

October 31, 2011

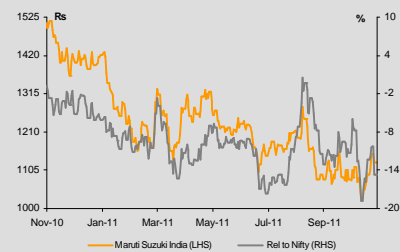
Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs1,128	Rs 1,140
EPS change FY12E/13E (%)	(20)/(10)
Target Price change (%)	(9)
Nifty	5,361
Sensex	17,805

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(5)	(15)	(26)
Rel. to Nifty	(3)	(3)	(8)	(17)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	MSIL@IN
Equity Capital (Rs mn)	1445
Face Value(Rs)	5
No of shares o/s (mn)	289
52 Week H/L	1,600/1,010
Market Cap (Rs bn/USD mn)	326/6,685
Daily Avg Volume (No of sh)	689089
Daily Avg Turnover (US\$m)	15.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	54.2	54.2	54.2
FII/NRI	19.3	18.8	19.3
Institutions	17.7	18.0	17.9
Private Corp	6.2	6.3	5.9
Public	2.6	2.7	2.7

Source: Capitaline

Chirag Shah

chirag.shah@emkayglobal.com
+91 22 6612 1252

Siddhartha Bera

siddhartha.bera@emkayglobal.com
+91 22 6624 2494

- **Results below est. EBIDTA at Rs 5.2bn (est - Rs 5.8bn) and APAT at Rs 2.6bn (est. - Rs 3.4bn). Consider MTM (Rs 1bn) on royalty as normal exp. as payment due in Nov 2011**
- **Demand is skewed towards diesel vehicles. Sales of petrol vehicles registered decline in 1HFY12. Slower ramp up at Manesar plant to limit optimal utilization in the near term**
- **Lower FY12/FY13 vols. by 7.9%/2.4% to 1.19/1.5 mn units, EPS by 20%/10% to Rs 63.9/77.6. Factoring in Re/JPY at 1.7/1.64 vs 1.75/1.7 for FY12/13**
- **Downgrade to HOLD, see downside risks from lower volumes. Near term upsides arise from depreciating Yen (4% in one day) as MSIL will start hedging its 2HFY12 exposure**

Net Sales – ~6% above est.

Net sales at Rs 78.3bn was above our est. of Rs 74.1bn primarily driven by better than anticipated improvement in average realizations. ASP's stood at Rs 298,741 (4.8% YoY, 1.1% QoQ) vs our est. of flat YoY.

Product mix %	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
M800, A-Star, Alto, WagonR	50.3	51.6	53.0	48.7	50.7
Vans (Omni, Eeco)	15.0	14.6	13.4	16.3	16.9
Swift, Estilo, Ritz	23.2	22.8	20.8	22.2	20.2
Dzire	9.2	9.4	9.5	10.0	9.1
SX4	2.1	1.3	3.0	2.2	2.0
Gypsy, Vitara	0.3	0.3	0.3	0.6	1.1
Exports	11.4	9.4	9.0	11.0	11.9
Units sold (nos)	313,654	330,687	343,420	281,526	252,299
YoY change	27.4	28.2	19.5	(0.6)	(19.6)

Source: SIAM, Emkay research

EBIDTA disappoints - ~10% below est.

EBIDTA at Rs 5.2bn (~6.7% of sales) was significantly below our est. of Rs 5.8bn (~7.8% of sales). The company incurred cost pressures across all major categories. RM to vehicle sales at ~81.7% was impacted by higher average discounts of Rs 13,500 per vehicle vs Rs 9,500 in Q1FY12. Royalty at 6% of Sales (Rs 4.5bn) includes MTM on outstanding royalty liability of 1HFY12 (Rs 1bn) due to unfavorable currency movement. We considered this as normal expense as the payment is due in November 2011. S&D expense also increased to Rs 2.6bn (est. Rs2bn). Higher advertisement costs pertaining to launch of new Swift during the quarter impacted S&D expense. Staff costs at Rs 2bn (~2.5% of sales) was also higher due to new employee additions and wage increments.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS %chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY10	293,253	36,695	12.5	25,106	86.9	116.9	23.7	13.0	7.1	2.8
FY11	365,747	31,990	8.7	22,886	79.2	(8.8)	17.8	14.2	7.9	2.4
FY12E	358,685	27,489	7.7	18,467	63.9	(19.3)	12.6	17.7	9.4	2.1
FY13E	459,320	33,456	7.3	22,416	77.6	21.4	13.5	14.5	7.4	1.9

Source: Company, Emkay Research

Quarterly Summary

Rs mn	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	YoY(%)	QoQ(%)	YTD'11	YTD'10	YoY(%)
Revenue	91,473	94,945	100,922	85,293	78,316	(14.4)	(8.2)	163,609	173,788	(5.9)
Expenditure	81,727	85,587	90,825	77,149	73,104	(10.6)	(5.2)	150,253	155,948	(3.7)
<i>as % of sales</i>	<i>89.3</i>	<i>90.1</i>	<i>90.0</i>	<i>90.5</i>	<i>93.3</i>			<i>91.8</i>	<i>89.7</i>	
Consumption of RM	70,443	74,455	78,629	66,917	61,566	(12.6)	(8.0)	128,483	134,859	(4.7)
<i>as % of sales</i>	<i>77.0</i>	<i>78.4</i>	<i>77.9</i>	<i>78.5</i>	<i>78.6</i>			<i>78.5</i>	<i>77.6</i>	
Employee Cost	1,738	1,985	1,534	1,794	1,995	14.7	11.2	3,788	3,518	7.7
<i>as % of sales</i>	<i>1.9</i>	<i>2.1</i>	<i>1.5</i>	<i>2.1</i>	<i>2.5</i>			<i>2.3</i>	<i>2.0</i>	
Other expenditure	9,545	9,147	10,662	8,438	9,544	(0.0)	13.1	17,982	17,572	2.3
<i>as % of sales</i>	<i>10.4</i>	<i>9.6</i>	<i>10.6</i>	<i>9.9</i>	<i>12.2</i>			<i>11.0</i>	<i>10.1</i>	
EBITDA	9,746	9,358	10,097	8,144	5,212	(46.5)	(36.0)	13,356	17,840	(25.1)
Depreciation	2,382	2,369	2,967	2,425	2,664	11.8	9.9	5,088	4,799	6.0
EBIT	7,364	6,988	7,131	5,719	2,548	(65.4)	(55.4)	8,268	13,041	(36.6)
Other Income	1,340	1,283	1,199	1,801	1,177	(12.1)	(34.6)	2,978	2,342	27.2
Interest	97	4	64	58	109			167	177	(5.8)
PBT	8,607	8,268	8,266	7,463	3,617	(58.0)	(51.5)	11,079	15,206	(27.1)
Total Tax	2,575	2,276	1,667	1,970	1,018	(60.5)	(48.3)	2,988	4,546	(34.3)
Adjusted PAT	6,032	5,992	6,599	5,492	2,598	(56.9)	(52.7)	8,091	10,659	(24.1)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj. PAT after MI	6,032	5,992	6,599	5,492	2,598	(56.9)	(52.7)	7,897	9,983	(20.9)
Extra ordinary items	(219)	-	-	-	(194)			(194)	(676)	(71.3)
Reported PAT	5,812	5,992	6,599	5,492	2,405	(58.6)	(56.2)	7,897	9,983	(20.9)
Reported EPS	20.1	20.7	22.8	19.0	8.3	(58.6)	(56.2)	27.3	34.6	(20.9)

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	10.7	9.9	10.0	9.5	6.7	(400)	(289)	8.2	10.3	(210)	
EBIT	8.1	7.4	7.1	6.7	3.3	(480)	(345)	5.1	7.5	(245)	
EBT	9.4	8.7	8.2	8.7	4.6	(479)	(413)	6.8	8.7	(198)	
PAT	6.6	6.3	6.5	6.4	3.3	(328)	(312)	4.9	6.1	(119)	
Effective Tax rate	29.9	27.5	20.2	26.4	28.1	(177)	175	27.0	29.9	(293)	

Per Vehicle (Rs)						YoY(%)	QoQ(%)				YoY(%)
Revenue	291,636	287,113	293,941	302,967	310,400	6.4	2.5	306,480	291,113	5.3	
Raw Material	224,589	225,152	229,012	237,695	244,010	8.6	2.7	240,680	225,902	6.5	
Staff Cost	5,542	6,001	4,468	6,371	7,905	42.6	24.1	7,096	5,893	20.4	
Other Expense	30,432	27,661	31,053	29,973	37,828	24.3	26.2	33,685	29,435	14.4	
EBITDA	31,073	28,298	29,409	28,928	20,657	(33.5)	(28.6)	25,019	29,884	(16.3)	
PAT	19,231	18,119	19,219	19,509	10,299	(46.4)	(47.2)	15,156	17,855	(15.1)	

Source: Company. Emkay Research

APAT at Rs 2.6bn vs our est. of Rs 3.4bn

Adjusted Net profits at Rs 2.6bn was also impacted by higher depreciation and interest costs. Depreciation expense was at Rs 2.6bn vs our est. of Rs 2.5bn. Company incurred an additional depreciation of Rs 100mn pertaining to one month of operations of new assembly line at Manesar. The full impact of Rs 300 mn is expected to come from Q3FY12 onwards. Interest costs increased to Rs 109mn vs our est. of Rs 60mn. Other income at Rs 1.1bn and tax rate of ~28.1% was largely in line with our est.

Revision in Estimates

We lower our volume estimates by ~7.9%/2.4% in FY12/13 due to strike and weak demand scenario. Our net sales estimates are revised downwards by ~7%/2% in FY12/13. We lower our EBITDA margin estimates by 100bps/60bps to 7.7%/7.3% in FY12/13 led by unfavorable forex movement. We factor in Yen/Rs cross currency rate of Rs 1.7/1.64 for FY12/13. Our cross currency rate implies Yen/USD of 79.9/77 and USD/INR of 47/47 in FY12/13. We lower our net profits by 19.6%/10% to Rs 18.5bn/22.4bn in FY12/13.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,289,413	1,187,922	(7.9)	1,541,982	1,505,084	(2.4)
Sales	386,507	358,685	(7.2)	467,618	459,320	(1.8)
EBIDTA	33,543	27,489	(18.0)	36,854	33,456	(9.2)
EBIDTA margins(%)	8.7	7.7		7.9	7.3	
Net Profits	22,972	18,467	(19.6)	24,920	22,416	(10.0)
EPS	79.5	63.9	(19.6)	86.2	77.6	(10.0)

Source: Emkay Research

Valuations and View

At CMP of Rs 1,128 the stock trades at PER of 17.7x and 14.5x, EV/EBIDTA of 9.4x and 7.4x our FY12 and FY13 estimates respectively. We lower our target price to Rs 1,140 and downgrade our rating to HOLD. Our revised TP of Rs 1,140 implies 17.8x/14.7x PER and 9.5x/7.5x EV/EBITDA on our FY12/13 estimates.

Key extracts from the con call

- No significant demand up tick is seen post festive season. Higher interest rates, rising petrol prices etc continue to affect demand sentiment negatively.
- Petrol model sales have been impacted the most with the segment declining by 11% as compared to diesel sales increasing by ~24% in H1FY12. Only 4 petrol models have seen an increase in demand, out of which three belong to MSIL
- Ability to take price hikes has been severely impacted given the weak demand scenario despite adverse currency movement.
- Average discount levels have gone up to Rs 13,500 per vehicle as compared to Rs 9,500 per vehicle in Q1FY12. Avg. discounts are higher due to lower volumes of Swift/Dzire. Expect discounts to remain at current levels in 3QFY12
- Company has started hedging direct exposure to Yen for H2FY12 at Yen/USD of ~79.2. Mgmt. expects Yen/USD to depreciate further given the intervention from Bank of Japan and would build up its hedges at favorable rates. However, USD/Re exposure largely remains unhedged and continued depreciation in Re remains an important risk.
- Maintains the target of reduction in indirect Yen exposure through vendors to ~8-9% of net sales in the next 3 years from ~14% currently. Extensive discussions have been initiated with vendors regarding indigenization. Management also indicated very little scope of localization in direct exposure (~6% currently)
- Company expects to reach diesel engine capacity of ~25,000 units per month in Jan 2012 from ~20,000 units currently. Incrementally, company is exploring opportunity to source diesel engines from Fiat which is expected to begin from Jan 2012.
- New metal contracts have been negotiated at flat/marginally higher rates.
- Average inventory in the system has declined to 2-3 weeks as compared to 4-5 weeks in 1QFY12. This is due to no inventory for Swift/Dzire and other diesel products
- Capacity ramp up is expected to be done in a gradual manner. Expect the full production capacity to be reached from Jan 2012 onwards.
- Strike resolution has been conclusive. New department viz. Redressal committee, Labor welfare committee etc has been set up with proper statutory backing to monitor and avoid possible conflicts in future.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	293,253	365,747	358,685	459,320
Growth (%)	42.0	24.7	(1.9)	28.1
Expenditure	256,558	333,757	331,196	425,864
Materials Consumed	221,998	284,902	282,276	364,435
Employee Cost	5,456	7,036	8,182	9,513
Other Exp	29,104	41,819	40,738	51,915
EBITDA	36,695	31,990	27,489	33,456
Growth (%)	133.3	(12.8)	(14.1)	21.7
EBITDA margin (%)	12.5	8.7	7.7	7.3
Depreciation	8,250	10,135	10,802	12,272
EBIT	28,445	21,855	16,688	21,184
EBIT margin (%)	9.7	6.0	4.7	4.6
Other Income	7,945	9,477	8,909	9,823
Interest expenses	335	244	300	300
PBT	36,055	31,088	25,297	30,707
Tax	10,949	8,202	6,830	8,291
Effective tax rate (%)	30.4	26.4	27.0	27.0
Adjusted PAT	25,106	22,886	18,467	22,416
Growth (%)	116.9	(8.8)	(19.3)	21.4
Net Margin (%)	8.6	6.3	5.1	4.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	25,106	22,886	18,467	22,416
E/O items	(130)	-	-	-
Reported PAT	24,976	22,886	18,467	22,416
Growth (%)	116.9	(8.8)	(19.3)	21.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	28,110	21,611	16,388	20,884
Depreciation	8,250	10,135	10,802	12,272
Interest Provided	335	244	300	300
Other Non-Cash items	2,647	3,331	-	-
Chg in working cap	481	3,384	(9,660)	(1,450)
Tax paid	(10,949)	(8,202)	(6,830)	(8,291)
Operating Cashflow	28,874	30,503	11,000	23,715
Capital expenditure	(12,124)	(23,720)	(22,714)	(20,000)
Free Cash Flow	16,750	6,783	(11,714)	3,715
Other income	7,945	9,477	8,909	9,823
Investments	(43,654)	14,977	(14,500)	(10,500)
Investing Cashflow	(35,709)	24,454	(5,591)	(677)
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	1,225	(5,121)	-	-
Interest Paid	(335)	(244)	(300)	(300)
Dividend paid (incl tax)	(2,021)	(2,518)	(1,717)	(2,084)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	551	(7,134)	(2,017)	(2,384)
Net chg in cash	(18,408)	24,103	(19,322)	654
Opening cash position	19,390	982	25,085	5,763
Closing cash position	982	25,085	5,763	6,417

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	1,445	1,445	1,445	1,445
Reserves & surplus	116,906	137,230	153,980	174,313
Net worth	-	-	-	-
Minority Interest	118,351	138,675	155,425	175,758
Secured Loans	265	312	312	312
Unsecured Loans	7,949	2,781	2,781	2,781
Loan Funds	8,214	3,093	3,093	3,093
Net deferred tax liability	1,370	1,644	1,644	1,644
Total Liabilities	127,935	143,412	160,162	180,495
Gross Block	104,067	117,377	139,377	159,377
Less: Depreciation	53,820	62,083	72,885	85,157
Net block	50,247	55,294	66,492	74,220
Capital work in progress	3,876	14,286	15,000	15,000
Investment	71,766	51,067	65,567	76,067
Current Assets	37,724	63,563	64,688	81,537
Inventories	12,088	14,150	14,866	19,072
Sundry debtors	8,099	8,933	14,866	19,072
Cash & bank balance	982	25,085	5,763	6,417
Loans & advances	15,707	13,722	27,519	35,303
Other current assets	848	1,673	1,673	1,673
Current lia & Prov	35,678	40,798	51,585	66,330
Current liabilities	29,394	35,540	46,367	59,621
Provisions	6,284	5,258	5,218	6,709
Net current assets	2,046	22,765	13,103	15,207
Misc. exp	-	-	-	-
Total Assets	127,935	143,412	160,162	180,495

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	12.5	8.7	7.7	7.3
Net Margin	8.6	6.3	5.1	4.9
ROCE	31.7	23.1	16.9	18.2
ROE	23.7	17.8	12.6	13.5
RoIC	60.8	41.9	26.3	27.0
Per Share Data (Rs)				
EPS	86.9	79.2	63.9	77.6
CEPS	115.4	114.3	101.3	120.0
BVPS	409.5	479.8	537.8	608.2
DPS	6.0	7.5	5.1	6.2
Valuations (x)				
PER	13.0	14.2	17.7	14.5
P/CEPS	9.8	9.9	11.1	9.4
P/BV	2.8	2.4	2.1	1.9
EV / Sales	0.9	0.7	0.7	0.5
EV / EBITDA	7.1	7.9	9.4	7.4
Dividend Yield (%)	0.5	0.7	0.5	0.6
Gearing Ratio (x)				
Net Debt/ Equity	(0.5)	(0.4)	(0.4)	(0.4)
Net Debt/EBIDTA	(1.7)	(1.9)	(2.3)	(2.3)
Working Cap Cycle (days)	(11.5)	(12.4)	(22.2)	(22.4)

Recommendation History: Maruti Suzuki India – MSIL IN

Date	Reports	Reco	CMP	Target
07/09/2011	Auto Sector Report Cruising through barriers			
25/04/2011	Maruti Suzuki Q4FY11 Result Update	Accumulate	1,327	1,760
08/04/2011	Maruti Suzuki Management Meet Update	Accumulate	1,279	1,520
31/01/2011	Maruti Suzuki Q3FY11 Result Update	Accumulate	1,234	1,470

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210
20/10/2011	Bajaj Auto Q2FY12 Result Update First Cut	Accumulate	1,367	1,950
19/10/2011	Hero MotoCorp Q2FY12 Result Update	Accumulate	1,985	2,250
11/08/2011	Tata Motors Q1FY12 Conso Result Update	Buy	846	1,230

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.