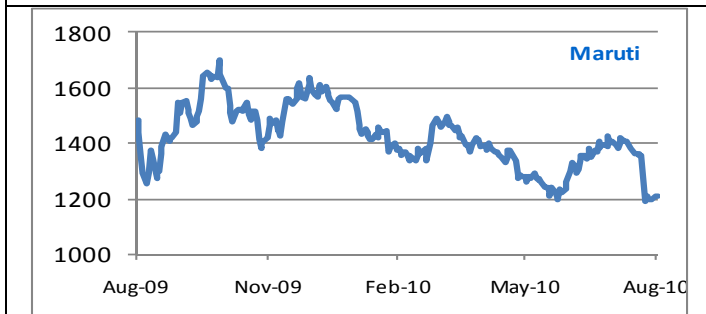


**Q1 FY11 Results Update**
**Maruti Suzuki Ltd**

<b>Recommendation</b>	<b>HOLD</b>
<b>CMP (04/08/2010)</b>	<b>Rs. 1213</b>
<b>Sector</b>	<b>Auto</b>
<b>Stock Details</b>	
BSE Code	532500
NSE Code	MARUTI
Bloomberg Code	MSIL IN
Market Cap (Rs. Crs)	34,610
Free Float (%)	50
52- wk HI/Lo	1740/1171
Avg. volume BSE (Quarterly)	104,542
Face Value	Rs.5
Dividend payout	190%
Shares o/s (Crs)	28.89

Relative Performance	1Mth	3Mth	1Yr
<b>Maruti</b>	-13.9%	-5.4%	-17.5%
<b>Sensex</b>	3.7%	4.2%	13.8%


**Shareholding Pattern as of 30/06/2010**

Promoters Holding	54.2%
Institutional (Incl. FII)	37.1%
Corporate Bodies	6.0%
Public & others	2.7%

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**Snapshot**

Maruti Suzuki India Limited, a subsidiary of Suzuki Motor Corporation of Japan, is the leader in the Indian car market with 54% market share. The company has State-of-the-art Manufacturing Facilities at Gurgaon located some 25 km south of New Delhi. Maruti Suzuki has a sales network of 802 state-of -the-art showrooms across 555 cities, with a workforce of over 15000 trained sales personnel.

**Royalty and higher input costs dent profitability**

- Maruti's royalty payment to Suzuki Motors increased from an average 3.4-3.7% of sales in FY 2010 to 5.1% in Q1 FY11 following the Government's announcement of relaxing the restrictions on payment of royalty, which were earlier capped at 5% of Domestic & 8 % of Exports have been left upto the parent company to decide. This increase in royalty payment along with higher input costs dented the company's profitability in Q1 FY11. Going forward, we expect the royalty to remain high with increasing sale of newly launched products which attract higher royalty.
- Maruti's margins are expected to remain under pressure with launches of newer products at attractive prices to maintain market share and beat competition. A slew of other launches at attractive prices like the Nissan's Micra are expected to eat into the company's market share and further intensify the ever growing competition.
- Maruti sold 283,324 in Q1FY11 compared to 287,422 units in Q4 FY10 reflecting a decline of 1.4% QoQ. Average Net Realization declined from Rs. 286,508 in Q4 FY10 to Rs 284,151 in Q1 FY 11. due to unfavorable product mix and exchange rates.

**Valuation & Recommendation**

At the current price of Rs. 1213 per share, Maruti is currently available at 15.05x FY11E and 13.39x FY12E. We expect the company to earn a ROCE of 21.0% in FY11E and 20.3% in FY12E. The company is expanding its production capacity at Manesar by FY12 after which the company will be producing additional 250000 cars per annum in lieu of increasing demand in the Indian as well as overseas markets for the products of the company. At Rs. 1213 per share the stock is trading at a discount of 7.6% from our intrinsic price of Rs. 1305 per share. Therefore, we maintain HOLD with a target price of Rs. 1305 per share indicating potential upside of 7.6%.

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	Margin	EPS	P/E	P/BV
FY 2009	20557.9	14.08%	1867.5	9.08%	1227.4	5.97%	42.47	28.56	3.66
FY 2010	29302.8	42.54%	4043.3	13.80%	2624.6	8.96%	90.82	13.36	2.91
FY 2011E	33344.6	13.79%	3923.5	11.77%	2328.6	6.98%	80.57	15.05	2.47
FY 2012E	37428.7	12.25%	4478.6	11.97%	2617.8	6.99%	90.58	13.39	2.10

**Performance Analysis**

- The company reported net sales increased 27.0% to Rs. 8,050.7 Crs on the back of strong volume growth during the period. Total units grew 25.0% YoY to 283,324 units in Q1 FY11. On a QoQ basis sales witnessed a flattish decline of 2.2% in Q1 FY11.
- EBIDTA for Q1FY11 were Rs. 792.5 Crs as compared to Rs. 793.2 Crs in Q1FY10. Despite strong YoY growth in Q1 FY11 at the top-line level EBITDA remained flat due to significant increase in input costs and higher royalty expenses as discussed earlier. On a QoQ basis EBITDA declined 28.7% due to an increase in raw material costs and Royalty payments to Suzuki Motors.
- PAT was down 20.1% YoY to Rs. 465.4 Crs on back of lower other income and higher depreciation expenses. Consequently, PAT margin declined 341 bps YoY. On a QoQ basis PAT margin declined 219 bps reflecting the weaker operating performance.
- Maruti reported EPS of Rs 16.11 in Q1 FY 2011 way lower compared to the Q1 FY10 EPS of Rs 20.2.

**Quarterly Results (In Crs Rs.)**

	Q1 FY11	Q1 FY10	YoY[%]	Q4 FY10	QoQ[%]
Gross Sales	8980.5	6956.4	29.1%	9072.9	-1.0%
Excise Duty	929.8	616.2	50.9%	838.1	10.9%
<b>Net Sales</b>	<b>8050.7</b>	<b>6340.3</b>	<b>27.0%</b>	<b>8234.9</b>	<b>-2.2%</b>
Other operating Income	180.9	152.7	18.4%	189.7	-4.7%
Total Income	8231.5	6493.0	26.8%	8424.6	-2.3%
Raw Material Consumed	6079.7	4827.3	25.9%	6127.6	-0.8%
Stock Adjustment	54.9	-59.6	-192.2%	12.9	327.5%
Purchase of Finished Goods	275.6	187.3	47.1%	272.2	1.2%
Employee Expenses	161.0	133.6	20.5%	153.4	5.0%
Other Expenses	867.8	611.2	42.0%	747.4	16.1%
<b>TOTAL EXPENDITURE</b>	<b>7439.0</b>	<b>5699.8</b>	<b>30.5%</b>	<b>7313.5</b>	<b>1.7%</b>
<b>PBIDT</b>	<b>792.5</b>	<b>793.2</b>	<b>-0.1%</b>	<b>1111.1</b>	<b>-28.7%</b>
	<b>9.8%</b>	<b>12.5%</b>	<b>(267) bps</b>	<b>13.5%</b>	<b>(365) bps</b>
Other Income	100.2	216.5	-53.7%	79.0	26.9%
Interest	8.0	6.3	26.5%	12.9	-37.9%
PBDT	884.7	1003.4	-11.8%	1177.2	-24.8%
Depreciation	241.7	197.1	22.6%	223.0	8.4%
Tax	177.7	223.8	-20.6%	297.6	-40.3%
Profit After Tax	465.4	582.5		656.6	-29.1%
<b>Adjusted Profit</b>	<b>465.4</b>	<b>582.5</b>	<b>-20.1%</b>	<b>656.6</b>	<b>-29.1%</b>
	<b>5.8%</b>	<b>9.2%</b>	<b>(341) bps</b>	<b>8.0%</b>	<b>(219) bps</b>
<b>EPS (Unit Curr.)</b>	<b>16.11</b>	<b>20.20</b>	<b>-20.2%</b>	<b>22.73</b>	<b>-29.1%</b>

Volumes demonstrated strong growth YoY

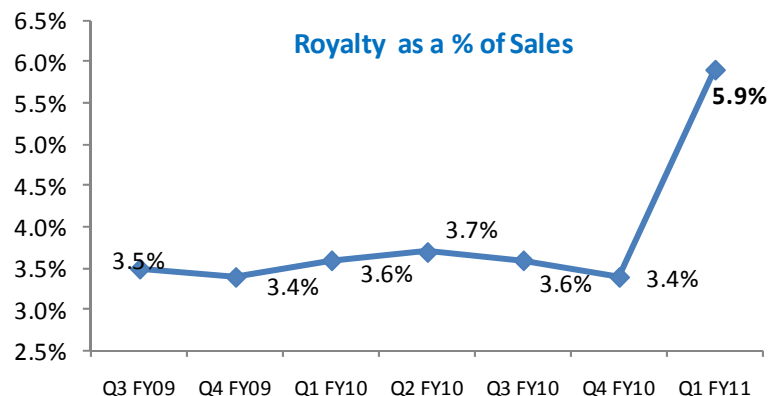
Product	Q1 FY11	Q1 FY10	YoY	Q4 FY10	QoQ
<b>Domestic Sales</b>					
A1 (Maruti 800)	6,906	7,119	-3.0%	8,434	-18.1%
A2(Alto,wagonR,Zen,Swift,Ritz)	170,513	146,733	16.2%	173,683	-1.8%
A3 (SX4, Swift Dzire)	28,958	19,947	45.2%	29,702	-2.5%
C (Omni,Versa,Eeco)	33,521	22,233	50.8%	32,466	3.2%
MUV (Gypsy, Vitara)	2,989	1,383	116.1%	1,097	172.5%
<b>Total Domestic Sales</b>	<b>242,887</b>	<b>197,415</b>	<b>23.0%</b>	<b>245,382</b>	<b>-1.0%</b>
<b>Export Sales</b>	<b>40,437</b>	<b>29,314</b>	<b>37.9%</b>	<b>42,040</b>	<b>-3.8%</b>
<b>Total Sales (a+b)</b>	<b>283,324</b>	<b>226,729</b>	<b>25.0%</b>	<b>287,422</b>	<b>-1.4%</b>

Source: Company, Nirmal Bang Research

- In the A1 category comprising of Maruti 800, the downward journey continued with an 18.1% slide in the sales numbers on a QoQ Basis & by 3% on a YoY basis.
- The C segment comprising of Omni, Versa & Eeco witnessed growth of 50.8% on YoY basis.(only segment growing on a QoQ basis).
- The A3 segment comprising of SX4 & Swift Dzire witnessed a growth of 45.2% on YoY basis.
- The A2 segment comprising of Alto, Wagon R, Zen, Swift, A-Star and Ritz showed a modest growth of 16.2% QoQ
- Exports rose by 37.9% on a YoY basis.

Going Forward:

- We feel the biggest point of contention remains the increased payment of royalty to Suzuki Motors. Maruti has increased the royalty to 5.1% of Sales for the Q1 FY11 compared to an average of 3.4-3.7% in the previous quarters. The total royalty Q1 FY11 included an additional non- recurring 0.8% arrears for FY 2010. This has impacted the company's margin significantly. Going forward, we expect the margin to remain under pressure due to higher royalty and increasing competition though anticipated reduction in raw material costs will partially offset this impact.



- On the Raw Material front we see the costs easing from the current 79.6% seen in Q1 FY11& expect it to settle between a range of 77-78% with a cool off in the commodities cycle.
- On the Margin side we feel Maruti would continue to face headwinds given the successful launch of products by its competitors. Successful launch of Beat & Figo forced Maruti to introduce a new Blue themed Wagon R with better features at the same cost of the older version. Such product enhancement without getting higher realizations is expected to hurt the company's bottom-line. We feel such a move would impact the margins going forward.
- On the Volumes side we expect Maruti to sell close to 1.15 million vehicles in 2011 as compared to 1.02 million in FY 2010. Going forward we expect the growth rate to moderate and forecast a sale of around 1.27 million vehicles in FY2012.

#### Valuation & Recommendation

At the current price of Rs. 1213 per share, Maruti is currently available at 15.05x FY11E and 13.39x FY12E. We expect the company to earn a ROCE of 21.0% in FY11E and 20.3% in FY12E. The company is expanding its production capacity at Manesar by FY12 after which the company will be producing additional 250000 cars per annum in lieu of increasing demand in the Indian as well as overseas markets for the products of the company. At Rs. 1213 per share the stock is trading at a discount of 7.6% from our intrinsic price of Rs. 1305 per share. Therefore, we maintain HOLD with a target price of Rs. 1305 per share indicating potential upside of 7.6%.

**Q1 FY11 Results Update**
**Maruti Suzuki Ltd**
**Financials**

Profitability (Rs. In Cr)	FY09A	FY10A	FY11E	FY12E
<b>Net Sales</b>	<b>20558</b>	<b>29303</b>	<b>33345</b>	<b>37429</b>
Other op income	614	820	656	757
<b>Total Income</b>	<b>21172</b>	<b>30123</b>	<b>34000</b>	<b>38185</b>
<b>EBITDA</b>	<b>1867</b>	<b>4043</b>	<b>3924</b>	<b>4479</b>
Dep	716	841	1015	1206
<b>Op Income</b>	<b>1151</b>	<b>3202</b>	<b>2909</b>	<b>3272</b>
Interest	55	37	34	30
Other Income	609	502	452	497
<b>PBT</b>	<b>1705</b>	<b>3667</b>	<b>3327</b>	<b>3740</b>
Tax	474	1122	998	1122
<b>PAT</b>	<b>1232</b>	<b>2545</b>	<b>2329</b>	<b>2618</b>
Minority Interest	-4.3	79.7	0.0	0.0
<b>Adj PAT</b>	<b>1227</b>	<b>2625</b>	<b>2329</b>	<b>2618</b>
Shares o/s ( No. in Cr.)	28.9	28.9	28.9	28.9
<b>EPS</b>	<b>42.6</b>	<b>88.1</b>	<b>80.6</b>	<b>90.6</b>
<b>Adj EPS</b>	<b>42.5</b>	<b>90.8</b>	<b>80.6</b>	<b>90.6</b>
Cash EPS	67.3	119.9	115.7	132.3

Quarterly (Rs. In Cr)	Sep.09	Dec.09	Mar.10	Jun.10
<b>Net Sales</b>	<b>7050</b>	<b>7334</b>	<b>8235</b>	<b>8051</b>
<b>EBITDA</b>	<b>916</b>	<b>1134</b>	<b>1111</b>	<b>793</b>
Dep	203	203	223	242
<b>Op Income</b>	<b>713</b>	<b>931</b>	<b>888</b>	<b>551</b>
Interest	6	8	13	8
Other Inc.	110	91	79	100
Extraordinary	0	0	0	0
<b>PBT</b>	<b>817</b>	<b>1014</b>	<b>954</b>	<b>643</b>
Tax	247	326	298	178
<b>PAT</b>	<b>570</b>	<b>688</b>	<b>657</b>	<b>465</b>
EPS (Rs.)	19.7	23.8	22.7	16.1

Performance Ratio	FY09A	FY10E	FY11E	FY12E
Sales growth (%)	14.1%	42.5%	13.8%	12.2%
EBITDA margin (%)	8.8%	13.4%	11.5%	11.7%
Adj.PAT margin (%)	5.8%	8.7%	6.8%	6.9%
ROE (%)	13.5%	24.3%	17.8%	17.0%
ROCE (%)	18.8%	35.0%	21.0%	20.3%

Valuation Ratio	FY09A	FY10E	FY11E	FY12E
Price Earnings (x)	28.56	13.36	15.05	13.39
Price / Book Value (x)	3.66	2.91	2.47	2.10
EV / Sales	1.65	1.10	0.94	0.81
EV / EBITDA	18.22	7.98	7.96	6.76
Dividend Yield	0.4%	0.5%	0.6%	0.6%

Financial Health (Rs. In Cr)	FY09A	FY10E	FY11E	FY12E
Share Capital	145	145	145	145
Reserves & Surplus	9421	11901	14043	16552
Deferred Tax Liabilities	0	0	0	
<b>Share Holder's Funds</b>	<b>9565</b>	<b>12045</b>	<b>14188</b>	<b>16696</b>
Total Loans	759	759	759	632
<b>Total Liabilities</b>	<b>10324</b>	<b>12804</b>	<b>14947</b>	<b>17328</b>
<b>Net Fixed Assets</b>	<b>5084</b>	<b>5650</b>	<b>6060</b>	<b>6954</b>
<b>Investments</b>	<b>3277</b>	<b>3277</b>	<b>3277</b>	<b>3277</b>
Sundry Debtors	960	1146	1320	1481
Cash & Bank	1987	3910	5145	6239
Loans & Advances	1754	1851	2132	2393
Inventories	921	1322	1523	1709
<b>Total</b>	<b>5622</b>	<b>8230</b>	<b>10119</b>	<b>11822</b>
<b>Current Liabilities &amp; Provisor</b>	<b>3499</b>	<b>4193</b>	<b>4350</b>	<b>4565</b>
Net Current Assets	2123	4037	5769	7257
<b>Deferred Tax Assets</b>	<b>-160</b>	<b>-160</b>	<b>-160</b>	<b>-160</b>
<b>Total Assets</b>	<b>10324</b>	<b>12804</b>	<b>14947</b>	<b>17328</b>

Cash Flow (Rs. In Cr)	FY09A	FY10E	FY11E	FY12E
<b>Operating</b>				
Net Income	1705	3747	3327	3740
Change in WC	-56	9	-497	-395
Other Adjustment	-391	-1063	-605	-642
<b>CF from Opeartion</b>	<b>1259</b>	<b>2693</b>	<b>2225</b>	<b>2703</b>
<b>Investment</b>				
Capex	-1699	-1407	-1425	-2000
Other Investment & interest	2556	820	656	757
<b>Total Investment</b>	<b>857</b>	<b>-588</b>	<b>-770</b>	<b>-1243</b>
<b>Financing</b>				
Dividend Paid	-144	-145	-186	-209
Share Capital	0	0	0	0
Debt Repayment & Int	-375	-37	-34	-157
<b>Total Financing</b>	<b>-519</b>	<b>-182</b>	<b>-220</b>	<b>-366</b>
Net Chg. in Cash	1597	1923	1235	1093
Cash at beginning	390	1987	3910	5145
<b>Cash at end</b>	<b>1987</b>	<b>3910</b>	<b>5145</b>	<b>6239</b>

Per Share Data	FY09A	FY10E	FY11E	FY12E
Reported EPS	42.62	88.06	80.57	90.58
Adjusted EPS	42.47	90.82	80.57	90.58
BV per share	331.0	416.8	490.9	577.7
Cash per share	68.8	135.3	178.1	215.9
Dividend per share	5.00	6.00	7.00	7.00

**NOTE**

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