

February 28, 2013

Surjit Arora
surjitarora@plindia.com
+91-22-66322235

Rating	BUY
Price	Rs1,354
Target Price	Rs1,715
Implied Upside	26.7%
Sensex	18,862
Nifty	5,693

(Prices as on February 28, 2013)

Trading data

Market Cap. (Rs bn)	391.3
Shares o/s (m)	288.9
3M Avg. Daily value (Rs m)	1371.7

Major shareholders

Promoters	54.21%
Foreign	23.13%
Domestic Inst.	14.35%
Public & Other	8.31%

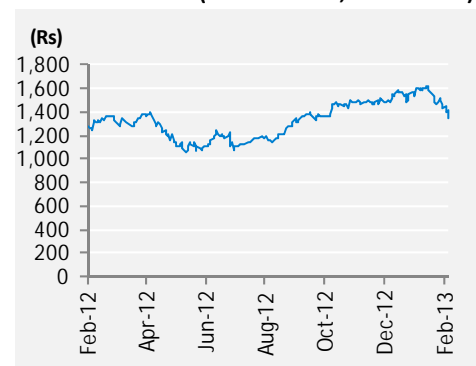
Stock Performance

(%)	1M	6M	12M
Absolute	(14.4)	18.5	7.9
Relative	(9.2)	10.2	1.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	95.0	101.9	-6.8
2015	122.0	126.9	-3.9

Price Performance (RIC: MRTI.BO, BB: MSIL IN)



Source: Bloomberg

Maruti Suzuki's (MSIL's) stock has corrected -17% in last 1 month mainly on account of technical reasons (stock being removed from the MSCI index) and demand moderating in the diesel segment. The correction, in our view, provides a buying opportunity to long-term investors. In our view, MSIL is the best play on recovery in the macroeconomic situation. Given the strong product portfolio of 'Swift', 'Dzire' and the success of 'Ertiga', we maintain our long-term positive view on the stock and expect a strong recovery in FY15E (volume growth of 13.8%). We maintain MSIL as our top-pick in the Auto space with a TP of Rs1,715 based on 14.0x FY15 EPS (MSIL +SPIL) of Rs122. Due to a 26.7% potential upside from the current levels, we upgrade the stock to **'BUY'** from **'Accumulate'** earlier.

■ **Increased Tax on Royalty payment not applicable to MSIL:** Tax on Royalty payment was increased to 25% from 10% in the budget. However, in case of MSIL this is not applicable as it comes under the purview of DTAA with Japan where the applicable tax rate stands at 10% on Royalty payment. Hence, there is no impact on MSIL.

■ **Favourable currency impact on imports yet to come:** MSIL's JPY denominated imported content (direct + indirect) stands at ~19% of net sales. With JPY depreciating against USD by almost 10% and INR being relatively stable against USD in last 3 months, MSIL is likely to benefit on the imported content of raw material. *For FY14, we have assumed a cross-currency rate of INR/JPY at 0.61 v/s 0.66 in FY13. As a result, we estimate 60bps improvement in material cost/sales ratio in FY14E.*

Contd...2

Key financials (Y/e March)	2012	2013	2014E	2015E
Revenues (Rs m)	355,871	435,997	498,774	591,365
Growth (%)	(2.8)	22.5	14.4	18.6
EBITDA (Rs m)	25,130	33,695	44,664	55,163
PAT (Rs m)	16,352	19,013	25,618	32,931
EPS (Rs)	56.6	65.8	88.6	113.9
Growth (%)	(30.5)	16.3	34.7	28.5
Net DPS (Rs)	7.5	10.0	11.0	11.5

Profitability & Valuation	2012	2013	2014E	2015E
EBITDA margin (%)	7.1	7.7	9.0	9.3
RoE (%)	11.3	11.6	13.8	15.6
RoCE (%)	10.9	11.4	13.5	15.2
EV / sales (x)	1.1	0.9	0.8	0.6
EV / EBITDA (x)	15.0	11.4	8.5	6.7
PE (x)	23.9	20.6	15.3	11.9
P / BV (x)	2.6	2.2	2.0	1.7
Net dividend yield (%)	0.6	0.7	0.8	0.8

Source: Company Data; PL Research

- **Reiterate our positive stance on MSIL; Upgrade to BUY:** We have assumed a 10.3% and 13.8% volume growth in FY14E and FY15E, respectively. We expect the margins to improve by ~180bps over the next two years, mainly on account of currency hedging, operating leverage and better product mix. We maintain MSIL as our top-pick in Auto space with a TP of Rs1,715 based on 14.0x FY15 EPS (MSIL +SPIL) of Rs122. Due to a 26.7% potential upside from the current levels, we upgrade the stock to **'BUY'** from **'Accumulate'** earlier.

Income Statement (Rs m)

Y/e March	2012	2013	2014E	2015E
Net Revenue	355,871	435,997	498,774	591,365
Raw Material Expenses	280,656	341,457	386,606	457,105
Gross Profit	75,215	94,541	112,168	134,260
Employee Cost	8,438	10,166	11,882	13,851
Other Expenses	41,647	50,680	55,621	65,246
EBITDA	25,130	33,695	44,664	55,163
Depr. & Amortization	11,384	13,628	15,445	17,261
Net Interest	552	1,450	1,400	1,400
Other Income	8,009	6,830	6,800	8,000
Profit before Tax	21,203	25,447	34,619	44,502
Total Tax	5,111	6,004	9,001	11,571
Profit after Tax	16,092	19,443	25,618	32,931
Ex-Od items / Min. Int.	(260)	430	—	—
Adj. PAT	16,352	19,013	25,618	32,931
Avg. Shares O/S (m)	289.0	289.0	289.0	289.0
EPS (Rs.)	56.6	65.8	88.6	113.9

Cash Flow Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
C/F from Operations	32,239	42,044	29,221	64,071
C/F from Investing	(41,267)	(45,126)	(22,213)	(51,720)
C/F from Financing	8,304	(2,168)	(2,890)	(3,179)
Inc. / Dec. in Cash	(724)	(5,250)	4,118	9,173
Opening Cash	25,085	24,362	19,112	23,231
Closing Cash	24,362	19,112	23,231	32,404
FCFF	2,723	10,202	197	39,927
FCFE	13,195	10,202	197	39,927

Key Financial Metrics

Y/e March	2012	2013	2014E	2015E
Growth				
Revenue (%)	(2.8)	22.5	14.4	18.6
EBITDA (%)	(32.1)	34.1	32.6	23.5
PAT (%)	(30.5)	16.3	34.7	28.5
EPS (%)	(30.5)	16.3	34.7	28.5
Profitability				
EBITDA Margin (%)	7.1	7.7	9.0	9.3
PAT Margin (%)	4.6	4.4	5.1	5.6
RoCE (%)	10.9	11.4	13.5	15.2
RoE (%)	11.3	11.6	13.8	15.6
Balance Sheet				
Net Debt : Equity	(0.1)	—	(0.1)	(0.1)
Net Wrkng Cap. (days)	(26)	(39)	(29)	(40)
Valuation				
PER (x)	23.9	20.6	15.3	11.9
P / B (x)	2.6	2.2	2.0	1.7
EV / EBITDA (x)	15.0	11.4	8.5	6.7
EV / Sales (x)	1.1	0.9	0.8	0.6
Earnings Quality				
Eff. Tax Rate	24.1	23.6	26.0	26.0
Other Inc / PBT	38.5	25.6	19.6	18.0
Eff. Depr. Rate (%)	7.4	7.5	7.3	7.3
FCFE / PAT	80.7	53.7	0.8	121.2

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013	2014E	2015E
Shareholder's Funds	151,874	175,333	197,210	226,229
Total Debt	10,784	10,784	10,784	10,784
Other Liabilities	5,671	3,023	3,023	3,023
Total Liabilities	168,329	189,140	211,016	240,036
Net Fixed Assets	81,366	97,614	112,044	119,659
Goodwill	—	—	—	—
Investments	74,660	90,910	83,247	110,091
Net Current Assets	12,303	617	15,725	10,287
<i>Cash & Equivalents</i>	<i>24,362</i>	<i>19,112</i>	<i>23,231</i>	<i>32,404</i>
<i>Other Current Assets</i>	<i>38,889</i>	<i>52,234</i>	<i>66,694</i>	<i>78,804</i>
<i>Current Liabilities</i>	<i>50,947</i>	<i>70,729</i>	<i>74,199</i>	<i>100,920</i>
Other Assets	—	—	—	—
Total Assets	168,329	189,140	211,016	240,037

Quarterly Financials (Rs m)

Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Revenue	117,270	107,782	83,054	112,003
EBITDA	8,585	7,863	5,086	8,913
<i>% of revenue</i>	<i>7.3</i>	<i>7.3</i>	<i>6.1</i>	<i>8.0</i>
Depr. & Amortization	3,306	3,399	3,470	3,583
Net Interest	208	332	380	459
Other Income	2,969	1,123	1,133	1,886
Profit before Tax	8,040	5,256	2,368	6,756
Total Tax	1,642	1,018	524	1,743
Profit after Tax	6,398	4,238	1,845	5,013
Adj. PAT	6,398	4,238	1,845	5,013

Key Operating Metrics

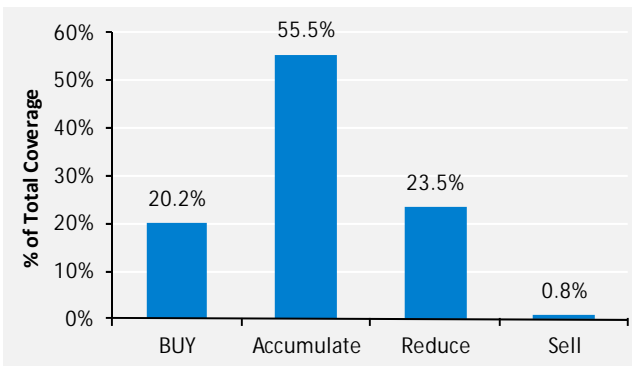
Y/e March	2012	2013	2014E	2015E
A2 Seg. Vol. (nos)	709,430	694,147	763,562	870,460
Total Domestic Vol. (nos)	1,006,316	1,059,636	1,164,901	1,330,353
Export Vol. (nos)	127,379	123,000	140,000	155,000
Total Vol. (nos)	1,133,695	1,182,636	1,304,901	1,485,353
Net Realization/Unit (Rs)	313,904	368,666	382,231	398,131
RM Cost/Unit (Rs)	247,559	288,725	296,272	307,742
Other Exp./Unit (Rs)	36,736	42,853	42,625	43,926
EBITDA/Unit (Rs)	22,166	28,491	34,228	37,138
Net Profit/Unit (Rs)	14,195	16,440	19,632	22,171
Other Comp./Unit (Rs)	218,767	227,517	230,930	234,394

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.