

# Maruti Suzuki India Ltd (MARUTI)

₹ 1158

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹ 1140 to ₹ 1275
EPS (FY12E) .....	Changed from ₹ 52.5 to ₹ 46.8
EPS (FY13E) .....	Changed from ₹ 84.4 to ₹ 85.0
RATING .....	Unchanged

## Coming to the end of downgrades...

Maruti Suzuki India's (MSIL) Q3FY12 numbers, which seem disappointing on the face of it, was marred by currency. The bright view of the results came in as net sales surprised us at ₹ 7663.6 crore (I-direct estimate: ₹ 7133.6 crore) as average realisations (ASP) jumped 7.1%QoQ and 14.1% YoY as richer product mix and lower discounts helped (down ~10% QoQ at ₹ 12,200). Volumes, however, declined ~28% YoY at ~2.4 lakh units as industrial strike, slow ramp-up led to ~40,000 unit's loss. The realisation jump is heartening as even in a weak quarter with "discount December" the domestic ASPs rose 6.2% QoQ reflecting the strong pricing power of MSIL's diesel portfolio. EBITDA margins, however, shrunk to 5.4% with forex impacting ~1% of net sales in net terms; also ~₹39 crore of one-off items came. However, healthy capital gains on FMPs helped PAT come in line with our estimates at ₹ 205.6 crore (I-direct estimate: ₹ 208.8 crore).

### Highlights of the quarter

MSIL's Q3/Q2 were both similar ranging from labour issues to currency challenges. The loss of 40,000 units coupled with steep INR depreciation (~11%) led to a poor operating performance. MSIL had currency impact on royalty, raw material, vendors and one time reinstatement of liabilities. The MTM impact was the worst for the royalty, which was higher by ~₹ 75 crore. On the bright side, retail sales for December 2011 were 1.16 lakh units, which reflected on the demand possibilities in case rates come down or fuel prices ease. The reducing discount is an early indicator of two things: the demand for diesel vehicles continues to remain strong and MSIL's diesel pricing power is second to none. Another fillip came from additional 0.1 million diesel engines sourcing from FIAT

### Valuation

We believe the worst is behind for MSIL. The market is looking at the extent of bounce back in FY13E. At the CMP of 1158, the stock is trading at 13.7x FY13E EPS. We have upgraded our target multiple to 15x FY13E EPS considering the strong earnings growth potential in FY13E. We have a target price of ₹ 1286/share and maintain our **BUY** rating on the stock.

### Exhibit 1: Valuation Metrics

(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	7663.6	7133.6	9276.7	7537.5	1.7	-17.4
EBITDA	417.2	456.0	901.8	494.2	-15.6	-53.7
EBITDA Margin (%)	5.4	6.4	9.7	6.6	-111 bps	-428 bps
Depreciation	298.9	285.0	236.9	266.4	12.2	26.2
Interest	17.4	10.0	0.4	10.9	58.9	4719.4
Other Income	160.4	125.0	128.3	117.7	36.2	25.0
Reported PAT	205.6	208.8	565.2	240.4	-14.5	-63.6
EPS (₹)	7.1	7.2	19.6	8.3	-14.5	-63.6

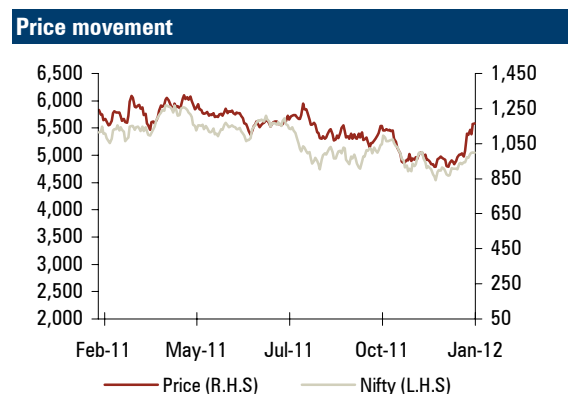
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 1275
Target Period	: 12 months
Potential Upside	: 10%

Key Financials				
₹ Crore	FY10	FY11	FY12E	FY13E
Net Sales	28,959	36,128.2	32,215.9	39,504.6
EBITDA	3,927.5	3,499.6	2,322.3	3,835.3
Net Profit	2,548.6	2,288.6	1,353.0	2,457.0
EPS (₹)	88.2	79.2	46.8	85.0

Valuation summary				
	FY10	FY11	FY12E	FY13E
P/E	13.2	14.7	24.8	13.7
Target P/E	14.5	16.1	27.2	15.0
EV / EBITDA	6.9	7.5	11.9	7.1
P/BV	2.8	2.4	2.2	1.9
RoNW	21.5	16.5	9.0	14.3
RoCE	24.5	17.5	8.0	15.0

Stock data	
Market Capitalization	₹ 33542.8 Crore
Total Debt (FY11)	₹ 309.3 Crore
Cash and Investments (FY11)	₹ 7615.2 Crore
EV	₹ 26236.9 Crore
52 week H/L	1326 / 916
Equity capital	₹ 144.5 Crore
Face value	₹ 5
MF Holding (%)	17.4
FII Holding (%)	19.4



Analyst's name	
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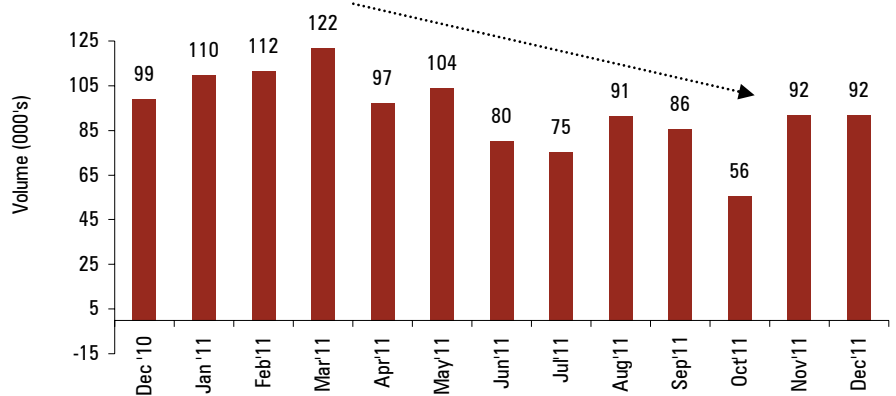
**Segmental analysis**

**FY12E a year to be forgotten ...All eyes on FY13E**

For MSIL, FY12E can be easily forgotten as a nightmare year with issues from industrial dispute to currency fluctuations to demand slowdown being seen. Volumes for Q3FY12 slid ~28% YoY at 2.4 lakh units as buyers continued to defer purchases as petrol variants remained out of favour. The gap between petrol and diesel fuels has remained exorbitantly high at ~₹ 25, which coupled with interest rates has hurt the small car petrol segment the maximum. We have cut down our estimates considering the same will grow by ~13% to 1.1 million with growth to flow over to FY13E. The positive development has come in the form of higher diesel engine availability through FIAT sourcing ~1 lakh units. This would lead to a gradual ramp-up and could lead to ~9,000 units/month in case demand sustains. This would enable MSIL to roughly sell ~32-34,000 engines/month post full ramp up from FIAT. We have estimated a 20% volume rebound to touch ~1.3 million units considering the re-occurrence of the deferred demand in FY13E. The management remains confident on being able to achieve margins improvement of ~150 bps purely through operating leverage and expects currency to also turn favourable.

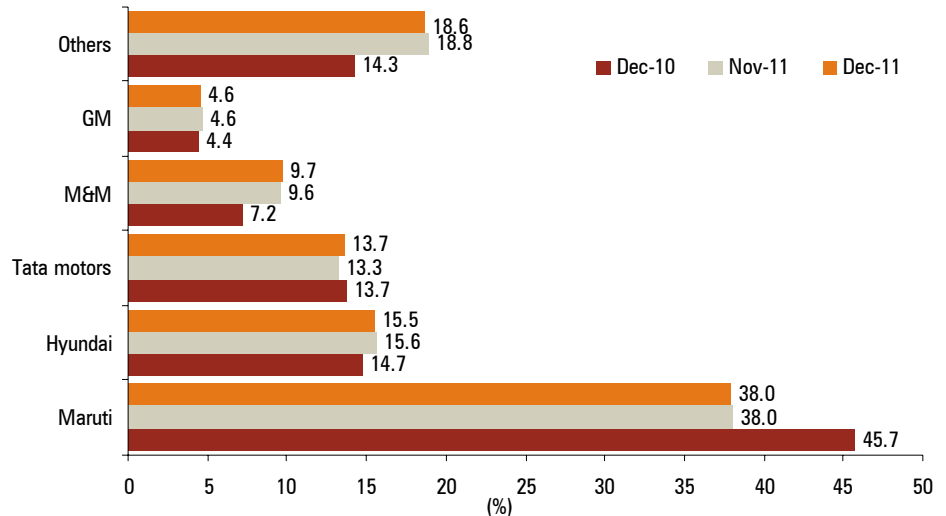
The PV segment has witnessed de-growth of ~28% in Q3FY12. MSIL market share has declined ~600 bps YTD to ~38% in the domestic PV market

**Exhibit 2: Volume trends**



Source: ICICIdirect.com Research

**Exhibit 3: Trends in domestic market share**

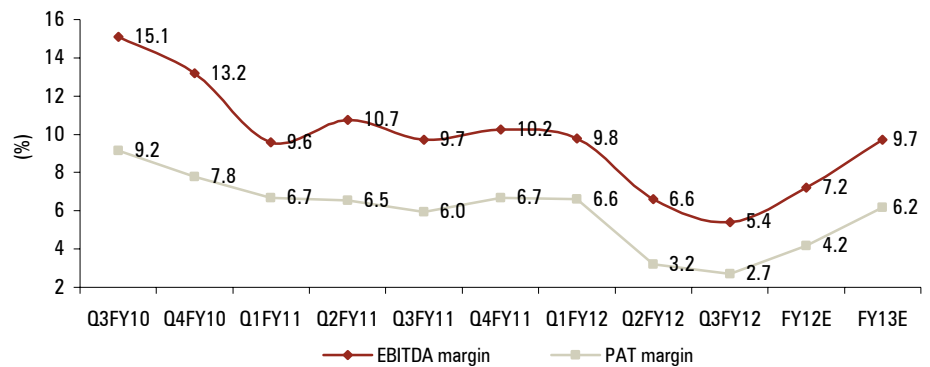


Source: Company, ICICIdirect.com Research

**Currencies all the way as margins shrink...**

MSIL witnessed a second quarter of worst margin performance since the Lehman crisis in FY09. The EBITDA margin came in at 5.4% (down 120 bps QoQ) due to low operational leverage and MTM impact of forex. The forex related net impact was to the tune of 1% of net sales (~₹ 77 crore). However, this has been accentuated by the one-time charge of ₹ 20 crore on reinstatement of liabilities of capital/revenue nature. Along with this, ~₹ 19 crore has been due to MTM loss on H1 royalty payments. The royalty MTM impact for the quarter was ~₹ 75 crore, which was additionally provided for with royalty at 5.9% of net sales for Q3FY12. The company has undertaken an overall 2% price hike (ex-showroom) in January 2011. However, part of the same would be shared as incremental dealer margins. Still, overall, we believe the fall in discounts along with rise in diesel car sales would help in further improving realisation growth from Q4FY12 onwards.

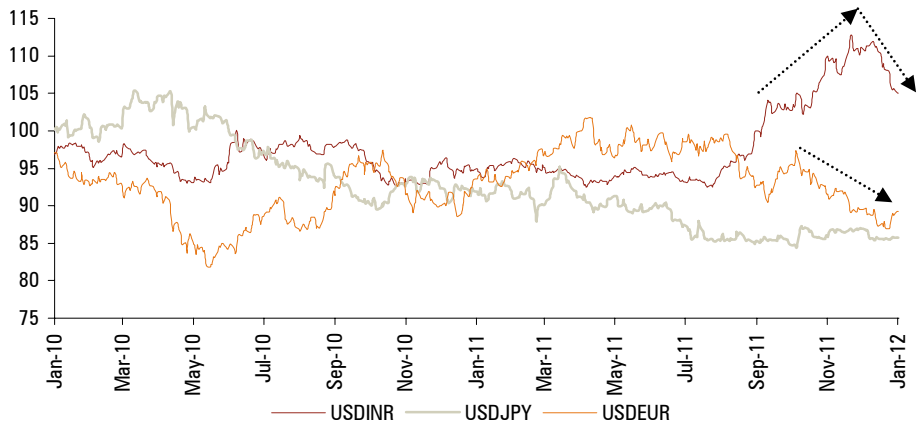
**Exhibit 4: EBITDA margin trend**



Source: Company, ICICIdirect.com Research

MSIL continued to hedge US\$/JPY for imports, US\$/EUR for exports. However, in both cases, INR leg has been left open. This was the major drawback for MSIL leading to lower margins in Q3FY12. This quarter, yen remained flat at ~0.4% vs. the US\$ while INR, which saw depreciation of ~11%, was a strong negative for MSIL. With Q4FY13 starting on a positive note with ~5% appreciation of INR it would be reasonable to estimate, going ahead, that MSIL will see minimal downside impact on margins. In FY13E, MSIL would also be able to hedge vendor import (~14%) and, thus, protect lag hit that it currently faces.

**Exhibit 5: Currency volatility**



Source: Company, ICICIdirect.com Research The quotes of each currency have been indexed with April 2009 as base equal to 100

Forex remains a key concern for MSIL as it has ~24% exposure to direct and indirect measures coupled with ~5.2% royalty exposure that is yen denominated. MSIL has direct exposure of 10% and vendor exposure of ~14%, which through enhanced localisation initiatives would be reduced to ~9% by FY13E-14E

## Outlook and valuation

### Outlook

MSIL has remained a laggard in FY12E in all aspects whether volume growth/margins/stock price performance relative to industry. The reasons for the same have been discussed ranging from unavoidable (currency, interest rates, fuel prices) to avoidable (labour unrest). Now, going ahead, we believe some of the headwinds have started to turn paving the way for an improved performance as currency and interest rates start to ease. The competition aspect has not intensified in the hatchback segment with least fresh launches in the segment. The competition for FY13E in the segment would remain firm. However, MSIL's strong brand equity and popular product portfolio gives it the edge. We believe FY13E would be a complete U-turn from FY12 and have built in volume growth of ~20% for MSIL for the same period. On the margins front, we believe MSIL would be able capitalise on various levers on both operational and currency front along with reducing direct import dependency.

### Valuation

We believe MSIL would have a tough Q4FY12E as well. However, the market has already moved its focus towards FY13E. The recent stock price run-up is signalling the same. The valuations seem to be chasing the high earnings growth potential of the stock. At the CMP of ₹ 1158, the stock is trading at 13.7x FY13E EPS. We have valued MSIL at 15.0x FY13E EPS to arrive at a value of ₹ 1286/share. We maintain our **BUY** rating on the stock. We suggest that investors who have entered the stock at higher levels make a staggered entry on dips.

#### Exhibit 6: Revised financials

₹ crore)	FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg
Volumes (000's)	1098.9	1102.5	0.3	1298.5	1322.5	1.8
Net sales	33,402.8	32,215.9	-3.6	39,629.0	39,504.6	-0.3
EBITDA	2,543.2	2,322.3	-8.7	3,914.2	3,835.3	-2.0
EBITDA margins(%)	7.6	7.2	-41 bps	9.9	9.7	-17 bps
Net profit	1,518.1	1,344.6	-11.4	2,439.9	2,434.8	-0.2
EPS (₹)	52.5	46.5	-11.4	84.4	84.2	-0.2

Source: Company, ICICIdirect.com Research

#### Exhibit 7: Financial metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	28958.5		88.2		13.2	6.9	21.5	24.5
FY11	36128.2	24.8	79.2	-10.2	14.7	7.5	16.5	17.5
FY12E	32215.9	-10.8	46.8	-40.9	24.8	11.9	9.0	8.0
FY13E	39504.6	22.6	85.0	81.6	13.7	7.1	14.3	15.0

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	29,572.0	36,901.0	33,139.0	40,687.4
Growth (%)	42.3	24.8	-10.2	22.8
Raw Material Expenses	22,199.8	28,490.2	26,119.7	31,282.0
Employee Expenses	545.6	703.6	799.0	928.4
Marketing Expenses	490.9	518.5	451.0	572.8
Administrative Expenses	352.7	599.9	483.2	553.1
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	25,644.5	33,401.4	30,816.7	36,852.1
EBITDA	3,927.5	3,499.6	2,322.3	3,835.3
Growth (%)	101.2	-10.9	-33.6	65.2
Depreciation	825.0	1,013.5	1,103.6	1,218.9
Interest	33.5	24.4	38.6	18.6
Other Income	371.0	558.4	644.8	699.2
PBT	3,592.4	3,088.6	1,824.8	3,297.0
Others	0.0	0.0	0.0	0.0
Total Tax	1,094.9	800.0	471.9	840.0
PAT	2,548.6	2,288.6	1,353.0	2,457.0
Growth (%)	109.1	-10.2	-40.9	81.6
EPS (₹)	88.2	79.2	46.8	85.0

Source: Company, ICICIdirect.com Research

### Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity Capital	144.5	144.5	144.5	144.5
Reserve and Surplus	11,690.6	13,723.0	14,840.1	17,061.2
Total Shareholders funds	11,835.1	13,867.5	14,984.6	17,205.7
Total Debt	821.4	309.3	229.3	179.3
Deferred Tax Liability	220.6	251.2	266.2	276.2
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	12,877.1	14,428.0	15,480.1	17,661.2
<b>Assets</b>				
Gross Block	10,406.7	11,737.7	14,537.7	17,537.7
Less: Acc Depreciation	5,382.0	6,208.3	7,311.9	8,530.7
Net Block	5,024.7	5,529.4	7,225.8	9,007.0
Capital WIP	387.6	1,428.6	1,428.6	1,428.6
Total Fixed Assets	5,412.3	6,958.0	8,654.4	10,435.6
Investments	7,176.7	5,106.7	4,706.7	5,006.7
Inventory	1,208.8	1,415.0	1,762.5	1,917.4
Debtors	809.9	893.3	1,059.2	1,082.3
Loans and Advances	1,655.4	1,539.5	1,631.6	2,256.9
Other Current Assets	0.0	0.0	0.0	0.0
Cash	98.2	2,508.5	1,449.0	1,374.5
Total Current Assets	3,772.3	6,356.3	5,902.2	6,631.2
Creditors	2,939.4	3,554.0	3,433.9	3,994.4
Provisions	628.4	525.8	439.4	511.1
Total Current Liabilities	3,567.8	4,079.8	3,873.3	4,505.4
Net Current Assets	204.5	2,276.5	2,028.9	2,125.7
Others Assets	83.6	86.8	90.0	93.2
Application of Funds	12,877.1	14,428.0	15,480.1	17,661.2

Source: Company, ICICIdirect.com Research

### Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	2,548.6	2,288.6	1,353.0	2,457.0
Add: Depreciation	825.0	1,013.5	1,103.6	1,218.9
(Inc)/dec in Current Assets	-103.2	-173.7	-605.4	-803.5
Inc/(dec) in CL and Provisions	151.3	512.0	-206.5	632.1
Others	-	-	-	-
CF from operating activities	3,421.7	3,640.4	1,644.6	3,504.5
(Inc)/dec in Investments	-4,003.4	2,070.0	400.0	-300.0
(Inc)/dec in Fixed Assets	-1,305.2	-2,559.2	-2,800.0	-3,000.0
Others	-18.1	27.4	11.8	6.8
CF from investing activities	-5,326.7	-461.8	-2,388.2	-3,293.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	122.6	-512.1	-80.0	-50.0
Dividend paid & dividend tax	-202.1	-252.7	-235.9	-235.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	143.7	-3.5	0.0	0.0
CF from financing activities	64.2	-768.3	-315.9	-285.9
Net Cash flow	-1,840.8	2,410.3	-1,059.5	-74.5
Opening Cash	1,939.0	98.2	2,508.5	1,449.0
Closing Cash	98.2	2,508.5	1,449.0	1,374.5

Source: Company, ICICIdirect.com Research

### Key ratios

(Year-end March)	FY10	FY11	FY12E	FY13E
<b>Per share data (₹)</b>				
EPS	88.2	79.2	46.8	85.0
Cash EPS	116.7	114.3	85.0	127.2
BV	409.5	479.8	518.5	595.4
DPS	6.0	7.5	7.0	7.0
Cash Per Share	3.4	86.8	50.1	47.6
<b>Operating Ratios</b>				
EBITDA Margin (%)	13.6	9.7	7.2	9.7
PBT / Net sales (%)	12.4	8.5	5.7	8.3
PAT Margin (%)	8.6	6.2	4.1	6.0
Inventory days	13.3	13.3	18.0	17.0
Debtor days	10.2	9.0	12.0	10.0
Creditor days	37.0	35.9	38.9	36.9
<b>Return Ratios (%)</b>				
RoE	21.5	16.5	9.0	14.3
RoCE	24.5	17.5	8.0	15.0
RoIC	17.0	15.6	6.5	12.0
<b>Valuation Ratios (x)</b>				
P/E	13.2	14.7	24.8	13.7
EV / EBITDA	6.9	7.5	11.9	7.1
EV / Net Sales	0.9	0.7	0.9	0.7
Market Cap / Sales	1.2	0.9	1.0	0.8
Price to Book Value	2.8	2.4	2.2	1.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	0.1	0.1	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.1	1.6	1.5	1.5
Quick Ratio	1.0	0.9	1.1	1.2

Source: Company, ICICIdirect.com Research

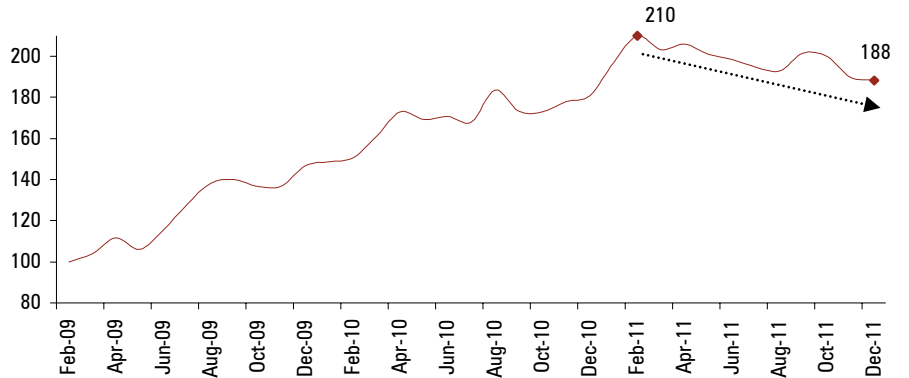
## ICICIdirect.com Research coverage universe (Auto OEMs)

					Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
<b>Tata Motors</b>										
Idirect Code	TELCO	CMP(₹)	222	FY10	92519.3	9.0	24.6	9.2	31.3	18.3
		Target(₹)	241	FY11	123133.3	29.1	7.6	4.9	46.0	24.2
Mcap (₹cr)	65295	% Upside	8.7	FY12E	156457.9	30.6	7.3	4.1	35.2	24.0
				FY13E	173795.2	34.0	6.5	3.4	29.6	24.2
<b>Maruti Suzuki</b>										
Idirect Code	MARUTI	CMP(₹)	1158	FY10	28,958.5	88.2	13.1	6.9	21.5	24.5
		Target(₹)	1275	FY11	36,128.2	79.2	14.6	7.5	16.5	17.5
Mcap (₹cr)	33465	% Upside	10.1	FY12E	32,215.9	46.8	24.7	11.9	9.0	8.0
				FY13E	39,504.6	85.0	13.6	7.1	14.3	15.0
<b>M&amp;M</b>										
Idirect Code	MAHMAH	CMP(₹)	685	FY10	18602.1	35.9	13.3	13.9	31.9	25.8
		Target(₹)	714	FY11	23493.7	40.6	11.7	12.2	29.3	26.0
Mcap (₹cr)	42018	% Upside	4.2	FY12E	30088.8	43.4	11.0	11.1	24.3	24.3
				FY13E	34000.8	48.5	9.8	9.4	23.6	25.1
<b>Bajaj Auto</b>										
Idirect Code	BAAUTO	CMP(₹)	1,581	FY10	12,043.5	58.8	26.9	17.0	58.1	55.0
		Target(₹)	1,460	FY11	16,975.0	115.4	13.7	12.4	68.0	59.1
Mcap (₹cr)	45739	% Upside	-7.7	FY12E	20,238.4	103.6	15.3	9.4	47.1	58.0
				FY13E	22,208.1	112.3	14.1	8.6	42.9	52.1
<b>Escorts</b>										
Idirect Code	ESCORT	CMP(₹)	79	SY10	2,764.7	13.4	5.8	2.3	7.9	8.9
		Target(₹)	76	SY11	3,252.1	11.8	6.7	2.9	6.7	6.3
Mcap (₹cr)	804	% Upside	-3.0	SY12E	3,606.3	8.4	9.4	2.7	4.6	6.0
				SY13E	3,927.3	12.6	6.2	1.8	6.5	8.3
<b>Hero MotoCorp</b>										
Idirect Code	HERHON	CMP(₹)	1888	FY10	19,669.3	111.8	16.9	12.4	64.4	70.0
		Target(₹)	1824	FY11	19,401.2	96.5	19.6	12.9	65.2	74.1
Mcap (₹cr)	37762	% Upside	-3.4	FY12E	23,604.2	120.2	15.7	9.0	86.1	90.1
				FY13E	25,775.6	130.3	14.5	8.2	92.4	97.0

Source: Company, ICICIdirect.com Research

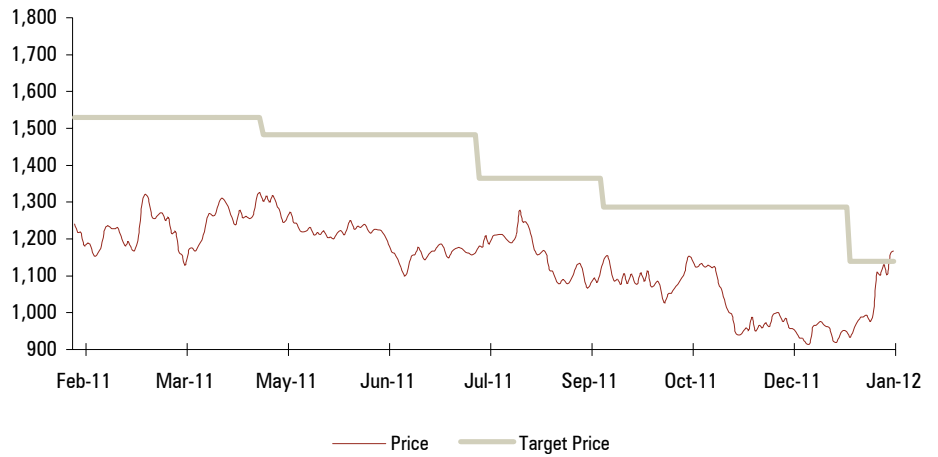
The in-house raw material index reflects the combination of various input materials (steel, rubber, aluminium, plastics) for OEMs, which have been rebased with February 2009 as base year to 100. The chart shows the increasing trend in raw material prices causing concern for the industry

**Exhibit 8: Auto raw material Index**



Source: Company, ICICIdirect.com Research

**Exhibit 9: Recommendation History**



Source: Company, ICICIdirect.com Research

**Exhibit 10: Recent Releases**

Date	Event	CMP	Target Price	Rating
26-Apr-11	Q4FY11 Result Update	1303	1482	BUY
5-Jul-11	Q1FY12 Preview	1166	1482	BUY
25-Jul-11	Q1FY12 Result Update	1181	1364	BUY
19-Sep-11	Event Update	1141	1286	BUY
5-Oct-11	Q2FY12 Preview	1086	1286	BUY
31-Oct-11	Q2FY12 Result Update	1125	1286	BUY
5-Jan-12	Q3FY12 Preview	933	1140	BUY

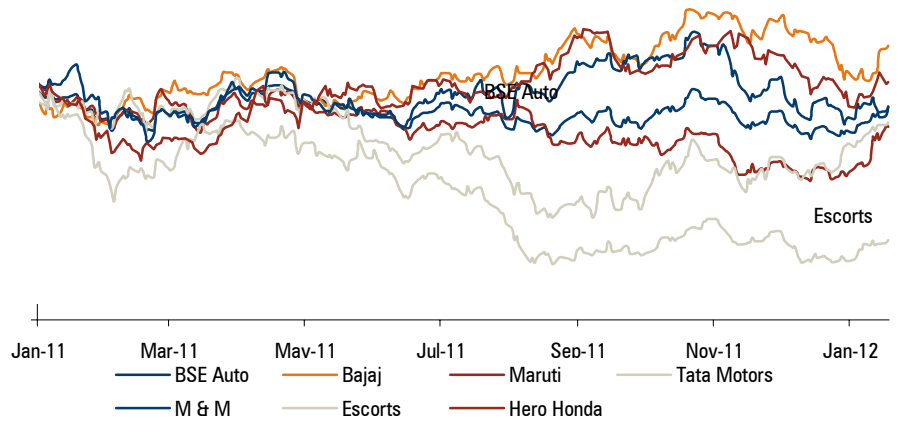
Source: Company, ICICIdirect.com Research

**ICICIdirect.com Universe price movement vis-à-vis BSE Auto index**

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since January 2011, Bajaj Auto and M&M have outperformed while Maruti Suzuki and Escorts have underperformed in comparison to the index by being divergent on the upside and downside, respectively

**Exhibit 11: OEM comparison with BSE Auto**

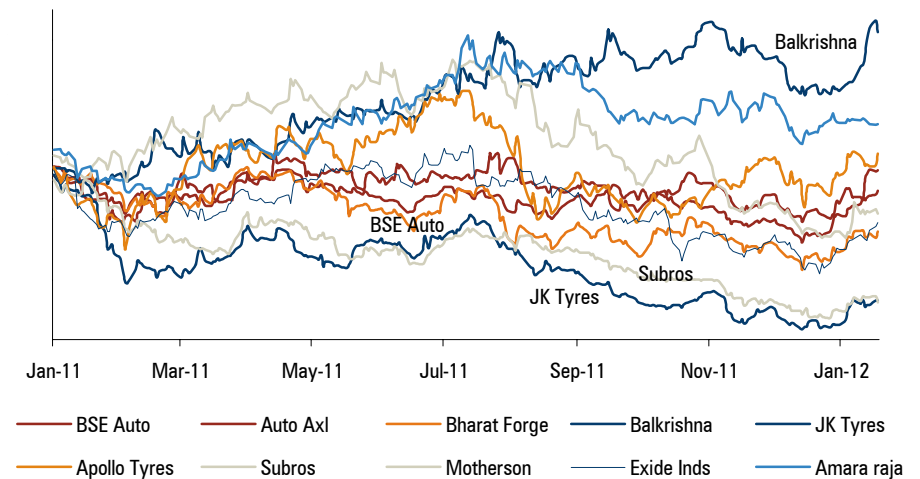


Source: ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of larger market capitalisation companies like Exide Industries, which mimic the index greatly. JK Tyre and Subros have grossly underperformed due to the intense rubber price overhang and production disruption at Maruti respectively.

**Exhibit 12: Ancillaries comparison with BSE Auto**



Source: ICICIdirect.com Research

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**Buy:** > 10%/15% for large caps / midcaps, respectively;

**Hold:** Up to +/-10%;

**Sell:** -10% or more;

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