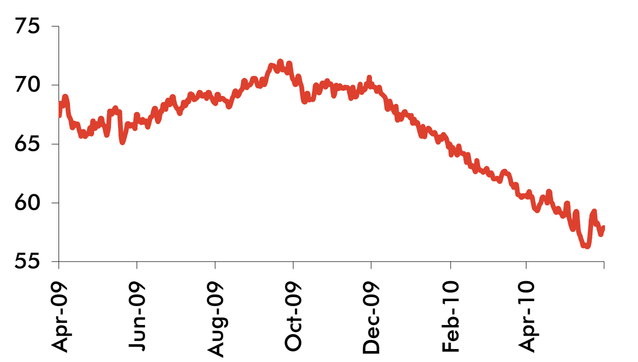
Volumes-Units	FY08	FY09	FY10	FY11E	FY12E
Models					
A1	69,553	49,383	33,028	23,120	50,863
% chg	*-12%*	*-29%*	*-33%*	*-30%*	*120%*
A2	499,190	511,396	633,190	716,886	796,238
% chg	*13%*	*2%*	*24%*	*13%*	*11%*
A3	49,335	75,928	99,325	120,479	137,206
% chg	*66%*	*54%*	*31%*	*21%*	*14%*
Omni, Eeco	89,729	77,948	101,325	137,865	157,361
% chg	*8%*	*-13%*	*30%*	*36%*	*14%*
Gypsy, Vitara	3,927	7,508	3,932	4,142	4,355
% chg	*22%*	*91%*	*-48%*	*5%*	*5%*
Domestic	**711,734**	**722,163**	**870,800**	**1,002,492**	**1,146,023**
% chg	*12%*	*1.5%*	*20.6%*	*15.1%*	*14.3%*
Exports	**53,024**	**70,023**	**147,575**	**154,954**	**168,900**
% chg	*35%*	*32%*	*111%*	*5%*	*9%*
Total Sales	**764,758**	**792,186**	**1,018,375**	**1,157,445**	**1,314,922**
% chg	*13.3%*	*3.6%*	*28.6%*	*13.7%*	*13.6%*

Source: Company, Ambit Capital research

Currency headwinds to impact profitability

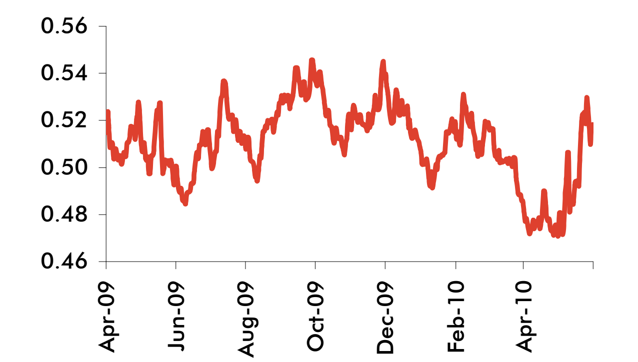
The recent debt crisis in Europe has resulted in a sharp depreciation in Euro against all major currencies. Maruti's 80% of exports being Euro denominated is likely to witness an adverse impact of Euro depreciation. While the company has hedged its first six months exports exposure, the 9% EUR/INR depreciation would impact Maruti's exports realizations subsequent to the H1FY11 period. Further, with Yen imports accounting for approx 25% of net sales, the company enters into a cross currency hedge in EUR/JPY terms, which has also moved adversely.

Exhibit 21: EUR/INR exchange rate trend



Source: Bloomberg, Ambit Capital research

Exhibit 22: JPY/INR exchange rate trend



Source: Bloomberg, Ambit Capital research

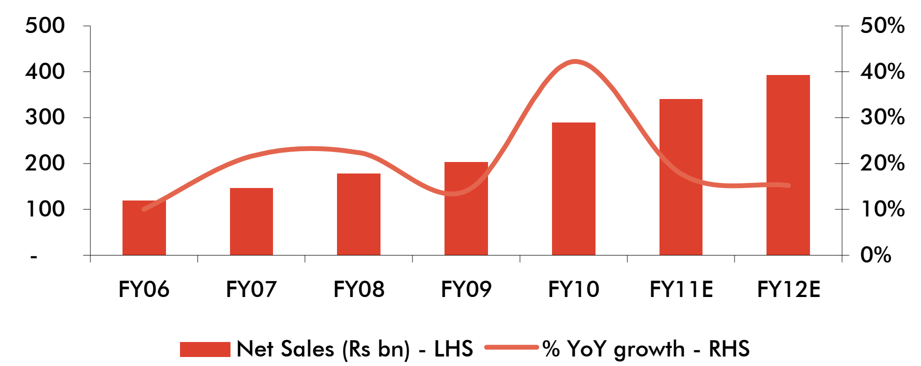
As per our analysis, we expect an ~ 2% decline in FY11 and FY12 operating profits, based on 50% of the net exposure being impacted by spot rates in FY11 and 100% exposure to spot rates in FY12. While the direction for currency movement remains imponderable, we do not foresee any extreme adverse movement in currency rates from our current assumptions. Also, Maruti's exports contribution from Europe is likely to reduce significantly as the company is focusing on new markets such as Australia, New Zealand and Chile in addition to the non-European markets.

Financial analysis

Revenue growth driven by volumes

We forecast Maruti's revenues to increase at 16% CAGR in FY10-12. We expect most of the revenue increase to be driven by volume growth. Maruti's future product mix is unlikely to yield any major improvement in ASP's. Further we see pricing action to remain calibrated as competitive launches are likely to be at aggressive price points. Export realizations are likely to decline as exchange rates have moved adversely for the company.

Exhibit 23: Maruti – Net Sales and growth trend

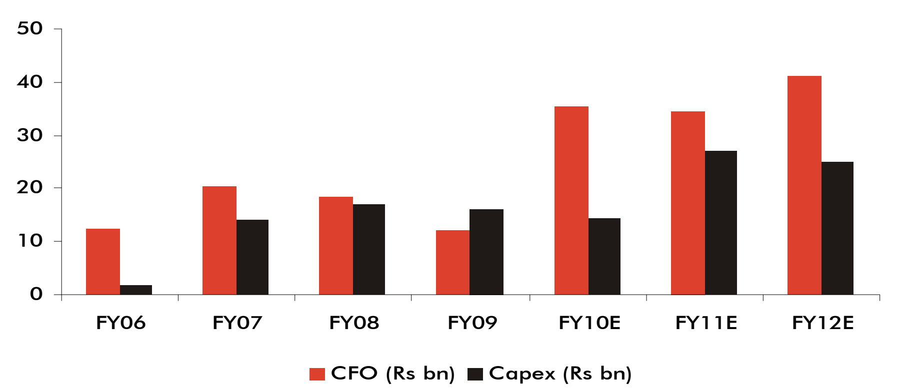


Source: Company, Ambit Capital research

Capex requirement to be met through strong cash flow generation

Maruti has outlined significant investments over the next two years with its expansion plans at Manesar, new R&D centre at Rohtak and other product development expenses. As per our forecast, Maruti's operating cash flow are likely to remain strong over the next two years. Consequently, we believe the entire capex requirement would be met through Maruti's internal generation.

Exhibit 24: Cash flow from operations v/s capex

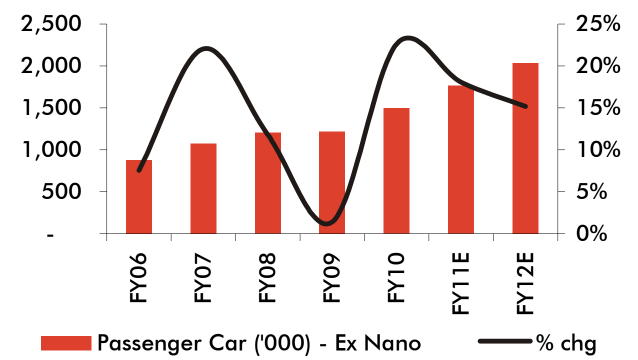


Source: Company, Ambit Capital research

Industry Snapshot

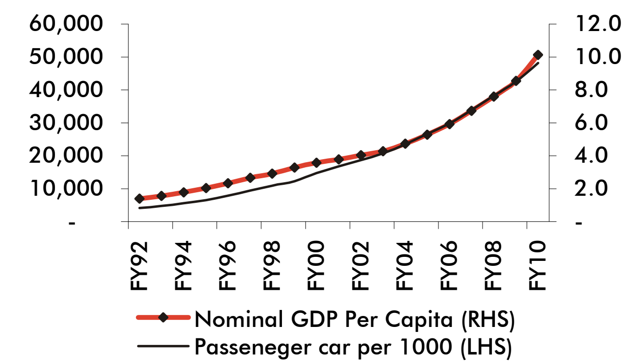
In view of the strong domestic demand most of the global majors have plans to expand their presence in India. With the compact car segment accounting for more than 70% of the total domestic market, several new launches have been targeted in this segment. We expect domestic passenger car industry (ex-Nano) to register a 17% CAGR over FY10-12E, driven by strong per capita income levels and favorable demographic profile. Anecdotally as seen through cross-country analysis, motorization rates tend to accelerate post GDP Per capita (PPP basis) crosses USD 3000.

Exhibit 25: Domestic passenger car industry



Source: Company, Ambit Capital research

Exhibit 26: Indian passenger car industry tracking nominal GDP per capita



Source: Company, Ambit Capital research

Several global auto majors have announced new launches in India, with the view to participate in the high growth market. Recognizing the local preferences, most new launches are targeted at the compact car market. Most of the new launches are expected to have high levels of localization and therefore pricing is likely to be aggressive. We note however, setting up distribution network in the segment remain a critical element and would require considerable time and investments.

Exhibit 27: Key model launches

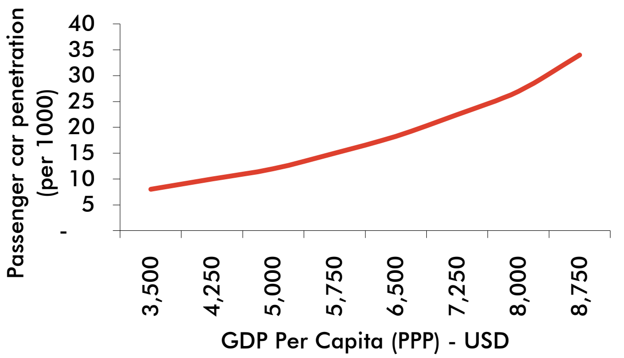
Segment/Company	Model	Estimated price	Proposed launch date
A2 segment			
GM	Beat	340,000 - 430,000	Launched
Honda	Small car	500,000-600,000	CY11
Hyundai	Electric i10	n.a	CY11
Nissan	Mirca	450,000-550,000	June'10
Toyota	Etios hatchback	500,000-550,000	Oct'10
Volkswagen	Polo	450,000-550,000	Launched
A3 segment			
Toyota	Etios Sedan	n.a	Early CY11
Volkswagen	Vento	800,000-1,000,000	Oct'10
A4 segment			
Maruti Suzuki	Kizashi	Above 1,200,000	End CY10
Fiat	Bravo	800,000-1,000,000	n.a

Source: Company, Media Reports, Ambit Capital research

Exploring parallels to the China Auto market

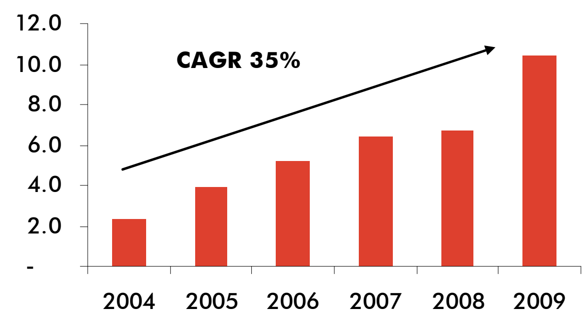
Over the last five years, the Chinese automobile market has grown at a meteoric rate to become the largest automobile market in 2009. Low penetration rates and rising affordability were key demand drivers for auto sales. Further, change in taxation structure in 2006 in favour of cars with smaller engine capacity, accelerated the pace of growth.

Exhibit 28: GDP Per Capita v/s Car penetration in China



Source: Company, Ambit Capital research

Exhibit 29: Passenger cars sales in China



Source: Company, Ambit Capital research

China's passenger car market has surged at 35% CAGR over the last six years. We note that during this period, China's per capita income levels increased from USD 3500 in 2002 to USD 8800 in 2009.

We believe the Indian markets offer similar growth characteristics with improving road infrastructure, higher segment of population entering into the affordability net and most importantly rising aspiration levels of the Indian consumer.

VW story in China – not analogous with Maruti in India

Volkswagen has enjoyed the early entrant benefit in China with above 50% market share in the late 1990's. However, subsequently the company has seen a continuous decline in its market share which has stabilised in the range of 13-15% over the last few years. In our view, one of the key reasons for VW loosing market share was due to its lack of preparedness to see the change in preference to smaller cars post tax structures being aligned favourably for the small car segment. VW's product portfolio was skewed towards the higher capacity engines with only one model in the sub 1.6 litre segment. Secondly, local players have gained substantial market share during the last five years as these companies were able to offer quality at lower price points.

In India, we believe Maruti has been ahead of the curve in most aspects. The company has high level of localization across its product range which enables it to offer products at competitive prices. Further, augmenting its presence in diesel powered vehicles, launching products in the upper A2 and A3 segment and now in the MPV category, reflects the level of proactiveness displayed by the company to pre-empt changing demand trends.

Exhibit 30: Profit and loss

Y/E March (Rsmn)	FY 2008	FY 2009	FY 2010E	FY 2011E	FY2012E
Net Sales	**178,603**	**203,583**	**289,585**	**341,100**	**392,977**
Other operating income	5,595	3,972	5,242	6,080	6,810
Income from services	759	971	1,404	1,755	2,106
Total Income	184,957	208,525	296,230	348,935	401,893
Operating Cost	(156,929)	(190,205)	(256,687)	(304,846)	(350,400)
EBITDA	**28,028**	**18,321**	**39,543**	**44,088**	**51,493**
EBITDA Margin	15.2%	8.8%	13.3%	12.6%	12.8%
Other Income	3,281	6,013	4,968	5,441	6,822
PBDIT	31,309	24,334	44,510	49,529	58,315
Depreciation	(5,682)	(7,065)	(8,250)	(9,286)	(11,111)
PBIT	25,627	17,269	36,260	40,243	47,204
Net Interest	(596)	(510)	(335)	(250)	(220)
PBT	**25,031**	**16,759**	**35,925**	**39,993**	**46,984**
Taxation	(7,722)	(4,571)	(10,949)	(12,198)	(14,330)
Adj Net Profit	**17,308**	**12,187**	**24,976**	**27,795**	**32,654**
EPS	59.9	42.2	86.4	96.2	113.0
% yoy	11%	-30%	105%	11%	17%

Source: Company, Ambit Capital research

Exhibit 31: Balance sheet

Y/E March (Rsmn)	FY 2008	FY 2009	FY 2010E	FY 2011E	FY2012E
Gross Block	72,853	87,206	102,206	127,206	152,206
Depreciation	(39,888)	(46,498)	(54,748)	(64,034)	(75,145)
Net Block	32,965	40,708	47,458	63,172	77,061
Capital WIP	7,363	8,613	8,000	10,000	10,000
Investments	3,151	3,827	4,827	5,827	6,827
Inventories	10,380	9,023	14,879	20,178	25,001
Sundry Debtors	6,555	9,189	11,107	14,018	17,226
Cash and Bank Balances	3,240	19,390	12,098	11,428	7,717
Marketable Securities	48,656	27,907	53,174	58,174	74,174
Other Current Assets	331	981	1,030	1,082	1,136
Loans and Advances	10,403	16,328	17,671	19,917	22,017
Total Current Asset	**79,565**	**82,818**	**109,958**	**124,795**	**147,270**
Current Liabilities	24,492	30,169	38,800	45,580	51,855
Provisions	3,695	3,807	6,069	6,812	7,679
Total Current Liabilities	**28,187**	**33,976**	**44,868**	**52,392**	**59,534**
Net Current Asset	51,378	48,842	65,090	72,403	87,736
Total Assets	94,857	101,990	125,374	151,402	181,623
Capital	1,445	1,445	1,445	1,445	1,445
Reserves	82,709	92,004	115,800	142,246	173,382
Total Shareholder Funds	**84,154**	**93,449**	**117,245**	**143,691**	**174,827**
Secured Loans	1	1	1	1	1
Unsecured Loans	9,001	6,988	6,500	6,000	5,000
Total Loans	**9,002**	**6,989**	**6,501**	**6,001**	**5,001**
Deferred Tax	1,701	1,551	1,629	1,710	1,795
Total Liab and Equity	**94,857**	**101,989**	**125,374**	**151,402**	**181,623**

Source: Company, Ambit Capital research

Exhibit 32: Cash flow statement

Y/E March (Rsmn)	FY 2008	FY 2009	FY 2010E	FY 2011E	FY2012E
EBITDA	28,028	18,321	39,543	44,088	51,493
Net Interest Paid	(596)	(510)	(335)	(250)	(220)
Tax Paid	(7,722)	(4,571)	(10,872)	(12,116)	(14,245)
Other Income and Expenses	3,281	6,013	4,968	5,441	6,822
Changes in Working Capital	(83)	(999)	1,726	(2,983)	(3,044)
Others and Exceptional Items	(2,866)	(4,441)	0	0	0
Operating Cash Flow	**20,041**	**13,813**	**35,030**	**34,179**	**40,806**
Capex	(16,930)	(16,136)	(14,387)	(27,000)	(25,000)
Inc./ (Dec.) in Investments	(16,843)	22,181	(1,000)	(1,000)	(1,000)
Others	3,158	3,469	0	0	0
Cashflow from Investing	**(30,615)**	**9,514**	**(15,387)**	**(28,000)**	**(26,000)**
Change in Equity	0	0	0	0	0
Change in Debt	3,365	(3,339)	(488)	(500)	(1,000)
Dividends	(1,299)	(1,444)	(1,180)	(1,349)	(1,518)
Cashflow from Financing	**2,066**	**(4,783)**	**(1,668)**	**(1,849)**	**(2,518)**
Change in Cash & Equivalents	(8,508)	18,544	17,975	4,330	12,289
Cash and Cash Equivalent	14,228	3,305	47,297	65,271	69,601
Closing Cash and Cash Equivalent	**3,240**	**19,390**	**65,271**	**69,601**	**81,890**

Source: Company, Ambit Capital research

Exhibit 33: Ratio analysis

Y/E March %	FY 2008	FY 2009	FY 2010E	FY 2011E	FY2012E
EBIDTA Margin	15.2	8.8	13.3	12.6	12.8
EBIT Margin	12.1	5.4	10.6	10.0	10.0
Net Profit Margin	9.4	5.8	8.4	8.0	8.1
ROCE	29.5	17.4	31.7	28.9	28.2
ROE	22.7	13.7	23.7	21.3	20.5
Current Ratio (x)	2.8	2.4	2.5	2.4	2.5

Source: Company, Ambit Capital research

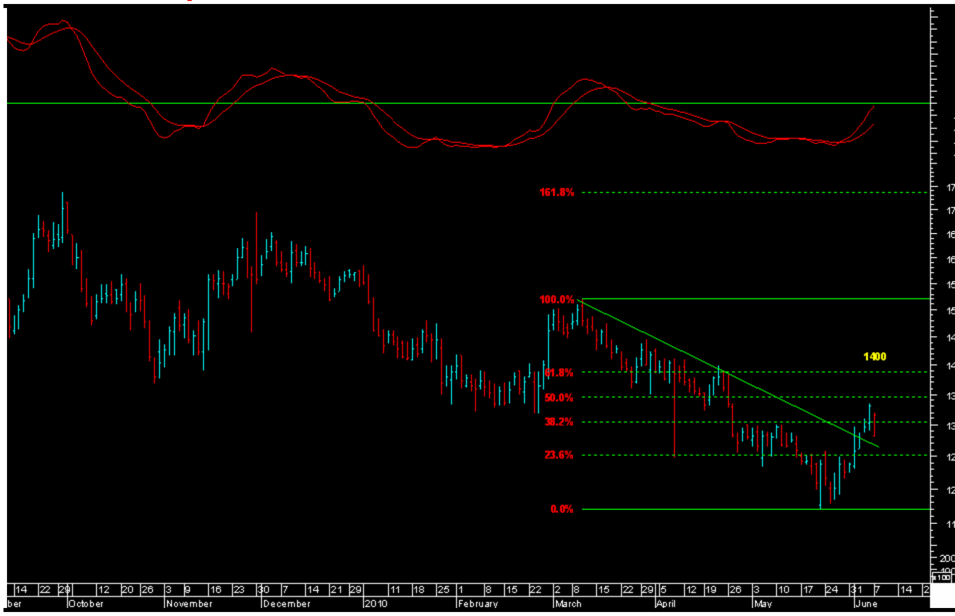
Exhibit 34: Valuation parameters

Y/E March	FY 2008	FY 2009	FY 2010E	FY 2011E	FY2012E
EPS (Rs)	59.9	42.2	86.4	96.2	113.0
Diluted EPS (Rs)	59.9	42.2	86.4	96.2	113.0
P/E (x)	22.0	31.2	15.2	13.7	11.6
P/BV (x)	4.5	4.1	3.2	2.6	2.2
EV/EBIDTA (x)	12.0	18.5	8.1	7.2	5.9
EV/ Sales (x)	1.9	1.7	1.1	0.9	0.8

Source: Company, Ambit Capital research

Technical View :

Exhibit 35: Daily chart



Source: MetaStock

- MACD on daily chart of Maruti is trading in upward bias and also the weekly MACD is also curving into buy mode.
- The stock will move upward towards 1400 which is the 61.8% retracement of the fall forms the 1519 to 1245.
- Also on daily chart the stock is forming Inverted Head and Shoulder pattern and this is a bullish pattern.
- We advise to build long position s with an upside target of 1400 and downside support at 1270.

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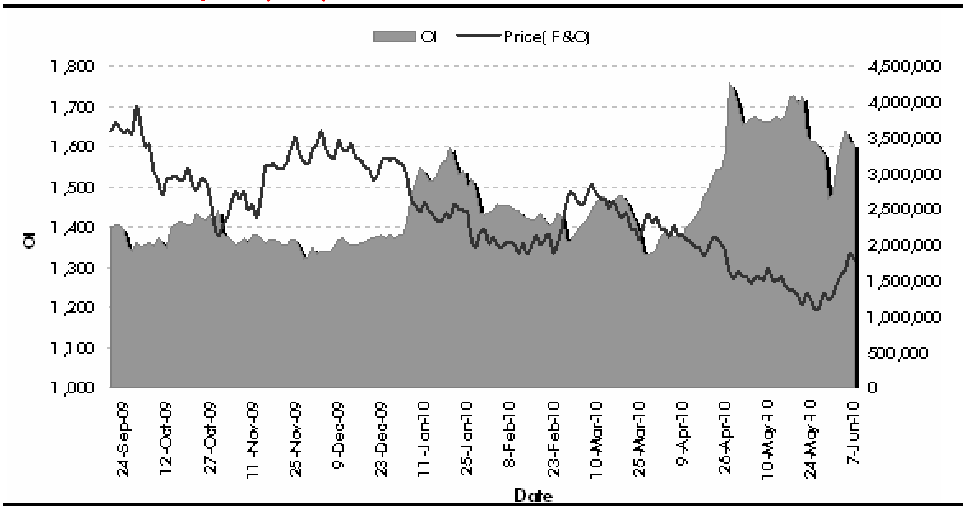
Derivatives View:

Exhibit 36: OI & price (F&O)



Source: Ambit Capital research

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Maruti had seen good amount of shorts coming in in April and first half of May as the stock corrected to sub 1200 levels. Post that, the stock witnessed some short covering in late May and since May expiry has actually been seeing some long additions. Thus the sentiment definitely seems to have turned for the stock. The stock in our view is likely to test 1380-1400 levels in the short term and a closing above these levels would lead to further momentum on the long side. On the way down good support for the stock lies around the 1260 mark.

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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