



Maruti Suzuki

Concerns overdone; still A Star

Worst factored in Q3FY11 margins, outlook positive

Maruti Suzuki's (MSIL) Q3FY11 adjusted EBITDA margins at 10% were hit by higher raw material costs (up 100 bps sequentially), which in turn were impacted by the unfavourable movement in the currency rates (JPY vs INR and Euro vs INR) and the year-end discounts (seasonal phenomenon). Margins were also impacted due to higher staff costs as the company effected a wage hike during the quarter with retrospective effect (left with a one-off expense of INR520mn). In all, it was a decent performance given the pressure on margins from all ends and things appear to get only better from here on as far as margins are concerned though the recovery, we believe, would be gradual.

PC sales trend in-tact, current scenario only a sentimental impact

We do not doubt the passenger car growth story in India despite various negative headwinds seen in recent times. Going by the historical trends, factors such as interest rates, excise hike and credit tightening have a sheer temporary, sentimental impact which would not alter the medium to long term trend. MSIL as a market leader should see a healthy growth in its domestic volumes over FY11-FY13E (we factor in 15% volumes CAGR).

Outlook and valuation; Concerns overdone, Buy

Reliable volume growth coupled with improving EBITDA margins (as discussed above) should see MSIL's earnings grow at a CAGR of 26% over FY11-13E. We are incorporating FY13 estimates into our financials and MSIL's EPS for FY12E and FY13E stands at INR100 and INR130, respectively. With a healthy earnings growth over the next two years, we value the stock at 15x FY12 earnings. We change our recommendation on the stock from 'Sell' to 'Buy' with a price target of INR1,500.

Rating : Buy

Target Price : INR1,500

Upside : 22%

CMP : INR1,231 (as on 28 January 2011)

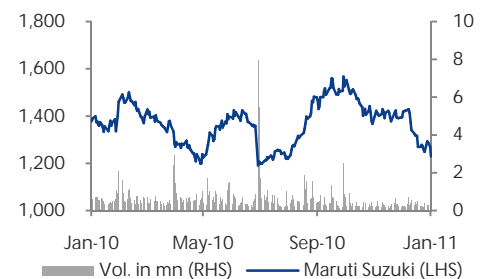
Key data*

Bloomberg /Reuters Code	MSIL IN/MRTI.BO
Current /Dil. Shares O/S (mn)	289/289
Mkt Cap (INR bn/US\$ mn)	355 /7,762
Daily Vol. (3M NSE Avg.)	285,224
Face Value (INR)	5

1 US\$= INR45.8

Source: Bloomberg; * As on 28 January 2011

Price & volume



Source: Bloomberg

Share holding (%)	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Promoter	54.2	54.2	54.2	54.2
Institutional Investors	37.9	37.2	37.1	38.1
Other Investors	5.6	6.0	6.2	5.2
General Public	2.3	2.6	2.5	2.5

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	(7.7)	2.4	12.8
Maruti Suzuki	(19.9)	2.2	(10.8)
Tata Motors	(3.5)	34.6	61.8
Bajaj Auto	(15.3)	(6.7)	49.8
Hero Honda	(13.1)	(10.7)	12.0
Ashok Leyland	(25.3)	(22.3)	14.1

Source: Bloomberg

Y/E March (INR mn)	Q311	Q310	YoY(%)	Q211	QoQ(%)	Q211E	Variance (%)
Net Sales	94,945	75,029	26.5	91,473	3.8	95,777	(0.9)
Operating Expenses	85,407	63,689	34.1	81,870	4.3	85,529	(0.1)
% of Sales	90.0	84.9		89.5		89.3	0.7
EBITDA	9,538	11,339	(15.9)	9,603	(0.7)	10,248	(6.9)
EBITDA Margins (%)	10.0	15.1		10.5		10.7	(6.1)
Other Income (Net)	1,283	913	40.6	1,340	(4.3)	1,350	(5.0)
Interest	4	84	(95.7)	97	(96.3)	90	(96.0)
Depreciation	2,369	2,028	16.8	2,382	(0.5)	2,400	(1.3)
PBT	8,448	10,140	(16.7)	8,464	(0.2)	9,108	(7.3)
Tax	2,276	3,265	(30.3)	2,481	(8.3)	2,732	(16.7)
Effective Tax Rate (%)	26.9	32.2		29.3		30.0	(10.2)
Adjusted PAT	6,172	6,875	(10.2)	5,982	3.2	6,376	(3.2)
NPM (%)	6.5	9.2		6.5		6.7	(2.4)
Extra ordinary items	520	-	-	-	-	-	-
Reported PAT	5,652	6,875	(17.8)	5,982	(5.5)	6,376	(11.4)

Source: Company, Elara Securities Estimate

Key Financials										
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x) EV/EBITDA (x)
FY09	208,526	13.5	18,321	8.8	12,188	(29.6)	42.2	13.7	17.8	29.2 19.8
FY10	296,231	42.1	39,543	13.3	24,976	104.9	86.4	23.6	31.9	14.2 9.2
FY11E	364,786	23.1	38,238	10.5	22,608	(6.9)	80.5	18.1	24.6	15.3 9.5
FY12E	438,357	20.2	47,423	10.8	28,899	24.2	100.0	18.9	25.9	12.3 7.7
FY13E	530,254	21.0	60,219	11.4	37,425	29.5	129.5	20.3	28.1	9.5 6.0

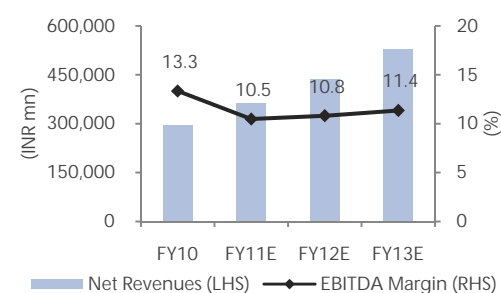
Source: Company, Elara Securities Estimate

Standalone Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Net Revenues	296,231	364,786	438,357	530,254
EBITDA	39,543	38,238	47,423	60,219
Add:- Non operating Income	4,967	5,084	5,933	7,431
OPBITDA	44,510	43,321	53,356	67,650
Less :- Depreciation & Amortization	8,250	9,600	11,579	13,529
EBIT	36,260	33,721	41,778	54,122
Less:- Interest Expenses	335	493	493	657
PBT	35,925	33,228	41,285	53,465
Less :- Taxes	10,949	9,968	12,385	16,039
Adjusted PAT	24,976	23,260	28,899	37,425
Add/Less: - Extra-ordinaries	-	(652)	-	-
Reported PAT	24,976	22,608	28,899	37,425
Balance Sheet (INR mn)	FY10	FY11E	FY12E	FY13E
Share Capital	1,445	1,445	1,445	1,445
Reserves	116,906	137,821	165,027	200,760
Borrowings	8,214	8,214	8,214	8,214
Deferred Tax (Net)	1,370	1,370	1,370	1,370
Other Liabilities	-	-	-	-
Total Liabilities	127,935	148,850	176,056	211,789
Gross Block	104,067	135,943	160,943	185,943
Less:- Accumulated Depreciation	53,820	63,420	74,999	88,528
Net Block	50,247	72,523	85,944	97,415
Add:- Capital work in progress	3,876	-	-	-
Investments	71,766	75,560	91,284	117,833
Net Working Capital	2,046	768	(1,171)	(3,460)
Other Assets	-	-	-	-
Total Assets	127,935	148,850	176,056	211,789
Cash Flow Statement (INR mn)	FY10	FY11E	FY12E	FY13E
Cash profit adjusted for non cash items	33,226	32,209	40,478	50,954
Add/Less : Working Capital Changes	-481	-1,506	-2,183	-2,594
Operating Cash Flow	33,707	33,714	42,661	53,547
Less:- Capex	13,052	28,000	25,000	25,000
Free Cash Flow	20,655	5,714	17,661	28,547
Financing Cash Flow	970	(1,693)	(1,693)	(1,693)
Investing Cash Flow	40,033	3,794	15,724	26,550
Net change in Cash	(18,408)	227	244	305
Ratio Analysis	FY10	FY11E	FY12E	FY13E
Income Statement Ratios (%)				
Revenue Growth	42.1	23.1	20.2	21.0
EBITDA Growth	115.8	(3.3)	24.0	27.0
PAT Growth	104.9	(6.9)	24.2	29.5
EBITDA Margin	13.3	10.5	10.8	11.4
Net Margin	8.4	6.2	6.6	7.1
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	0.1	0.1	0.0	0.0
ROE (%)	23.6	18.1	18.9	20.3
ROCE (%)	31.9	24.6	25.9	28.1
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	86.4	80.5	100.0	129.5
EPS Growth (%)	104.9	(6.9)	24.2	29.5
DPS (INR/Share)	6.0	7.0	8.0	9.0
P/E Ratio (x)	14.2	15.3	12.3	9.5
EV/EBITDA (x)	9.2	9.5	7.7	6.0
EV/Sales (x)	1.2	1.0	0.8	0.7
Price/Book (x)	3.0	2.6	2.1	1.8
Dividend Yield (%)	0.5	0.6	0.6	0.7

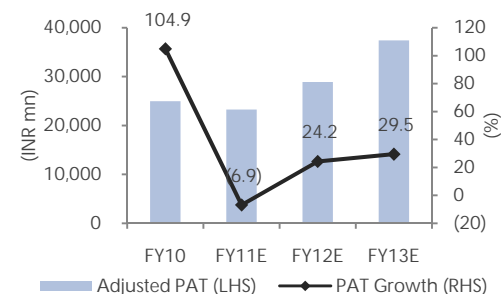
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



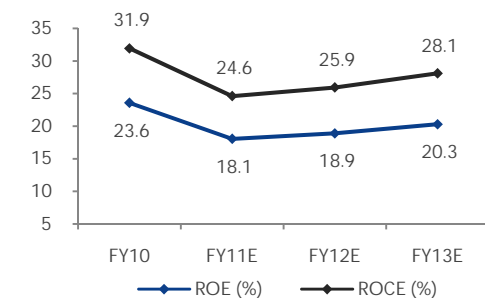
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



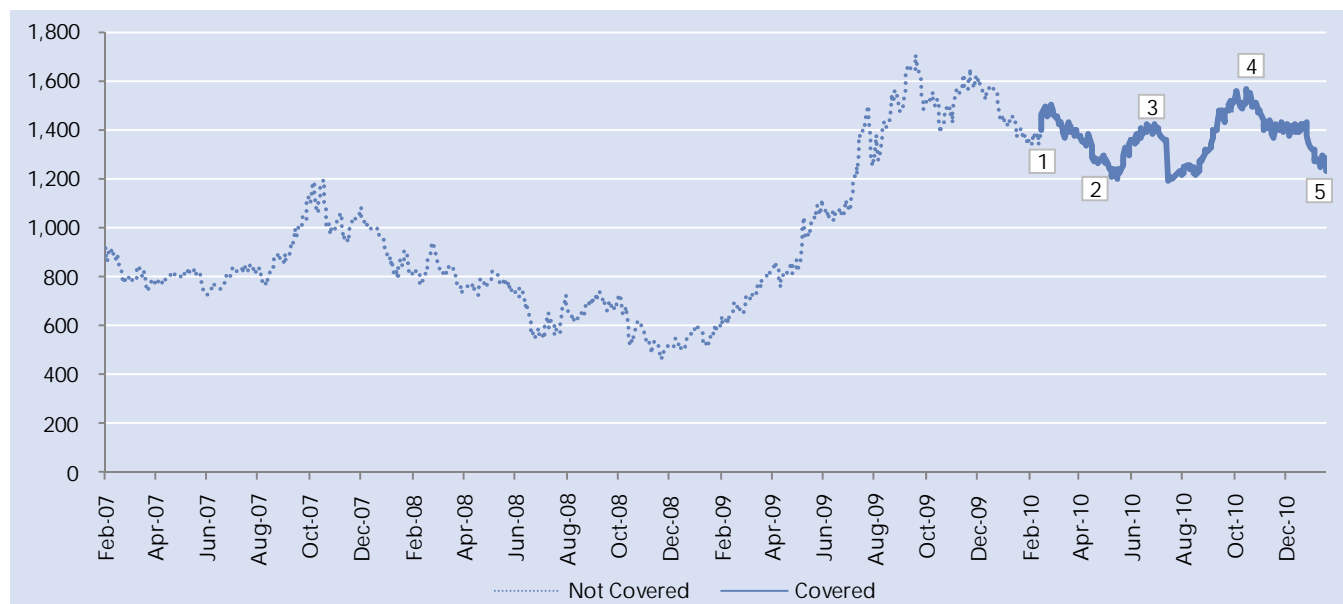
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	25-Feb-2010	Accumulate	INR1,634	INR1,400
2	26-Apr-2010	Accumulate	INR1,410	INR1,335
3	23-Jul-2010	Sell	INR1,076	INR1,360
4	29-Oct-2010	Sell	INR1,411	INR1,551
5	28-Jan-2011	Buy	INR1,500	INR1,231

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Disclosures & Confidentiality

The Note is based on our estimates and is being provided to you (herein referred to as the "Recipient") only for information purposes. The sole purpose of this Note is to provide preliminary information on the business activities of the company and the projected financial statements in order to assist the recipient in understanding / evaluating the Proposal. Nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. Nevertheless, Elara or any of its affiliates is committed to provide independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Elara or any of its affiliates have not independently verified all the information given in this Note and expressly disclaim all liability for any errors and/or omissions, representations or warranties, expressed or implied as contained in this Note. The user assumes the entire risk of any use made of this information. Elara or any of its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for or solicit investment banking or other business from any company referred to in this Note. Each of these entities functions as a separate, distinct and independent of each other. This Note is strictly confidential and is being furnished to you solely for your information. This Note should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This Note is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Elara or any of its affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. Upon request, the Recipient will promptly return all material received from the company and/or the Advisors without retaining any copies thereof. The Information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This Information is subject to change without any prior notice. Elara or any of its affiliates reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Elara is under no obligation to update or keep the information current. Neither Elara nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This Note should not be deemed an indication of the state of affairs of the company nor shall it constitute an indication that there has been no change in the business or state of affairs of the company since the date of publication of this Note. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Elara Securities (India) Private Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Any clarifications / queries on the proposal as well as any future communication regarding the proposal should be addressed to Elara Securities (India) Private Limited / the company.

Disclaimer

The information contained in this note is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

India
Elara Securities (India) Pvt. Ltd.
 Kalpataru Synergy, 6th Level,
 East Wing, Opp Grand Hyatt,
 Santacruz East,
 Mumbai – 400 055, India
 Tel : +91 22 4062 6868

Europe
Elara Capital Plc.
 29 Marylebone Road,
 London NW1 5JX,
 United Kingdom
 Tel : +44 20 7486 9733

USA
Elara Capital Inc.
 477 Madison Avenue,
 Suite 220, Second
 Floor, New York,
 NY 10022
 Tel : 212-430-5870

Asia / Pacific
Elara Capital (Singapore) Pte. Ltd.
 30 Raffles Place
 #20-03, Chevron House
 Singapore 048622
 Tel : +65 6536 6267

Harendra Kumar **Head - Institutional Equities & Global Research** harendra.kumar@elaracapital.com +91 22 4062 6871

Sales

Joseph K. Mammen **Global Head Sales & Trading**

London +44 78 5057 7329 joseph.mammen@elaracapital.com +44 20 7467 5578

Jonathan Camissar London +44 79 1208 7272 jonathan.camissar@elaracapital.com +44 20 7299 2575

Vishal Pattani London +44 77 0220 1384 vishal.pattani@elaracapital.com +44 20 7467 5452

Prashin Lalvani India +91 98334 77685 prashin.lalvani@elaracapital.com +91 22 4062 6844

Koushik Vasudevan India +91 98676 96668 koushik.vasudevan@elaracapital.com +91 22 4062 6841

Amit Mamgain India +91 98676 96661 amit.mamgain@elaracapital.com +91 22 4062 6843

Nirav Shah India +91 90040 27862 nirav.shah@elaracapital.com +91 22 4062 6842

Saira Ansari India saira.ansari@elaracapital.com +91 22 4062 6812

Sales Trading & Dealing

Ananthanarayan Iyer India +91 98334 99217 ananthanarayan.iyer@elaracapital.com +91 22 4062 6856

Vishal Thakkar India +91 98694 07973 vishal.thakkar@elaracapital.com +91 22 4062 6857

Manoj Murarka India +91 99675 31422 manoj.murarka@elaracapital.com +91 22 4062 6851

Research

Abhinav Bhandari Analyst Construction, Infrastructure abhinav.bhandari@elaracapital.com +91 22 4062 6807

Aliasgar Shakir Analyst Mid caps aliasgar.shakir@elaracapital.com +91 22 4062 6816

Alok Deshpande Analyst Oil & Gas alok.deshpande@elaracapital.com +91 22 4062 6804

Amol Bhutada Analyst Auto & Auto Ancillaries amol.bhutada@elaracapital.com +91 22 4062 6806

Anand Shah Analyst Paints, Fertilizers anand.shah@elaracapital.com +91 22 4062 6821

Himani Singh Analyst FMCG, Hotels, Hospitals himani.singh@elaracapital.com +91 22 4062 6801

Mohan Lal Analyst Media & Retail mohan.lal@elaracapital.com +91 22 4062 6802

Pankaj Balani Analyst Derivative Strategist pankaj.balani@elaracapital.com +91 22 4062 6811

Pralay Das Analyst Information Technology, Telecom pralay.das@elaracapital.com +91 22 4062 6808

Ravindra Deshpande Analyst Metals & Cement ravindra.deshpande@elaracapital.com +91 22 4062 6805

Ravi Sodah Analyst Cement ravi.sodah@elaracapital.com +91 22 4062 6817

Sumant Kumar Analyst FMCG sumant.kumar@elaracapital.com +91 22 4062 6803

Surajit Pal Analyst Pharmaceuticals, Real Estate surajit.pal@elaracapital.com +91 22 4062 6810

Kavitha Rajan Associate Information Technology, Telecom kavitha.rajan@elaracapital.com +91 22 4062 6814

Pooja Sharma Associate Construction, Infrastructure pooja.sharma@elaracapital.com +91 22 4062 6819

Sreevalsan Menon Editor sreevalsan.menon@elaracapital.com +91 22 4062 6813

Gurunath Parab Production gurunath.parab@elaracapital.com +91 22 4062 6815

Access our reports on Bloomberg: Type **ESEC <GO>**

Also available on **Thomson & Reuters**

Member (NSE, BSE)
 Regn Nos: CAPITAL MARKET SEBI REGN. NO.: BSE: INB 011289833, NSE: INB 231289837 DERIVATIVES SEBI REGN. NO.: NSE: INF 231289837
 CLEARING CODE: M51449.

Website: www.elaracapital.com Investor Grievance Email ID: investor.grievances@elaracapital.com