

CMP: Rs.1180

Recommendation: BUY

Target Price: Rs.1303

## Sector: Automobiles

### Key Data

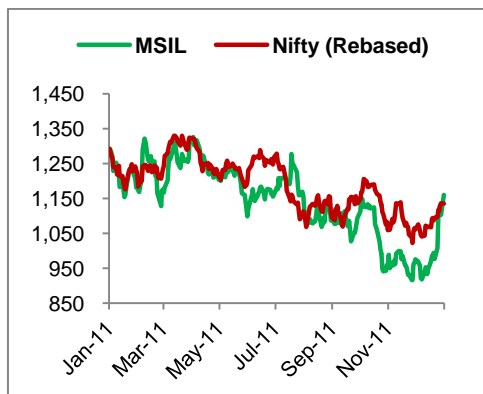
Financial Year End	March
Market Cap (Rs. Cr.)	33,423
Market Cap (USD Bn.)	6.7
Rs/US \$	50.0
52 Week H/L	1341/900
Avg. 12M volumes ('000) (BSE+NSE)	472
Face Value (Rs.)	5
Bloomberg	MSIL IN
Reuters	MRTI.BO
NSE	MARUTI
BSE	532500

Source: BSE, SIHL Research

### Shareholding Pattern

	Q3 FY12	Q2 FY12
Promoters	54.2%	54.2%
FII's	19.4%	19.2%
DII's	17.4%	17.7%
Others	9.1%	8.9%

Source: BSE, SIHL Research



Source: Ace Equity, SIHL Research

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## Volumes down 28% YoY; rough road ends

Maruti Suzuki (MSIL) Q3 FY12 volumes were down 27.6% YoY and 5.1% QoQ to 239,528 units due to 14 day-long labour strike at its Manesar plant, sluggish consumer sentiments, high interest rates and fuel cost. The positive from MSIL Q3 FY12 result was total revenue for the quarter was Rs.7,882 Cr. (higher 0.6% QoQ and lower 17% YoY) despite lower volumes. Average realization for MSIL in Q3 FY12 was higher by 14.1% YoY and 7.1% QoQ to Rs.319,948 due to richer product mix. Contribution from Mini segment (M800, Alto, WagonR & A-Star) was 48% to total domestic sales vs. 52% YoY and 51% QoQ which also led to higher realization in Q3 FY12. Discounts in Q3 FY12 was lower 9.6% QoQ to Rs.12,200/model which indicate demand for diesel model is going strong. Diesel engine supplies from Fiat would provide an additional boost to sluggish sales. On bright side, retail sales in December 2011 was 1.16 lakh units, which reflected demand possibilities in case of rate cuts. Few negatives such as labour strike, rising in cost of ownership if vehicles, sluggish consumer sentiments, weak rupee dampened Q3 FY12 result. Going forward, we estimate fall in interest rates, slew of new launches such as new Swift Dzire model, Ertiga and higher contribution of diesel engine models may boost sales in FY13.

## Currency movement impacted margins

MSIL witnessed a consecutive quarter of worst margin performance since FY08 (Q3 margin was lowest in 13 quarters). EBITDA margin came lower by 418 bps YoY and 102 bps QoQ to 5.3%. Lower volumes and higher raw material cost & royalty payments; due to adverse rupee movement, dragged EBITDA margin to 5.3%. The royalty MTM impact for the quarter was Rs.75 Cr., which was additionally provided along with royalty of 5.9% of net sales for Q3 FY12. Out of the Rs.75 Cr. MTM loss, Rs.19 Cr. pertains to royalty paid in November as MSIL pays royalty twice every year – in November (for April – September) and May (October – March). MSIL aims to reduce costs by localization and improving efficiency in its plants. It aims to save 1.5-2% of net sales through local manufacturing of (indirect imports) automotive electronic, gears and other equipment, protecting itself and its vendors against currency fluctuations. Level of vendor imports is expected to come down to 9% to 15% in 3 years. It expects operating efficiency to improve by 100-150 bps once volume pick up. We estimate rise in localization and higher volume to help MSIL regain margins. Management has indicated that raw material costs in Q4 FY12 are likely to remain at Q3 FY12 levels and does not expect any significant benefit from softening of commodity prices largely led by unfavourable currency impact.

## MSIL likely to go slow on Gujarat plant

The current capacity of MSIL (including plant B at Manesar) stands at 1.6 mn units per year and diesel engine capacity at SPIL (Suzuki Powertrain India Ltd.) at 0.29 mn units per year. During the Auto Expo 2012, MD Shinzo Nakanishi stated that company may not commission the C line (third one) at Manesar as per the original plan by March 2013. We estimate MSIL might delay investments in its third manufacturing facility which is slated to come up in Gujarat. While management did not confirm delay on Gujarat plant, they simply stated decision would be taken at appropriate time. The management sounded optimistic during the conference call regarding sales volumes in FY13, but seems to be adopting wait-n-watch approach for further capacity expansion.

## Outlook for FY13 remain positive despite dismal performance in FY12

We are fundamentally positive on long term passenger car volume despite a flat growth estimated in FY12. MSIL current capacity is around 1.6 mn units which is 2.5 times the capacity of the second largest player Hyundai (6.7 mn). MSIL market share in domestic passenger car segment dropped to 41.7% in 9M FY12 vs. 48.7% in FY11. Drop in market share due to labour strike which resulted loss in production of around 120,000 units, rise in cost of ownership, high fuel prices.

With labour strike a thing of past, MSIL will resume full production from the start of Q4 FY12. We also estimate softening of interest rates as it boosts consumer sentiments since 80% of new car purchased is on loans. The other positive development for MSIL came in the form of higher diesel engine availability sourcing from Fiat around 100,000 units. This would lead to a gradual ramp-up and could lead to 9,000 units/months if demand sustains. This would be key driver in volume as demand for diesel vehicle is high in demand and would lead to reduction in waiting period for popular diesel engine models such as Swift and Dzire. The competition in passenger car segment will remain firm and MSIL has slew of new launches. MSIL will be launching a sub 4-meter version of Swift Dzire in the 1st week of February. Also, it is likely to commercially launch its new 7-seater MPV, Ertiga in 2-3 months.

### Valuation & Outlook

The automobile sector was witnessing multiple headwinds such as rising interest rate and high fuel cost which led to a slowdown in FY12. Total passenger car sales volumes de-grew by 2.3% in 9M FY12 while Maruti volumes de-grew by 17.6% due to labour issue which resulted loss in production of around 120,000 units. We estimate fall in interest rates, new model launches and higher diesel engine vehicles sales would boosts consumer confidence. We estimate 16.3% YoY volume de growth in FY12 to 1,063,714 units (earlier target was 1,365,397 units). Average discounts per vehicle would decline or stay at Q4 FY12 levels due to better product mix. We have factored in 17.6% YoY growth in FY13E sales volume to 1,251,037 units (earlier growth of 9.8% to 1,499,713 units). We have also revised our FY12E EPS target to Rs.45.3 (earlier Rs.81.9) as management has indicated that raw material costs in Q4 are likely to remain at Q3 levels and do not expect any significant benefit from softening commodity prices largely led by unfavourable currency impact. With Rupee appreciating 5% in start of Q4 FY12, we estimate minimal downside for MSIL in FY12 earnings. We have revised our FY13 EBITDA margin to 7.2% (earlier 8.5%) as we believe MSIL would reduce indirect import dependency gradually and thus less exposure to adverse currency movement.

We have valued the stock on weighted average of stock price arrived based on two different valuation parameters. On a PE basis we arrived at a value of Rs.1,288/share @ 40% weight. On EV/sales we arrived at a value of Rs.1,314/share @ 60% weight; Based on the weighted average, target price for MSIL stock comes at Rs.1,424/share.

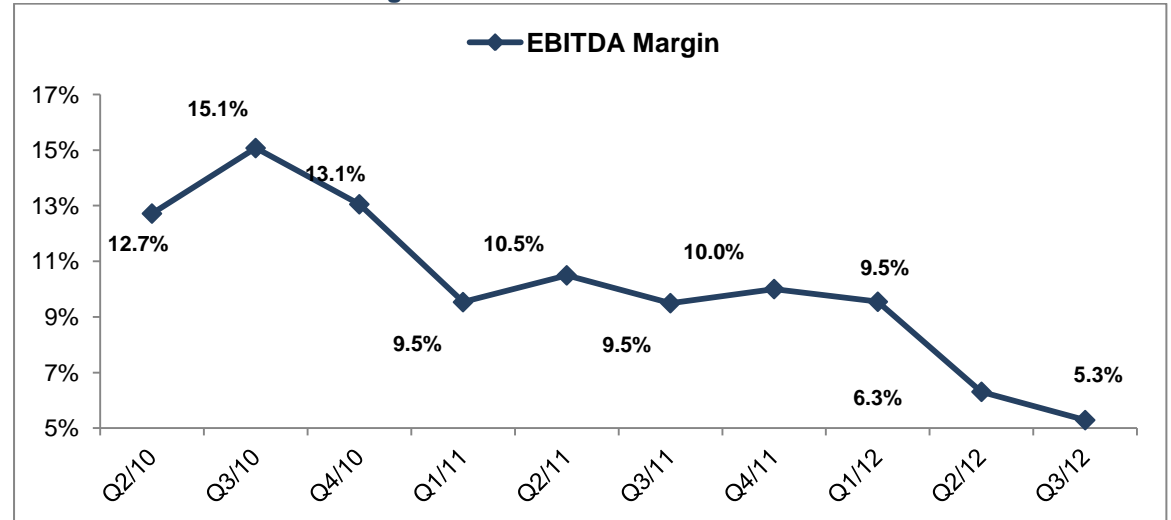
We upgrade our target price to Rs.1303 (earlier Rs.1,287) and reiterate BUY with an investment horizon of 12 months and upside potential of 10.5%

Exhibit 1: Trend in Sales Volume

Product Mix	Q3 FY12	Q3 FY11	YoY	Q2 FY12	QoQ
A: Mini (M800, Alto, WagonR & A-Star)	102,523	154,626	-33.7%	112,848	-9.1%
A: Compact (Swift, Estilo & Ritz)	53,671	68,300	-21.4%	44,864	19.6%
A: Super Compact (Dzire)	24,593	28,055	-12.3%	20,288	21.2%
A: Mid Size (SX4)	2,596	4,043	-35.8%	4,392	-40.9%
A: Passenger Executive (Kizashi)	216	-	NA	54	300.0%
<b>Total A: Passenger Vehicles</b>	<b>183,599</b>	<b>255,024</b>	<b>-28.0%</b>	<b>182,446</b>	<b>0.6%</b>
B: Utility Vehicles (Grand Vitara & Gypsy)	688	891	-22.8%	2,344	-70.6%
C: Vans (Omni & Eeco)	27,516	43,612	-36.9%	37,616	-26.9%
<b>Total Domestic Sales</b>	<b>211,803</b>	<b>299,527</b>	<b>-29.3%</b>	<b>222,406</b>	<b>-4.8%</b>
Total Exports	27,725	31,160	-11.0%	29,901	-7.3%
<b>Total Sales</b>	<b>239,528</b>	<b>330,687</b>	<b>-27.6%</b>	<b>252,307</b>	<b>-5.1%</b>

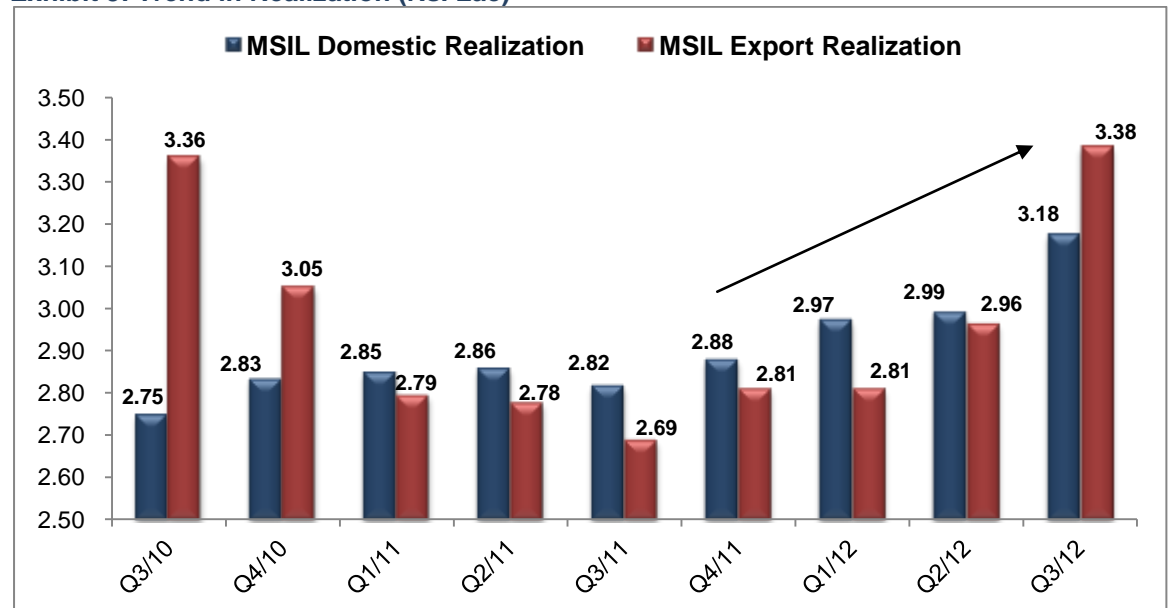
Source: Company Data, SIHL Research

Exhibit 2: Trend in BITDA Margin



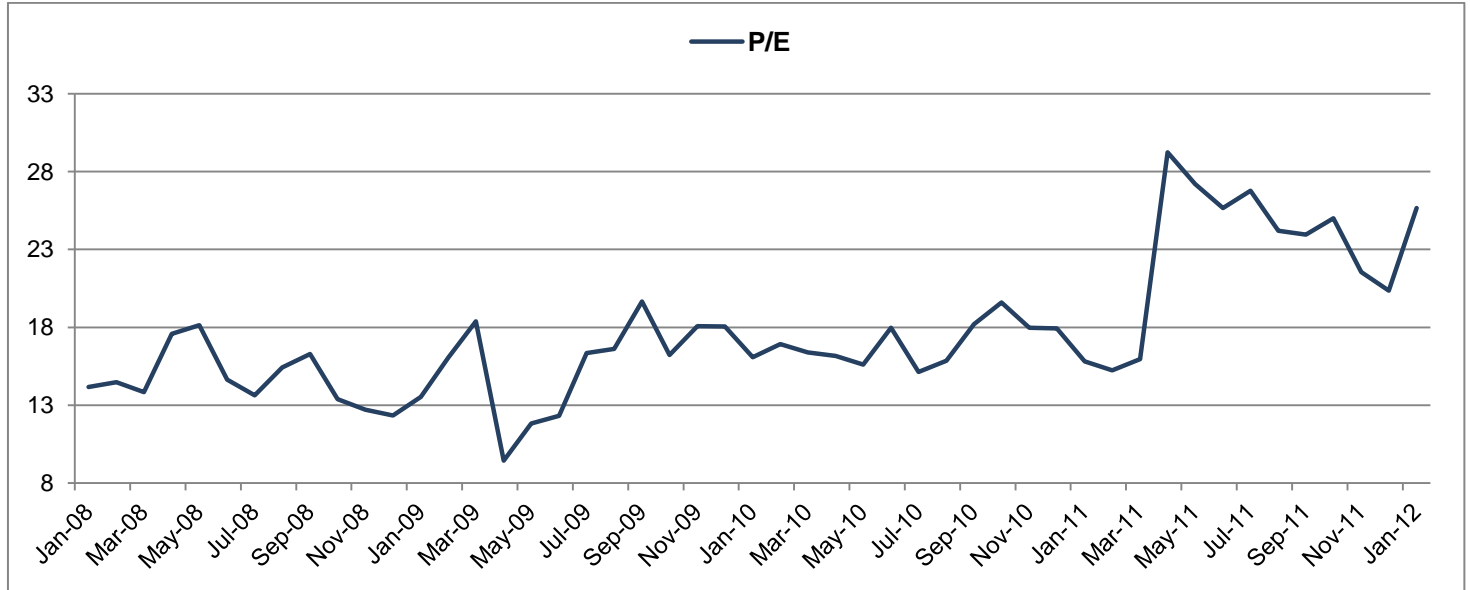
Source: Company Data, SIHL Research

Exhibit 3: Trend in Realization (Rs. Lac)



Source: Company Data, SIHL Research

**PE Band**

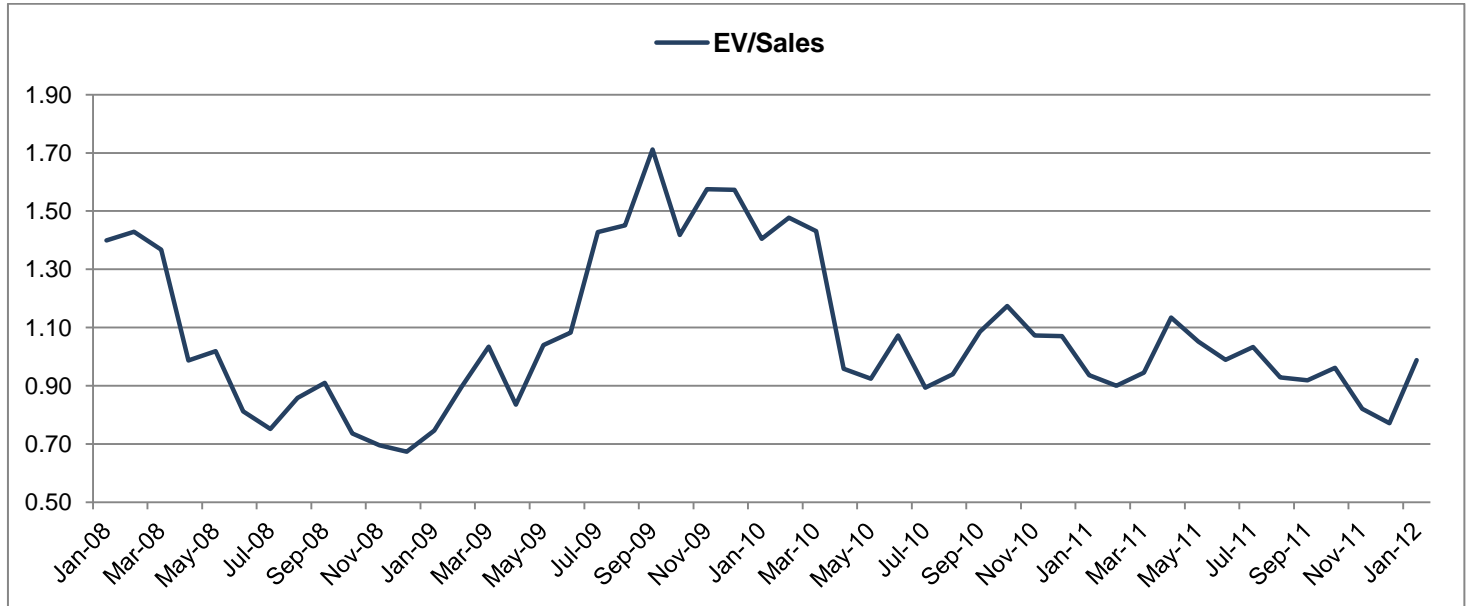


Source: Ace Equity, SIHL Research

**PE Valuation**

At current market price, the stock is currently traded at PE of 26x FY12E EPS of Rs.45.3 and 14.7x FY13E EPS of Rs.80.5. We value the company at 16x its FY13E EPS of Rs.80.5 and arrive at a fair price of Rs.1288.

**EV/Sales Band**



Source: Ace Equity, SIHL Research

**EV/Sales Valuation**

At current market price, the stock is currently traded at EV/Sales of 1.01x FY12E Sales of Rs.31,392 Cr. and 0.85x FY13E Sales of Rs.37,262 Cr. We value the company at 0.95x its FY13E Sales of Rs.37,262 Cr. and arrive at fair price of Rs.1314



## Valuation & Assumptions

Valuation Parameters	Target Price	Weights	Per Share Value
At PE, 16x based on FY13E EPS of Rs.80.5	1288	40%	515
EV/Sales, of 0.95x based on FY13E Sales of Rs.37,262 Cr.	1314	60%	788
		<b>Target Price</b>	<b>1303</b>
		<b>CMP</b>	<b>1180</b>
		<b>Expected Return</b>	<b>10.5%</b>

Source: SIHL Research

The automobile sector was witnessing multiple headwinds such as labour unrest, rising interest rate and high fuel cost which led to a slowdown in FY12. Total passenger car sales volumes de-grew by 2.3% in 9M FY12 while Maruti volumes de-grew by 17.6% due to labour issue which resulted loss in production of around 120,000 units. We estimate fall in interest rates, new model launches and higher diesel engine vehicles sales would boost consumer confidence. We estimate 16.3% YoY volume de growth in FY12 to 1,063,714 units (earlier target was 1,365,397 units). Average discounts per vehicle would decline or stay at Q4 FY12 levels due to better product mix. We have factored in 17.6% YoY growth in FY13E sales volume to 1,251,037 units (earlier growth of 9.8% to 1,499,713 units). We have also revised our FY12E EPS target to Rs.45.3 (earlier Rs.81.9) as management has indicated that raw material costs in Q4 are likely to remain at Q3 levels and do not expect any significant benefit from softening commodity prices largely led by unfavourable currency impact. With Rupee appreciating 5% in start of Q4 FY12, we estimate minimal downside for MSIL in FY12 earnings. We have revised our FY13 EBITDA margin to 7.2% (earlier 8.5%) as we believe MSIL would reduce indirect import dependency gradually and thus less exposure to adverse currency movement.

We believe MSIL stands at an extremely strategic position in this **supply driven** market. EV/Sales based analysis is given higher weight of 60%, because we believe MSIL's valuation is primarily driven by its dominance (42% market share) in the domestic passenger vehicle segment. MSIL, irrespective of short-term issues, is upbeat on its volume growth in FY13, which strengthens our underlying belief in the structural auto growth story in the coming years. MSIL also deserves a premium relative valuation as its installed capacity is the largest in India (1.6 mn units PA), and is more than the total combined capacity of the second (Hyundai) and the third (Tata Motors) largest players. We have revised our PE multiple to 16x (average 4 year multiple) from 14x earlier as we believe the entire negative news related to MSIL would be sorted out in FY13. We have also revised our EV/Sales multiple to 0.95x from 0.9x earlier

We have valued the stock on weighted average of stock price arrived based on two different valuation parameters. On a PE basis we arrived at a value of Rs.1,288/share @ 40% weight. On EV/sales we arrived at a value of Rs.1,314/share @ 60% weight; Based on the weighted average, target price for MSIL stock comes at Rs.1,303/share.

**Exhibit 4: Standalone Quarterly Income Statement**

Particulars, Rs. Cr.	Q3 FY12	Q3 FY11	YoY	Q2 FY12	QoQ
<b>Gross Sales</b>	<b>8,535</b>	<b>10,383</b>	<b>-17.8%</b>	<b>8,398</b>	<b>1.6%</b>
Less: Excise Duty	871	1,106	-21.3%	860	1.3%
<b>Net Sales</b>	<b>7,664</b>	<b>9,277</b>	<b>-17.4%</b>	<b>7,537</b>	<b>1.7%</b>
Other Operating Income	219	218	0.5%	294	-25.6%
<b>Total Revenue</b>	<b>7,882</b>	<b>9,494</b>	<b>-17.0%</b>	<b>7,832</b>	<b>0.6%</b>
Total Expenditure	7,465	8,595	-13.1%	7,337	1.7%
<b>EBITDA</b>	<b>417</b>	<b>900</b>	<b>-53.6%</b>	<b>494</b>	<b>-15.6%</b>
<i>EBITDA Margin %</i>	<i>5.3%</i>	<i>9.5%</i>	<i>(418) bps</i>	<i>6.3%</i>	<i>(102) bps</i>
Depreciation	299	237	26.2%	266	12.2%
<b>EBIT</b>	<b>118</b>	<b>663</b>	<b>-82.2%</b>	<b>228</b>	<b>-48.1%</b>
<i>EBIT Margin %</i>	<i>1.5%</i>	<i>7.0%</i>	<i>(548) bps</i>	<i>2.9%</i>	<i>(141) bps</i>
Other Income	160	130	23.2%	118	36.2%
Interest	17	0		11	
<b>PBT</b>	<b>261</b>	<b>793</b>	<b>-67.0%</b>	<b>335</b>	<b>-21.9%</b>
<i>PBT Margin %</i>	<i>3.3%</i>	<i>8.3%</i>	<i>(503) bps</i>	<i>4.3%</i>	<i>(96) bps</i>
Tax	56	228	-75.5%	94	-40.9%
<i>Effective Tax Rate %</i>	<i>21.3%</i>	<i>28.7%</i>		<i>28.1%</i>	
<b>PAT</b>	<b>206</b>	<b>565</b>	<b>-63.6%</b>	<b>240</b>	<b>-14.5%</b>
<i>PAT Margin %</i>	<i>2.6%</i>	<i>6.0%</i>	<i>(334) bps</i>	<i>3.1%</i>	<i>(46) bps</i>
<b>EPS</b>	<b>7.12</b>	<b>19.56</b>	<b>-63.6%</b>	<b>8.32</b>	<b>-14.5%</b>

Source: Ace Equity, SIHL Research

**Exhibit 5: Standalone Annual Income Statement**

Particulars, Rs. Cr.	FY09	FY10	FY11	FY12E	FY13E
<b>Gross Sales</b>	<b>23,181</b>	<b>31,948</b>	<b>40,591</b>	<b>35,631</b>	<b>41,633</b>
Excise Duty	2,727	2,849	4,291	3,699	4,372
<b>Net Sales</b>	<b>20,454</b>	<b>29,099</b>	<b>36,300</b>	<b>31,932</b>	<b>37,262</b>
<b>Total Expenditure</b>	<b>19,028</b>	<b>25,680</b>	<b>33,380</b>	<b>30,601</b>	<b>34,581</b>
<b>EBITDA</b>	<b>1,426</b>	<b>3,419</b>	<b>2,919</b>	<b>1,331</b>	<b>2,680</b>
<i>EBITDA Margin %</i>	<i>7.0%</i>	<i>11.7%</i>	<i>8.0%</i>	<i>4.2%</i>	<i>7.2%</i>
Depreciation	707	825	1,014	1,107	1,256
<b>EBIT</b>	<b>719</b>	<b>2,594</b>	<b>1,906</b>	<b>225</b>	<b>1,425</b>
<i>EBIT Margin %</i>	<i>3.5%</i>	<i>8.9%</i>	<i>5.3%</i>	<i>0.7%</i>	<i>3.8%</i>
Other Income	1,008	1,032	1,227	1,571	1,728
Interest	51	34	24	49	52
<b>PBT</b>	<b>1,676</b>	<b>3,593</b>	<b>3,109</b>	<b>1,746</b>	<b>3,100</b>
<i>PBT Margin %</i>	<i>8.2%</i>	<i>12.3%</i>	<i>8.6%</i>	<i>5.5%</i>	<i>8.3%</i>
Tax	457	1,095	820	437	775
<i>Effective Tax Rate</i>	<i>27.3%</i>	<i>30.5%</i>	<i>26.4%</i>	<i>25.0%</i>	<i>25.0%</i>
<b>PAT</b>	<b>1,219</b>	<b>2,498</b>	<b>2,289</b>	<b>1,309</b>	<b>2,325</b>
<i>PAT Margin %</i>	<i>6.0%</i>	<i>8.6%</i>	<i>6.3%</i>	<i>4.1%</i>	<i>6.2%</i>
<b>Adj. EPS</b>	<b>42.2</b>	<b>86.4</b>	<b>79.2</b>	<b>45.3</b>	<b>80.5</b>

Source: Ace Equity, SIHL Research

## Exhibit 6: Key Ratios

Particulars	FY10	FY11	FY12E	FY13E
BV	409.6	480.0	589.9	678.6
Adj. EPS	86.4	79.2	45.3	80.5
P/BV	2.9	2.5	2.0	1.7
P/E	13.6	14.9	26.0	14.7
<b>ROE</b>	<b>21.1%</b>	<b>16.5%</b>	<b>13.9%</b>	<b>13.7%</b>
<b>ROCE</b>	<b>20.5%</b>	<b>13.4%</b>	<b>9.3%</b>	<b>10.2%</b>
<b>EBITDA Margin</b>	<b>11.7%</b>	<b>8.0%</b>	<b>4.2%</b>	<b>7.2%</b>
D/E	0.07	0.02	0.04	0.04
EV/Sales	1.43	0.95	1.01	0.85

Source: Company Data, SIHL Research

## Technical Corner



On the weekly chart MSIL had a downtrend line formed with a negative slope. Downtrend line acted as resistance, and indicated that net-supply (supply less demand) is increasing even as the price are declining but an upsurge in price of nearly 10 % on 17<sup>th</sup> Jan 2012 shifted the trading range of stock from 920 – 1000 to 1100 plus level and broke the downtrend line. A break above the downtrend line indicates that net-supply is decreasing and that a change of trend could be imminent. We believe that due to sharp rally seen in the recent time stock may take a breath around this 1100 plus area but will regain its momentum and start marching for higher highs. Investor can buy MSIL at CMP of Rs.1180 with a stop loss of Rs.1070 for the price target of 1300 – 1320.

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