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INDIA RESEARCH

Maruti Suzuki

Rs1440
UNDERPERFORMER

RESULT NOTE

Mkt Cap: Rs416bn; US$9bn

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Result: Q3FY10

Comment: Margin surprise!

Key valuation metrics

Year to March (Rs m)	Net sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	PER (x)	EV/E (x)
2007	149,494	24.0	15,622	54.1	31.2	26.6	16.7
2008	183,454	22.7	17,663	61.1	13.1	23.6	14.1
2009	208,525	13.7	12,187	42.2	(31.0)	34.1	20.6
2010E	291418	39.8	24,574	85.0	101.6	16.9	9.5
2011E	342,403	17.5	27,456	95.0	11.7	15.2	9.0

Highlights of Q3FY10 results

- Maruti Suzuki Q3FY10 results have been ahead of our estimates primarily on account of a one time benefit booked on lower priced old raw material contracts as well as favorable currency impact.
- Net sales for the quarter were up 62.5%yoy at Rs73.7bn (we saw Rs74.2bn). While volumes for the quarter were up 49%yoy (up 5%qoq), average realizations declined marginally qoq by 1% to Rs2,85,733 per vehicle indicating the impact of higher discounts during the quarter.
- However, the 250bps positive margin swing qoq to 15.5% (we saw 12.5%) came in as a surprise. Raw material / sales declined 120bps qoq to 76.2% due to impact (one time) of benefits booked on low priced old material contracts. Other expenses were also lower 120bps qoq at 8.8% of net sales on account of forex gains of Rs180mn (Rs620mn forex loss in Q2FY10) during the quarter. Further, the ~ 1 week routine plant shut-down also helped reduce overhead expenses during the quarter.
- While the RMC impact is clearly a one time benefit, the forex gain (vis-à-vis loss in Q2FY10) remains unexplained given that both INR/Euro and INR/Yen were flat qoq.
- Led by the robust volume growth and sharp margin expansion, absolute EBIDTA was up 24%qoq at Rs11.3bn (we saw Rs9.2bn).
- Resultant, PAT for the quarter was up 21%qoq at Rs6.9bn (we saw Rs5.7bn).

Other key highlights

- While domestic volumes were up 38%yoy over a low base (up 5%qoq) led by new model launches including the A-Star, Ritz and Estilo, exports were up 167%yoy (up 5.4%qoq) on account of the scrappage incentives in Europe.
- During the quarter the company launched a refreshed SX4 with BSIV compliance and an automatic transmission option. MSIL has also launched the Eeco (Versa replacement) at the Auto Expo which is expected to further boost domestic volumes in Q4FY10.

- Maruti would be expanding its Manesar capacity by 2.5L cars at an investment of Rs17bn by Apr2012.

Outlook

The robust margin expansion as well as a sustained volume ramp up has compelled us to revise our earnings upwards by about 17% for FY10E to Rs85 and by 14% for FY11E to Rs95. However, rising raw material prices, concerns on withdrawal of stimulus package (including partial / complete withdrawal of excise duty) and impact of rising interest rates remain key risk to our estimates.

MSIL has posted robust volume growth in the domestic market (22%yoy for the 9M ended Dec09) helped by the Government's stimulus package (including excise duty reduction), higher disposable income in the hands of the rural consumer led by four consecutive monsoons as well as the payout of the Sixth Pay Commission recommendations. Exports too have witnessed a strong uptick (135%yoy growth) led by the scrappage incentives in Europe. On the operational front too, declining raw material costs as well as better operating leverage has helped the company post strong earnings. However, while FY10 has been one of the best years for MSIL, we highlight the following concerns for the company going forward : i) insufficient monsoons in many rural areas may impact rural offtake in FY11 ii) once the 6th pay commission pay-out is exhausted by Mar2010, demand from Government employees (now constitutes ~17% of total domestic volumes) may cease iii) a likely roll-back of stimulus measures by the Government may decelerate the current volume momentum iv) the market leader may find it difficult to maintain its market share given the onslaught of fierce competition (Volkswagen Polo, Chevrolet Beat, Ford Figo, Nissan Micra, Toyota Etios) in the compact segment over FY10-11E v)the robust export volume momentum may not sustain post the withdrawal of scrappage incentives in Europe. Further, rising raw material costs as well as increasing competition coupled with an expected withdrawal of excise duty may limit margin expansion going forward. Despite our concerns, we have factored in 14%yoy volume growth and stable margins in FY11. Even at these aggressive estimates, the stock is trading at 15.2x FY11E and at 9x EV/EBIDTA. While such strong quarterly numbers could potentially trigger a positive rub off on the stock price over the near term, given the concerns highlighted above, we maintain Underperformer with a revised price target of Rs1,330.

		bps chg		
As a % to net sales	**Q3FY10**	**yoy**	**qoq**	**Comments**
Material cost	76.2	(490)	(120)	lower on account of one time benefit booked on old low priced RM contracts
Employee cost	1.8	(60)	0	
Selling & Dist	3	(70)	10	
Mfg. exp	5.8	(290)	130	
Royalty	3.6	10	10	
Power & fuel	0.8	(30)	0	
Exchg variation	(0.2)	110	110	Forex gains reported despite flat currency movement qoq; remains unexplained
EBIDTA	15.5	890	250	

Quarterly results

	Q3FY09	Q4FY09	FY09	Q1FY10	Q2FY10	Q3FY10	FY10E	Comments
Net sales	**45,371**	**63,344**	**204,553**	**63,647**	**70,807**	**73,727**	**286,311**	Topline boosted by higher volumes
yoy change (%)	*(2.9)*	*32.4*	*14.0*	*33.9*	*46.6*	*62.5*	*502.3*	
Operating Profit	**2,968**	**4,493**	**18,097**	**7,932**	**9,161**	**11,339**	**38,530**	
yoy change (%)	*(56.0)*	*(14.8)*	*(21.1)*	*35.2*	*71.0*	*282.1*	*556.7*	
Other income	1,777	1,054	6,013	2,165	1,100	913	5,182	
Interest	45	89	510	63	60	84	294	
Depreciation	1,775	1,971	7,065	1,961	2,031	2,028	8,060	
Profit before tax	**2,925**	**3,487**	**16,535**	**8,073**	**8,171**	**10,140**	**35,358**	
Tax	789	1,056	4,571	2,238	2,471	3,262	10,784	
Net profit before extraordinaries	2,136	2,431	11,964	5,835	5,700	6,878	24,574	
yoy change (%)	*(54.3)*	*45.6*	*(32.3)*	*22.0*	*83.8*	*222.1*	*413.7*	
Extraordinary items	-	-	267	-	-	-		
Net Profit	**2,136**	**2,431**	**12,232**	**5,835**	**5,700**	**6,878**	**24,574**	
yoy change (%)	*(54.3)*	*84.6*	*(29.3)*	*25.3*	*92.6*	*222.1*	*427.5*	
Cash profit	3,911	4,403	19,030	7,796	7,731	8,906	32,634	
OPM (%)	6.5	7.1	8.8	12.5	12.9	15.4	13.5	Margins have significantly improved on one time benefit booked on material contracts & favorable currency impact
NPM (%)	4.7	3.8	5.8	9.2	8.1	9.3	8.6	
Other income/PBT	60.8	30.2	36.4	26.8	13.5	9.0	14.7	
Outstanding shares (m)	289	289	289	289	289	289	289	
EPS (Rs)	7.4	8.4	42.2	20.2	19.7	23.8	85.0	
Cash EPS (Rs)	13.5	15.2	65.8	27.0	26.8	30.8	112.9	
PER (x)			34.1				16.9	

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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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