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Maruti Suzuki India - Buy

Maruti Suzuki India, formerly known as Maruti Udyog was incorporated in 1981. It was a government of India initiative that the company was born with Suzuki of Japan as minor partner to make a people's car for middle class India.

The company offers full range of cars- from entry level Maruti 800 & Alto to stylish hatchback Ritz, A star, Swift, Wagon R, Estilo and sedans DZire, SX4 and Sports Utility vehicle Grand Vitara.

Since inception, the company has produced and sold over 7.5 million vehicles in India and exported over 500,000 units to Europe and other countries.

Management

The management of the company is led by Shinzo Nakanishi-MD&CEO, R C Bhargava - Chairman. While other directors of the company include, Amal Ganguli, Tsuneo Ohashi, Keiichi Asai, Shuji Oishi, Osamu Suzuki, Kenichi Ayukawa, Davinder Singh Brar, Pallavi Shroff and Manvinder Singh Banga.

Business Overview

The Company is primarily in the business of manufacture, purchase and sale of Motor Vehicles and Spare Parts (automobiles). The other activities of the Company comprise facilitation of Pre-owned Car Sales, Fleet Management and Car Financing.

The company offers passenger cars, multipurpose vehicles, and utility vehicles, as well as various spare parts and accessories. The company's principal brands comprise Maruti 800, Alto, Omni, A star, Gypsy, Swift, Versa, Wagon R, ZenEstillo, DZire, SX4, Grand Vitara, and Ritz. It also involves in pre-owned car sales, fleet management, and car financing.

Maruti Suzuki has two state-of-the-art manufacturing facilities in India. The first facility is at Gurgaon spread over 300 acres and the other facility is at Manesar, spread over 600 acres in North India.

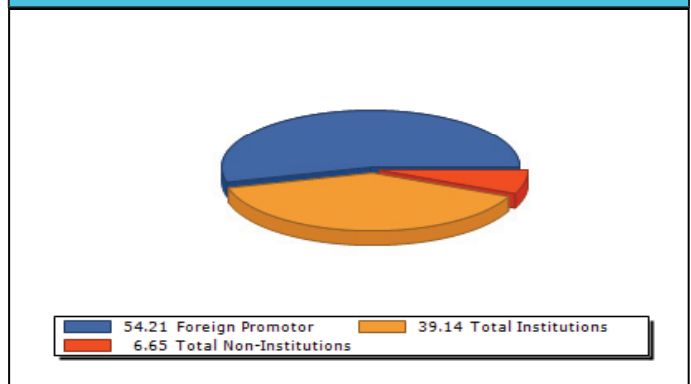
The Gurgaon facility houses three fully integrated plants having a total installed capacity of 350,000 cars per year. The facility employs global manufacturing best practices like cold testing, 100% on line automated checks to ensure global quality.

The Manesar facility at present rolls out World Strategic Models Swift, A-star & SX4 and DZire. The plant has several in-built systems and mechanisms.

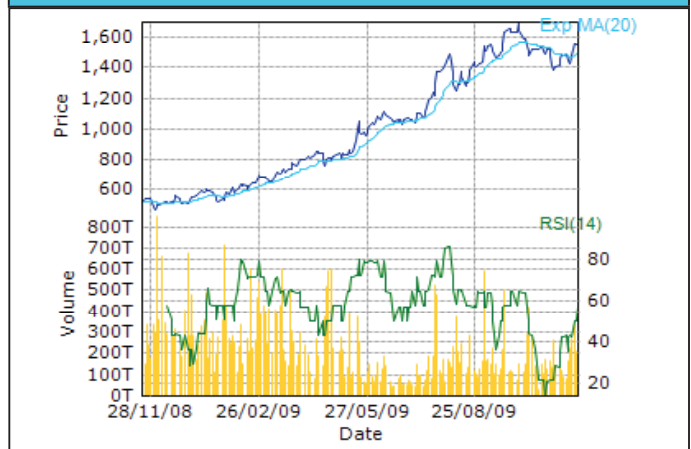
Suzuki Powertrain India the diesel engine plant at

Stock Data		20/11/09
Current Mkt Price (Rs)		1542.45
52 Week High		1740.00
52 Week Low		428.40
Mkt Cap (Rs. in Million)		445629.32
Return in last one Month (%)		3.73

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	204553.00	179362.00	14.04
Other Income	10208.00	8876.00	15.01
Total Expenditure	190428.00	156930.00	21.35
Operating Profit	24333.00	31308.00	-22.28
Interest	510.00	596.00	-14.43
Profits After Tax	12187.00	17308.00	-29.59
Reserve & Surplus	0.09	0.08	11.24
Reported EPS(Rs)	42.17	59.89	-29.59
Core EBITDA Margin (%)	10.50	14.89	-29.51



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Manesar is SMC's & Maruti's first plant designed to produce world class diesel engine and transmissions for cars. The plant is under a joint venture company, called Suzuki Powertrain India Limited (SPIL) in which SMC holds 70% equity the rest is held by MSIL. This facility has an initial capacity to manufacture 100,000 diesel engines a year. This will be scaled up to 3,00,000 engines/annum by 2010.

Latest result analysis

- For the quarter ended September 30,2009 the company reported a sales growth of 44.24% to Rs 7202.61 crore compared to Rs 4993.62 crore in the same quarter last year.
- The total income of the company increased by 43.68% to Rs 7312.62 crore compared to Rs 5089.66 crore.
- Other income of the company too increased by 14.55 % to Rs 110.01 crore compared to Rs 96.04 crore in the corresponding previous quarter.
- The company reported a profit of Rs 570 crore for the quarter as compared Rs 296.12 crore.
- Net Profit Margin of the company improved to 7.91 compared to 5.93 in the same quarter last year.
- Maruti Suzuki India's total sales surged 32.4% to 85,415 units in October 2009 over October 2008.

Industry Scenario

Over the last five years, India has established itself as one of the favoured global destinations for automobile manufacturing. A rapidly growing middle class, rising per capita incomes and relatively easier availability of finance have been driving the vehicle demand in India in the current decade, which, coupled with large government investment in roads infrastructure has led to the establishment of a vibrant industry.

Riding on the scrappage scheme in European Union, exports for the auto industry, primarily in the passenger car segment have surged in the current fiscal. The scheme that was launched in April 2008 was aimed at promoting smaller and energy efficient cars by allowing people trade their old vehicles for a new one with government providing a sizeable discount on such transactions.

Over the last five years, India has established

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Sep 2009	Sep 2008	Change(%)
Net Sales	72026.10	49936.20	44.24
Expenditure	62864.70	44779.10	40.39
Other Income	1100.10	960.40	14.55
EBITDA	10261.50	6117.50	67.74
Interest	59.70	207.70	-71.26
Net Profit	5700.00	2961.20	92.49
EBITDA Margin (%)	0.14	0.12	16.30
NPM (%)	0.08	0.06	33.45
EPS	19.73	10.25	92.49

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	204553.00	179362.00	14.04
Total Income	214761.00	188238.00	14.09
Total Expenditure	190428.00	156930.00	21.35
Operating Profit	24333.00	31308.00	-22.28
Profits After Tax	12187.00	17308.00	-29.59

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	1445.00	1445.00	0.00
Reserve & Surplus	92004.00	82709.00	11.24
Total Liabilities	100438.00	93156.00	7.82
Investments	31733.00	51807.00	-38.75
Current Liabilities	30169.00	24492.00	23.18
Net Current Assets	20935.00	2722.00	669.10
Total Assests	100438.00	93156.00	7.82

Key Ratios		
(Rs. in Million)		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	42.18	59.89
Core EBITDA Margin (%)	10.50	14.89
EBIT Margin (%)	7.45	12.19
ROA (%)	12.13	18.58
ROE (%)	13.04	20.57
ROCE (%)	17.19	27.51
Price/Book (x)	2.40	2.85
Net Sales Growth (%)	14.04	22.40
EBIT Growth (%)	-32.62	10.58
PAT Growth (%)	-29.59	10.81
Total Debt/Mcap (%)	0.03	0.04



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itself as one of the favoured global destinations for automobile manufacturing. The country has become the second-largest maker of small cars, overtaking Brazil, and trails closely behind Japan.

Prospects of the auto industry are even brighter in the medium to long run. Given that the country has a middle class larger than the population of the US and a much lower vehicle population as compared to other developed nations, there is a huge growth potential.

Latest developments

Maruti Suzuki has launched new version of SX4 with marginal changes. The company has also introduced a 4-speed automatic transmission variant of the new SX4. The environment friendly new SX4 is amongst the first A-3 segment sedans to be BSIV compliant in the country and its Power has increased from 101 bhp to a little over 103 bhp.

Maruti Suzuki will manage Uttarakhand's first and the only Institute of Driving and Traffic Research. This institute is the flagship corporate social responsibility initiative of Maruti Suzuki that works on the principle of public private partnership. Maruti Suzuki has been successfully running two similar institutes in Delhi on public private partnership model.

The government of Haryana has allotted 700 acres of land to Maruti Suzuki for its proposed research and development (R&D) complex in Rohtak, Haryana.

In a survey by global market research firm J D Power Maruti Suzuki India has topped the list for the tenth consecutive year for customer satisfaction in the country.

Recommendation Factors

As per the management of the company the top ten cities of the country have shown good sign of revival and this renewed demand from the urban

areas coupled with high exports will counter balance the rural slowdown.

The margin of the company is likely to remain buoyant as there has been favorable changes in product mix (its material cost were lower by 190 basis points in the quarter due to stronger Yen and soft commodity prices) and higher contribution from export revenue.

The company reported a better-than-expected 13% improvement in its unit realisation to Rs 2,86,349 during September 2009 quarter. Earlier ETIG had estimated an improvement of close to 8% in unit realisations during the second quarter and a 40% growth in net sales.

In the past few months, the company has launched four new premium models A-Star, Ritz, Swift Dzire and new Estilo, these high- priced models has helped the company to capture the upper end of the B-segment and are likely to further increase its market share in the segment.

Maruti Suzuki. nearly doubled its net profit, though the growth was driven by lower excise duty payment, which fell 28% per unit and helped the company to save Rs 10,741 per car sold during June-September 2009 period, but if the government decides to roll back its incentives then the company might not be able to continue its profitability. Also its expenses on account of royalty & technical fees have grown at a CAGR of 43%, much faster than the 18% CAGR growth in its net sales.

The scrip of the company is trading at Rs 1542 and a P/E of 27.67. The stock is valued at 17.3x FY11E EPS and 12.6x FY11E CEPS. Lower RM cost and higher operating leverage is likely to drive profitability and earnings growth of the company. We would recommend a buy in the stock with a price target of Rs 1650, keeping in view that the major partner of the company Suzuki Motor Corp has tripled its full-year forecast citing the booming Indian market and cost-cutting efforts.

Peer group comparison

Company	Year End	Net Sales	PBDIT	PAT	NPM	EPS	P/E
Maruti Suzuki	200903	2045.53	141.25	121.87	5.84	42.17	27.67
Hindustan Motors	200903	62.58	-7.46	-3.89	-6.50	-2.41	--
Tata Motors	200903	25660.79	2561.98	1001.26	3.90	20.83	19.62
Honda Sael Cars	200903	348.35	-12.60	-19.66	--	-5.46	--



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