Maruti Suzuki India Ltd. ₹1239

Diesel Power

Accumulate

Gateway to Prosperity

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Company Background

Maruti Suzuki India Ltd. (MSIL) is India's largest passenger vehicle manufacturer with ~1.2 million units sold annually. The company dominates the domestic cars segment with ~40% market share. MSIL is also emerging as a global export hub of small cars for Suzuki. Historically, its portfolio has been petrol dominated. However, the company is also investing in creating its own diesel engine facility to cater to the increasing demand for diesel vehicles. MSIL has two plants in Haryana, Gurgaon and Manesar, and is setting up a plant in Mehsana, Gujarat, which will take its annual capacity to 2 million units.

Key Highlights

- Passenger Car industry de-grew by 11.4% in Q1 FY14. Management expects Industry to grow in single mid digit while it expects MSIL to grow upto 0-5%.
- Rural sales growing by double digit and comprises of 29-30% of total car sales for MSIL. Petrol engine car sales have continued it declining trend while diesel engine car sales have started declining in Q1 FY14. As per management, normal monsoon will have positive effect on passenger car sales. Direct and Indirect imports stands at 19% of net sales in FY14.
- Despite weak Yen, management has re-iterated that localization program to continue and its import target (direct and Indirect) is 8-9% in next 3 years.
- Management target for imports stands at 16.5% of net sales in FY14. MSIL have started offering discounts on diesel engine cars. MSIL is currently focusing Latin American countries, Africa & ASEAN region to boost exports.
- Effective JPY/USD exposure for direct imports & royalty hedged for balance FY14 is at 98-100. While JPY/USD exposure for vendor imports & entire INR/USD exposure remains unhedged. Average JPY/INR for Q1 FY14 was ~0.60.
- Capacity addition of 0.25m units assembly line at Manesar and 0.15m units of diesel engine at Gurgaon are on track. 2nd phase of diesel engine capacity expansion has been deferred.
- The diesel engine capacity expansion of 150,000 units is on schedule to get commissioned in H2FY14E. The balance capacity is likely to come on-stream in FY15E.

Key Financials

Year Ended 31st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	373,068.0	366,375.0	446,234.0
Rev. growth (%)	23.24	(1.79)	21.80
EBITDA (INR mn)	42,777.0	36,777.0	54,549.0
Net profit (INR mn)	22,886.0	16,352.0	23,921.0
Shares outstanding (mn)	288.9	288.9	302.1
EPS (INR)	79.2	56.6	79.2
EPS growth (%)	(8.37)	(28.55)	39.91
P/E (x)	16.0	23.8	16.2
RONW (%)	17.4	10.4	14.0
ROCE (%)	16.6	9.8	12.9

Info Codes

Reuters	MRTI.BO
Bloomberg	MSIL@IN
NSE	MARUTI
BSE	532500

Market Data

52 Wk Range (₹)	1128 / 1773
Shares in Issue (mn)	302.1
Mkt. Cap (₹ bn)	375.8
BSE 2 Wk Avg Vol	77000

Share Holding Pattern (%)

Promoters	56.21
DIIs	13.07
FIIs	22.03
Others	08.69

Investment Theme

Recent initiatives by the government to rationalise the diesel, petrol price gap will also aid MSIL's petrol-dominated product portfolio. Margins are also likely to improve as the weakening of the Yen leads to lower outgo in the form of royalty and also creates a favourable currency structure for imports, which form a large part of the exposure. The Manesar C plant will be commissioned in H2FY14, which brings in additional capacity of 150,000 units. The company is expected to launch a new vehicle in H2FY14E as it follows a strategy of introducing one new model every year. Also, it is targeting its exports to increase to 15% of its total volumes from current 10% by way of launching new models & expanding geographical reach. MSIL is targeting margin expansion by reducing its import content by 2.5-3% from 19.5% in FY13 by way of localization

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Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	405864.0	393624.0	(3.02)	490173.0	24.53
Other Income	9788.0	11965.0	22.24	10742.0	(10.22)
Change in Stocks	692.0	1586.0	129.19	(243.0)	(115.32)
Raw Material Con.	272120.0	267966.0	(1.53)	307605.0	14.79
Employee Exp.	7135.0	8133.0	13.99	10734.0	31.98
Indirect Taxes	43536.0	40197.0	(7.67)	56161.0	39.71
Other Exp.	52880.0	56755.0	7.33	74594.0	31.43
Operating Exp.	374979.0	371465.0	(0.94)	449337.0	20.96
Operating Profit	30885.0	22159.0	(28.25)	40836.0	84.29
Total Interest	250.0	2362.0	844.80	3417.0	44.67
Gross Profit	40423.0	31762.0	(21.43)	48161.0	51.63
Net Dep.	9335.0	10300.0	10.34	18251.0	77.19
Total Taxation	8202.0	5110.0	(37.70)	5989.0	17.20
Net Profit/Loss	22886.0	16352.0	(28.55)	23921.0	46.29

4 Years Balance Sheet

(₹ mn)

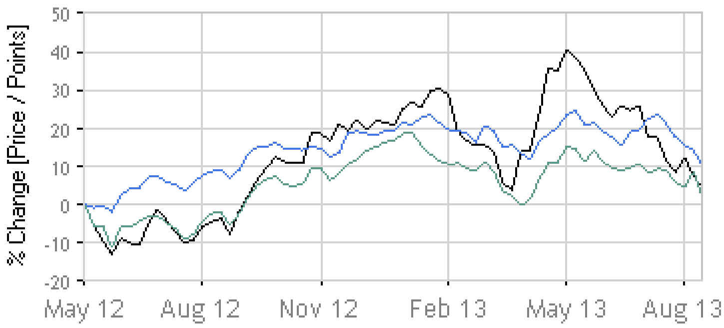
Balance Sheet as on 31st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	**127,240.0**	**142,991.0**	**165,609.0**	**200,275.0**
Equity Share capital	1,445.0	1,445.0	1,445.0	1,510.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	116,906.0	137,230.0	150,429.0	184,279.0
Long Term Loans	4,199.0	2,780.0	1,586.0	5,429.0
Short Term Loans	4,690.0	1,536.0	12,149.0	9,057.0
USES OF FUNDS	**127,240.0**	**142,991.0**	**165,609.0**	**200,275.0**
Gross Block	104,067.0	117,377.0	147,347.0	198,007.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	53,820.0	62,083.0	72,140.0	100,015.0
Net Block	50,247.0	55,294.0	75,207.0	97,992.0
Capital Work in Progress	3,876.0	8,625.0	9,419.0	19,422.0
Investments	71,766.0	51,068.0	61,474.0	70,783.0
Current Assets	90,399.0	131,601.0	141,771.0	150,775.0
Less : Current Liabilities	89,048.0	103,597.0	122,262.0	138,697.0
Total Net Current Assets	1,351.0	28,004.0	19,509.0	12,078.0
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	3,725.0	3,851.0	5,257.0	1,310.0
Mkt Val. Quoted Investments	54,423.0	0.0	0.0	0.0
Contingent Liabilities	40,549.0	64,397.0	63,996.0	81,405.0
Dividend (%)	120	150	150	160

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 12	Dec 12	Mar 13	Jun 13
Net Sales	83,054.30	112,003.40	133,040.10	102,373.40
Cost Of Sales	77,968.80	103,090.70	113,044.00	90,711.80
Operating Profit	5,085.50	8,912.70	19,996.10	11,661.60
Recurring Income	1,563.20	1,886.20	3,989.90	2,043.00
Adjusted PBDIT	6,648.70	10,798.90	23,986.00	13,704.60
Financial Expenses	380.10	459.30	726.40	442.30
Depreciation	3,470.40	3,583.30	8,158.90	4,801.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	2,798.20	6,756.30	15,100.70	8,460.70
Tax Charges	523.70	1,743.40	2,704.50	2,144.60
Adjusted PAT	2,274.50	5,012.90	12,396.20	6,316.10
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	2,274.50	5,012.90	12,396.20	6,316.10

52 Week Index Relative Percentage Appreciation



MSIL vs SENSEX vs Auto

Points to Ponder

- Domestic market share for MSIL had declined due to labour unrest leading to production lockout at Manesar and high petrol-diesel price differential increasing dieselisation in the industry. However, with the plant lockout problem resolved for good and rationalisation of the petrol-diesel price gap, things look good for MSIL.
- MSIL has regained the lost market share as the petrol-diesel disparity reduces. Threat from new products from competition, however, remains.
- The margin trend is expected to be on an upward trajectory as MSIL regains its lost market share and diesel portfolio delivers higher EBIDTA/vehicle. Margins will also be aided by favourable forex movement, primarily Yen depreciation.
- Currency remains a key monitorable for MSIL due to its direct and indirect exposure. MSIL has also increased royalty exposure that is yen denominated. In order to cut down the impact of the same, MSIL has undertaken the localisation drive in order to reduce imports. Also, a third of the exposure is hedged for.
- The management has said the momentum from Q4FY13 has failed to sustain and Q1 saw lower volumes as diesel car sales declined due to petrol-diesel price rationalisation. For the domestic segment, the growth guidance is 0-5% for the year, for exports is ~0% for FY14E.
- For the industry, the level of dieselisation is ~54%, which the management expects to reduce slightly to ~52%. For MSIL, diesel car sales stood at ~84,000 units, i.e. ~34% of total volumes.
- MSIL has managed to maintain its market share above 40% in the quarter in the face of new product launches by competition. However, average discount levels for the quarter have been Rs.13426 as against Rs.11646 in Q1FY13 and Rs.10600 in Q4FY13.

In a Nutshell

For more than three decades, MSIL has been a household name across urban and rural India, through multiple business challenges. The evolution of the Company in all these decades is both interesting and inspiring. It has witnessed a huge transformation of the car market over the years in India, many a times contributing to and leading the change itself. MSIL has consistently delivered best value to customers over the life cycle of the car and created a loyal customer base. The ongoing slowdown in the industry has resulted in widening of discounts to Rs. 13,426 in Q1FY14 vs. Rs. 10,600 in Q4FY13 & Rs. 11,646 in Q1FY13. The discounts narrowed in Q4FY13 mainly on account of favorable product mix. However; starting Q1FY14, the demand for diesel vehicles have slowed with sales of 84,000 units vs. 112,000 units in Q4FY13. This has resulted in ASP declining by 1.2% QoQ. According to the management, the discounts will continue to widen as the discounts on Diesel models have just started from June 2013 which will increase over time. On the export front, management has guided for flat volumes as against de-growth of 35.4% in Q1FY14. Going forward, the company is looking to launch new models in the export market and expand geographical reach in order to arrest the steep fall in export volumes. MSIL has hedged 52% of its total USDJPY exposure (~80% of direct exposure & ~30% of indirect exposure) for the remaining 9MFY14 period at 98-100. However, USD/INR exposures are un-hedged. The adverse impact of steep rupee depreciation on indirect imports would come with a lag of one quarter in Q2FY14. The diesel engine capacity expansion of 150,000 units is on schedule to get commissioned in H2FY14E. The balance capacity is likely to come on-stream in FY15E.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days
Reduce : Expected to depreciate up to 10% over 12-months
Sell : Expected to depreciate 10% or more over 12-months
Trade Sell : Expected to depreciate more than 10% over 45-days