

February 10, 2012

BSE Code: 532500 NSE Code: MARUTI Reuters Code: MRTLNS Bloomberg Code: MSIL:IN

Maruti Suzuki India Ltd (MSIL) is the largest car manufacturing company of India, which has been ruling the Indian auto market for more than two decades. A subsidiary of Japanese auto giant, Suzuki Motor Corp, the company has two manufacturing facilities in India with an annual capacity of 1.2 million vehicles. Offering 15 brands in over 150 variants, MSIL intends expand its manufacturing capacity to 1.75 million by 2013 and is setting up new manufacturing facility in Gujarat by 2015.

### Investor's Rationale

**Adverse forex movement and negative operating leverage weighs margins**

MSIL's Q3FY'12 EBITDA margins declined 421bps y-o-y (102bps q-o-q) to 5.3%, as adverse currency movement weighed direct imports and royalty followed by negative operating leverage. With persistent weakness in Indian rupee against Japanese Yen, MSIL's raw material cost (as % of sales) was higher 60bps q-o-q (80bps y-o-y). Net forex loss was sequentially higher by ₹780 million and EBITDA reported de-growth of 16% q-o-q (54% y-o-y) to ₹4,172 million.

**Net Profit hampered by series of strikes and low volume**

MSIL has reported a 64% y-o-y drop in its net profit at ₹2,056 million mainly due to a series of workers' strikes at its Manesar plant that led to a production loss of almost ~40,000 units in Q3FY'12.

**Higher realizations dilutes impact of lower volumes on revenues**

Total productive volumes de-grew 5% q-o-q (28% y-o-y) led by 5% q-o-q (29% y-o-y) decline in domestic volumes and 7% q-o-q (11% y-o-y) decline in export volumes. However, realizations improved by 7% q-o-q (14% y-o-y) to ₹319,948/unit, driven by higher export realization (+14% q-o-q), better product mix owing to normalized production for diesel models and price hike of ₹10,000-20,000 on diesel variants in mid Nov-11, translating into sequentially flat revenue (17% y-o-y decline) at ₹78.8 billion.

**Weak demand and strike led to decline in market share**

Lower sales volumes due to strike, intense competition and demand slowdown resulted in 110bps q-o-q (1,250bps y-o-y) drop in market-share to 40.7% of domestic car market in Q3FY'12. Discounts in Q3FY'12 were lower by ₹1,300/unit q-o-q (higher by ₹5,000/unit y-o-y) at ₹12,200/car. As model wise discounts remains unchanged at higher levels, no discounts on models like Swift/Dzire.

### Market Data

Recommendation	<b>BUY</b>
CMP (₹)	1,245
Target Price	<b>1,400</b>
Stop Loss	1,180
Duration	Mid-term
52-week High-Low (₹)	1,345.0/905.5
Rise from 52WL (%)	37.5
Correction from 52WH (%)	7.4
Beta	0.99
1 year Average Volume (mn)	0.07
Stock Return (%)	3M- 15.2 6M- (2.7) 9M- 0.3
Market Cap (₹bn)	359.7
Enterprise Value (₹bn)	339.1

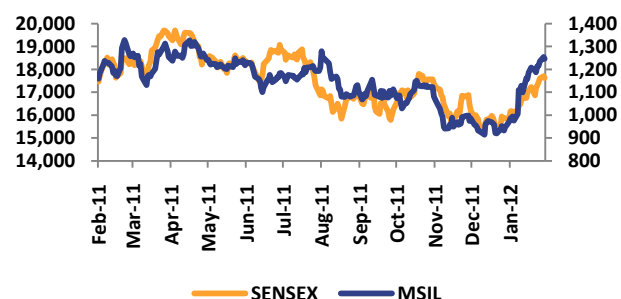
### Shareholding Pattern

	Dec'11	Sep'11	Chg
Promoters (%)	54.2	54.2	-
FII (%)	19.4	19.2	0.1
DII (%)	17.4	17.7	(0.3)
Public & Others (%)	9.1	8.9	0.2

### Quarterly Performance

(₹ bn)	Q3 FY'12	Q3 FY'11	Q2 FY'12	%Y-o-Y Change	%Q-o-Q Change
Revenue	78.8	94.9	78.3	(17.0)	0.6
Operating expenditure	74.6	85.9	73.4	(13.1)	1.7
EBITDA	4.1	9.0	4.9	(53.7)	(15.6)
OPM (%)	5.3	9.5	6.3	(421bps)	(102bps)
Net profit	2.0	5.6	2.4	(63.6)	(14.5)
NPM (%)	2.6	6.0	3.1	(334bps)	(46bps)
EPS	7.1	19.6	8.3	(63.8)	(14.5)

### One Year Price Chart





## Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E
Share Capital	1,450.0	1,450.0	1,450.0
Reserve and surplus	116,910.0	137,230.0	157,074.2
Net Worth	118,360.0	138,680.0	158,524.2
Minority Interest	8,210.0	3,090.0	7,750.0
Loan funds	1,370.0	1,640.0	1,640.0
Deferred Tax Liability	<b>127,940.0</b>	<b>143,410.0</b>	<b>167,914.2</b>
<b>Capital Employed</b>	<b>104,070.0</b>	<b>129,540.0</b>	<b>160,100.0</b>
Gross fixed assets	53,820.0	63,960.0	75,170.0
Less: acc. depreciation	50,250.0	65,580.0	84,930.0
Net Fixed assets	3,880.0	4,000.0	4,500.0
Capital WIP	54,130.0	69,580.0	89,430.0
Total Fixed Assets	71,770.0	51,070.0	51,070.0
Investment	2,050.0	22,760.0	27,414.0
Net Current Assets	<b>127,940.0</b>	<b>143,410.0</b>	<b>167,914.2</b>
<b>Capital Deployed</b>	<b>1,450.0</b>	<b>1,450.0</b>	<b>1,450.0</b>

## Key Ratios

	FY10A	FY11A	FY12E
EBITDA Margin (%)	13.6	10.1	9.5
EBIT Margin (%)	10.8	7.3	6.3
NPM (%)	8.6	6.3	5.7
ROCE (%)	24.4	18.5	13.1
ROE (%)	21.1	16.5	12.5
EPS (₹)	86.1	78.9	68.4
P/E (x)	14.5	15.8	18.2
BVPS	408.1	478.2	546.6
P/BVPS (x)	3.1	2.6	2.3
EV/Operating Income (x)	1.3	0.9	1.0
EV/EBITDA (x)	9.3	9.3	10.4

## Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E
Operating Income	296,230.0	370,400.0	357,691.5
Operating Expenses	256,720.0	333,760.0	324,550.0
EBITDA	39,510.0	36,640.0	33,141.5
EBITDA Margin (%)	13.6	10.1	9.5
Depreciation	8,250.0	10,140.0	11,210.0
EBIT	31,260.0	26,500.0	21,931.5
EBIT Margins (%)	10.8	7.3	6.3
Interest	340.0	240.0	370.0
Other Income	5,000.0	4,820.0	6,000.0
PBT	35,920.0	31,080.0	27,561.5
Tax	10,950.0	8,200.0	7,717.2
Net Profit	24,970.0	22,880.0	19,844.2
Net Profit Margin (%)	8.6	6.3	5.7

## Valuation

The management indicated that EBITDA margins have bottomed in Q3FY'12 and would improve hereon. MSIL is focused on improving EBITDA margin to double-digit over next 2-3 years.

MSIL has a long term strategy to capitalize on the prevailing strong and steady demand for passenger vehicles in India, driven by economic growth and lower level of penetration, particularly in rural part of the country. The company's strategy to aggressively expand its capacity, increased focused on alternative fuel technology, and unparallel network of sales & service infrastructure would augurs well for the company in ensuring days.

MSIL is placed at P/E of ~15.8x FY11 Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹1,245.



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