



INDIA RESEARCH

Maruti Suzuki

Rs1440

UNDERPERFORMER

RESULT NOTE

Mkt Cap: Rs416bn; US\$9bn

Analyst: Ramnath S (91-22-6622 2559; ramnaths@idfcsski.com)

Aniket Mhatre (91-22-6622 2570; aniket@idfcsski.com)

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	291,418	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.

IDFC - SSKI Securities Ltd.

Naman Chambers, C-32, G- Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 Tel: 91-22-6622 2600 Fax: 91-22-6622 2501

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- ♦ 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.

As a % to net sales	bps chg			Comments
	Q3FY10	yoy	qoq	
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
<i>yoy change (%)</i>	(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	
<i>yoy change (%)</i>	(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 extraordinary	2,136	2,431	11,964	5,835	5,700	6,878	24,574	
<i>yoy change (%)</i>	(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	
<i>yoy change (%)</i>	(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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Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Financials, Strategy	pathik@idfcsski.com	91-22-662 22525
Shirish Rane	Construction, Power, Cement	shirish@idfcsski.com	91-22-662 22575
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhilvora@idfcsski.com	91-22-662 22567
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnaths@idfcsski.com	91-22-662 22570
Nitin Agarwal	Pharmaceuticals	nitinagarwal@idfcsski.com	91-22-662 22568
Chirag Shah	Metals & Mining, Telecom, Pipes, Textiles	chirag@idfcsski.com	91-22-662 22564
Bhoomika Nair	Logistics, Engineering	bhoomika@idfcsski.com	91-22-662 22561
Hitesh Shah, CFA	IT Services	hitesh.shah@idfcsski.com	91-22-662 22565
Bhushan Gajaria	Retailing, FMCG, Media, Mid Caps	bhushangajaria@idfcsski.com	91-22-662 22562
Salil Desai	Construction, Power, Cement	salil@idfcsski.com	91-22-662 22573
Ashish Shah	Construction, Power, Cement, Telecom	ashishshah@idfcsski.com	91-22-662 22560
Probal Sen	Oil & Gas	probal@idfcsski.com	91-22-662 22569
Chinmaya Garg	Financials	chinmaya@idfcsski.com	91-22-662 22563
Aniket Mhatre	Automobiles, Auto ancillaries	aniket@idfcsski.com	91-22-662 22559
Abhishek Gupta	Telecom	abhishek.gupta@idfcsski.com	91-22-662 22661
Ritesh Shah	Pharmaceuticals, IT Services	riteshshah@idfcsski.com	91-22-662 22571
Saumil Mehta	Metals, Pipes	saumil.mehta@idfcsski.com	91-22-662 22578
Vineet Chandak	Real Estate	vineet.chandak@idfcsski.com	91-22-662 22579
Swati Nangalia	Mid Caps, Media, Exchanges	swati@idfcsski.com	91-22-662 22576
Sameer Bhise	Strategy, Financials	sameer@idfcsski.com	91-22-662 22574
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfcsski.com	91-22-662 22566
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfcsski.com	91-22-662 22577
Dharmendra Sahu	Database Analyst	dharmendra@idfcsski.com	91-22-662 22580
Rupesh Sonawale	Database Analyst	rupesh@idfcsski.com	91-22-662 22572
Dharmesh Bhatt	Technical Analyst	dharmesh@idfcsski.com	91-22-662 22534
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	MD, CEO	naishadh@idfcsski.com	91-22-6622 2522
Pareesh Shah	MD, Dealing	pareesh@idfcsski.com	91-22-6622 2508
Vishal Purohit	MD, Sales	vishal@idfcsski.com	91-22-6622 2533
Nikhil Gholani	MD, Sales	nikhil@idfcsski.com	91-22-6622 2529
Sanjay Panicker	Director, Sales	sanjay@idfcsski.com	91-22-6622 2530
V Navin Roy	Director, Sales	navin@idfcsski.com	91-22-6622 2528
Suchit Sehgal	AVP, Sales	suchit@idfcsski.com	91-22-6622 2532
Pawan Sharma	MD, Derivatives	pawan.sharma@idfcsski.com	91-22-6622 2539
Jignesh Shah	AVP, Derivatives	jignesh@idfcsski.com	91-22-6622 2536
Sunil Pandit	Director, Sales trading	sunil@idfcsski.com	91-22-6622 2524
Mukesh Chaturvedi	SVP, Sales trading	mukesh@idfcsski.com	91-22-6622 2512
Viren Sompura	VP, Sales trading	viren@idfcsski.com	91-22-6622 2527
Rajashkhar Hiremath	VP, Sales trading	rajashkhar@idfcsski.com	91-22-6622 2516

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

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