

Industrials
Autos
Equity – India

Maruti Suzuki India (MSIL)

Overweight

Target price (INR)	1405.00
Share price (INR)	1272.45
Forecast dividend yield (%)	0.8
Potential return (%)	11.2

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	-5.1	28.8	2.8
Relative ^A (%)	-3.5	21.1	15.1

Index^A BOMBAY SE IDX

RIC MRTI.BO
Bloomberg MSIL IN

Market cap (USDm) 7,145
Market cap (INRm) 367,624

Enterprise value (INRm) 299454
Free float (%) 100

Note: (V) = volatile (please see disclosure appendix)

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OW: Maruti launches its UV ride, Ertiga

- ▶ **Maruti launched its much awaited UV Ertiga today**
- ▶ **Compared to competing models, Ertiga provides much better fuel efficiency and pricing but is under-powered**
- ▶ **May cannibalise the upper end of a few Maruti models, but may not matter much as diesel capacity is constrained; reiterate OW and INR1,405 target price**

Maruti launched its much awaited UV Ertiga today. The launch of the Ertiga is critical for Maruti from multiple dimensions. Most notably, it provides the company with an entry into the UV market in India, which is nearly 14% of the total market. This has been a growth market where Maruti has a negligible presence. Ertiga could provide a new market category and another leg of growth for Maruti, which should be largely complementary to existing sales. From a long-term perspective, the pricing and product are in the mid-range segment (INR600,000-845,000) and do not push Maruti's portfolio into the higher end market.

Ertiga vs key competitors. Ertiga is likely to compete with existing models from Toyota and Mahindra, such as Innova and Xylo. Our analysis on page 2 suggests that Ertiga is scoring high on cost of ownership, led by fuel efficiency and pricing. However the vehicle seems slightly under-powered compared to most of the other competing models as seen in Table 1.

Cannibalisation of existing models. In our 27 March note on Maruti "Dealers indicate no March slowdown; 4Q margin concerns remain", we wrote about the risk of cannibalizing the high end Swift and Dzire. Ertiga Diesel variants start from a pricing point of INR7.3m, which is lower than the higher end of Swift and Dzire. In that regard, while like-to-like model cannibalisation may not happen, there could be some customer shift from the higher end Swift to Ertiga, which we do not see as a material threat to Maruti as the total diesel capacity for Maruti is restricted to less than 400,000 in FY13.

Table 1. Ertiga vs other competing models

Parameters	Maruti Ertiga	Innova	Sumo Grande	Xylo	Bolero
Engine Capacity	1248	2494	2179	2498	2523
Power (BHP)	90	102	120	113	62
Torque (Kgm)	20.4	20.4	25.51	28.57	19.8
Pricing (in INR '000s)	845	1,350	852	1,047	708
Fuel Economy(City)	20.77	10.2	10	10	12.4
Average monthly sales in FY12	-	4,616	2,200*	2,515	7,800

Source: Company data, cardekho.com * - Volumes for all Sumo variants

Ertiga launch – Maruti’s foray into the UV segment

Maruti launched its much awaited UV Ertiga today. The launch of the Ertiga is critical for Maruti from multiple dimensions. Most notably, it provides the company with an entry into the UV market in India, which is nearly 14% of the total market. This has been a growth market where Maruti has a negligible presence. Ertiga could provide a new market category and another leg of growth for Maruti, which should be largely complementary to existing sales. Unfortunately from a long-term perspective, the pricing and product remain in the mid-range segment (INR600,000-845,000) and do not push Maruti’s portfolio into the higher end market.

Ertiga is expected to be available in at least six variants with two engine options – petrol and diesel. The petrol option is expected to be powered by a 1372cc K-series engine while the diesel option should be powered by a 1.3 litre Multijet engine. Mileage performance is expected to be roughly 16 kmpl and 21 kmpl for the petrol and diesel variants respectively.

Table 2. Introductory price ex-showroom, Delhi(in INR '000s)

Variant	Price	Variant	Price
Ertiga LXi	589	Ertiga LDi	730
Ertiga VXi	660	Ertiga VDi	790
Ertiga ZXi	730	Ertiga ZDi	845

Source: Company data

Ertiga is likely to compete with existing models from Toyota and Mahindra, such as Innova and Xylo. Our analysis (see Tables 1 and 3) suggests that Ertiga is scoring high on cost of ownership, led by fuel efficiency and pricing. However the vehicle is under-powered compared to the other competing models.

Table 3. Price comparison of lower and upper end diesel variants

Prices(ex-showroom Delhi) in INR'000	Ertiga	Innova	Sumo Grande	Xylo	Bolero
Diesel - Lower end	730	893	580	733	494
Diesel - Upper end	845	1,350	852	1,047	708

Source: Company Data, cardekho.com

In our note “Dealers indicate no March slowdown; 4Q margin concerns remain” published on 27 March, we wrote about the risk of cannibalizing the high end Swift and Dzire. Ertiga Diesel variants start from a pricing point of INR7.3m, which is lower than the higher end of Swift and Dzire. In that regard, while like-to-like model cannibalisation may not happen, there could be some customer shift from the higher end Swift to Ertiga, which we do not see as a material threat to Maruti as the total diesel capacity for Maruti is restricted to less than 400,000 in FY13..

Table 4. Maruti’s Ertiga pricing difference vs Swift and Dzire

INR (000s)	Ertiga	Swift	Dzire
Lower end Diesel	730	610	639
Upper end Diesel	845	756	804
Difference in price (%)		Ertiga vs Swift	Ertiga vs Dzire
Lower end Diesel		19.7%	14.2%
Upper end Diesel		11.8%	5.1%
Difference in price ('000s)			
Lower end Diesel		120	91
Upper end Diesel		89	41

Source: HSBC estimates

Other key features

- ▶ Seven-seater with foldable rear seats to increase boot space, flexible seating configurations of 2, 3-4, 5 and 7 seats.
- ▶ Fully loaded variants to be equipped with steering-mounted audio controls, automatic climate control systems and dash integrated music systems.
- ▶ Safety features include dual SRS airbags, ABS and electronic brake distribution.

Valuation and risks

The stock is currently trading at 15x our FY13e earnings. Our valuation is based on DCF analysis, supported by both PE and EV/EBITDA multiples. We use a WACC of 10.3% assuming a risk-free rate of 3.5% and a cost of equity of 11%. This method values the company at INR1,405 per share. At our target price, the stock would trade at 16.7x FY13e EPS. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Indian stocks of 11%. At the time we set our target price, it implied a potential return that was above the Neutral band; therefore, we rate the stock Overweight. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Risks to our rating and estimates include a slower-than-expected pick-up in demand and yen appreciation, as these factors could put further pressure on market share. Also, the potential success of new rival launches remains a threat as competition from global OEMs increases.

Disclosure appendix

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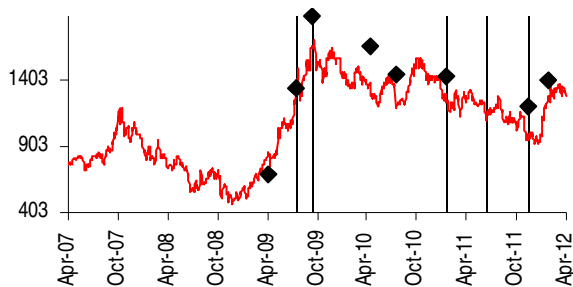
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Neutral (Hold)	36%	(24% of these provided with Investment Banking Services)
Underweight (Sell)	15%	(18% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Maruti Suzuki India Ltd (MRTI.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Underweight (V)	Neutral (V)	24 July 2009
Neutral (V)	Overweight (V)	24 September 2009
Overweight (V)	Overweight	31 January 2011
Overweight	N/A	21 June 2011
N/A	Overweight	28 November 2011
Target Price	Value	Date
Price 1	682.00	17 April 2009
Price 2	1343.00	24 July 2009
Price 3	1880.00	24 September 2009
Price 4	1660.00	26 April 2010
Price 5	1450.00	29 July 2010
Price 6	1425.00	31 January 2011
Price 7	N/A	21 June 2011
Price 8	1200.00	28 November 2011
Price 9	1405.00	06 February 2012

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
MARUTI SUZUKI INDIA LTD	MRTI.NS	1272.45	11-Apr-2012	4

Source: HSBC

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