

**MARUTI SUZUKI (MSIL) - Q3 FY14 RESULT UPDATE**

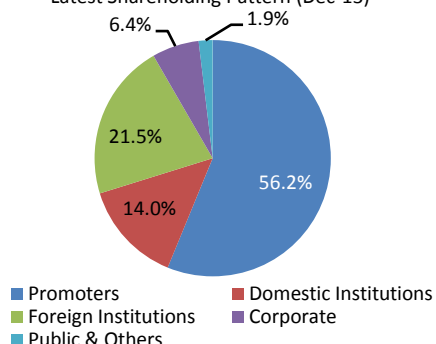
29 Jan, 2014

CMP: Rs 1674  
Target Price: Rs 1842  
**Recommendation: Hold**

Stock Info	
BSE Group	A
BSE Code	532500
NSE Symbol	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.BO
BSE Sensex	20647
NSE Nifty	6120

Market Info	
Market Capital	Rs 50578 crore
Equity Capital	Rs 151 crores
Avg Trading Volume	780,650
52 Wk High / low	Rs 1864 / 1217
Face Value	Rs 5

Latest Shareholding Pattern (Dec-13)



> **Q3 FY14 Net Revenue (post merger)** at Rs 10620 crores. Results came in tad lower than estimates on the back of higher discounts and input cost escalations. Domestic volumes were 0.3% yoy lower and exports volumes were 38.6% lower. Thus total volumes dropped 4.4% yoy to 288151 units. Blended realisation, backed by yoy depreciation in rupee, was 1.4% higher yoy at Rs 368546 per unit. On qoq basis however it declined 0.5%.

> **Q3 FY14 Operating EBITDA (post merger)** was at Rs 1355 crores, with EBITDA margin at 12.4%. Gross margins dropped 230bps qoq to 26.5% and this was driven by higher raw material costs. Raw material cost incidence increased 230bps qoq to 73.5%.

> **Q3 FY14 Reported PAT (post merger)** was at Rs 681 crores, and PAT margins at 6.4% which was lower qoq due to drop in EBITDA margin. Lower tax incidence of 23.1% compared to 23.8% in 2QFY14 supported PAT.

In a major development, MSIL has decided to go ahead with Gujarat expansion through 100% subsidiary of Suzuki Motor corporations. It will be a contract manufacturing type of arrangement in which subsidiary will sell products to MSIL on cost plus cash basis. We believe this arrangement gives MSIL the levy to focus on existing business without doing additional investment on Gujarat project. Notably, Gujarat plant would have required investment of Rs 3000cr for a planned capacity of 0.25mn units.

> **BUSINESS OUTLOOK:** Management has said that rural demand continues to drive volumes of the company and expects it to contribute 30% of domestic volumes. It expects industry volume de-growth of 4-5% in FY14 and expects its own volumes to see 2-3% decline. We expect similar de-growth in volume (domestic & exports) for MSIL in FY14, but have built in upticks in FY15. Yen weakness benefits and localization are however expected to continue giving fillip to margins; our main concerns continue to be "weak volumes".

> **Financial and Estimates:** We estimate a 2 year CAGR Revenue growth of 10%, 2 year CAGR Operating EBITDA growth of 18.9% (with EBITDA margins in the range of 11% and 13% including SPIL). SPIL is expected to add about Rs 4/share to the overall EPS. Our main margin expansion levers are continued benefits from localization, yen weakness, and expected lower RM costs in FY14.

**Valuation:** The stock at Rs 1674 trades at 15.5x and 12.7x our estimated EPS of Rs 108 and Rs 132 for FY14 & FY15 respectively (which includes SPIL). We value the stock at 14x FY15 EPS, and assign a price target of Rs 1842, with a "Hold" recommendation.

Y/E March, (in Rs crore)	POST MERGER ESTIMATES (including SPIL)			
	FY12	FY13	FY14 E	FY15 E
Net Sales	34,705.9	42,612.6	43,269.9	50,388.0
yoy%	-3.2%	22.8%	1.5%	16.5%
Operating EBITDA	2,512.9	4,229.7	5,675.9	6,639.5
EBITDA margin	7.1%	9.7%	12.5%	12.9%
PAT	1,635.1	2,392.1	3,261.6	3,974.3
yoy%	-28.6%	46.3%	36.3%	21.9%
EPS : Including SPIL	56.6	79.2	108.0	131.6
P/E (x)	29.6	21.1	15.5	12.7



P&L (in Rs crore)	Q3 FY14	Q3 FY13	yoy	Q2 FY14	qoq
Domestic Vehicles	268185	268957	-0.3%	241562	11.0%
Export Vehicles	19,966	32,496	-38.6%	34024	-41.3%
Total Vehicles	288,151	301,453	-4.4%	275586	4.6%
Net Sales	10620	10957	-3.1%	10212	4.0%
Oth Operating Inc	274.1	243.4	12.6%	256.2	7.0%
Total Income	10894	11200	-2.7%	10486	4.1%
Total Raw Mat Cost	7801	8784	-11.2%	6896.8	7.4%
Employee Cost	300	231	29.7%	7264.4	-19.5%
Other Expenditure	1438	1294	11.1%	1509.9	-4.8%
Total Expenditure	9539	10309	-7.5%	9146.6	4.3%
Operating EBITDA	1354.8	891.3	52.0%	1321.4	2.5%
margin %	12.4%	8.0%		12.6%	
Op EBIT	813.4	532.9	52.6%	822.3	-1.1%
Other Income	116.9	188.6	-38.0%	101.0	15.8%
OP EBIT + Oth Inc	930.4	721.6	28.9%	923.3	0.8%
Interest (Net)	44.8	45.9	-2.5%	43.4	3.2%
PBT	885.6	675.6	31.1%	879.9	0.6%
Tax Provision	204.4	174.3	17.2%	209.7	-2.5%
PAT	681.2	501.3	35.9%	670.2	1.6%
Tax rate	23.1	25.8	-	23.8	
Basic EPS	22.6	17.4	30.0%	22.2	1.6%
Dep per share	17.9	12.4	44.5%	16.5	8.5%
Cash EPS	40.5	29.8	36.0%	38.7	4.5%



**Profit and Loss Account (Post Merger)**

Particulars, in Rs crore	FY12	FY13	FY14E	FY15E
Net Sales	34,705.9	42,612.6	43,269.9	50,388.0
YoY%	-3.9%	22.8%	1.5%	16.5%
Income from Operations	35587.1	43587.9	44273.7	51497.3
Materials Consumed	28065.6	32514.9	31552.1	37060.0
Total Expenditure	33074.2	39358.3	38597.8	44857.8
Operating EBITDA	2512.89	4229.68	5675.90	6639.53
EBITDA margin %	7.1%	9.7%	12.8%	12.9%
Core EBITDA	1631.7	3254.3	4672.1	5530.2
Core EBITDA margin %	4.7%	7.6%	10.8%	11.0%
Depreciation	1138.4	1861.2	1890.5	2032.6
Operating EBIT	1374.5	2368.5	3785.4	4606.9
Other Income	826.9	812.4	751.7	879.8
Interest	55.2	189.8	189.8	189.8
PBT before Excp Items	2146.2	2991.1	4347.3	5296.9
Exceptional Items	0.0	0.0	0.0	0.0
PBT	2146.2	2991.1	4347.3	5296.9
Tax Expense	511.1	598.9	1085.7	1322.6
Reported Net Profit	1635.1	2392.1	3261.6	3974.3
YoY%	-28.6%	46.3%	36.3%	21.9%
Reported EPS	56.6	79.2	108.0	131.6
Cash EPS	96.0	142.4	170.5	198.8
Eff tax rate	23.8%	20.0%	25.0%	25.0%

**Balance Sheet (Post Merger)**

Particulars, in Rs crore	FY12	FY13	FY14E	FY15E
<b>SOURCES OF FUNDS</b>				
Share Capital	144.5	151.0	151.0	151.0
Reserves & Surplus	15042.9	18427.9	21391.1	25049.5
Shareholders' Funds	15187.3	18579.0	21542.2	25200.5
Non Current Liab	568.1	1281.1	1281.1	1281.1
Current Liabilities	6546.9	6827.9	7355.9	8566.0
Total Liab+ Equity	22302.4	26688.0	30179.2	35047.7
<b>USE OF FUNDS</b>				
Fixed Assets Total	8462.6	11741.4	12850.8	13818.2
Non Current Invstments	1393.2	1,848.5	2,098.5	2,398.5
Others: Long term	1367.2	2173.4	2173.4	2173.4
Sum: Non curr Assets	11223.1	15763.2	17122.6	18390.0
Current Assets	7488.3	8494.3	8654.0	10077.6
Cash	2436.1	775.0	2776.7	4971.7
Short term loans, others	1154.9	1655.6	1625.8	1608.2
Sum: Current Assets	11079.3	10924.9	13056.5	16657.5
Total Assets	22302.4	26688.0	30179.2	35047.7

**Cash Flow Statement (Restated): Post Merger**

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
<b>Operating Activities</b>				
PBT	2,146.2	2,991.1	4,347.3	5,296.9
Add Non Cash charge	1,138.4	1,861.2	1,890.5	2,032.6
Add Exceptional Items	0.0	0.0	0.0	0.0
less Other Income + misc	(755.5)	(812.4)	(751.7)	(879.8)
Add Interest cost	55.2	189.8	189.8	189.8
Change in Working Cap	(104.0)	(780.5)	368.2	(213.5)
Less Cash Taxes	(250.9)	(598.9)	(1,085.7)	(1,322.6)
Cash flow : Operations	2,229.4	2,850.3	4,958.5	5,103.4
<b>Investing Activities</b>				
Fixed assets purchase	(2,632.5)	(5,139.9)	(3,000.0)	(3,000.0)
Investments change	(781.8)	(455.3)	(250.0)	(300.0)
Other Income	496.0	812.4	751.7	879.8
Cash Flow: Investing	(2,918.3)	(4,782.8)	(2,498.3)	(2,420.2)
<b>Financing Activities</b>				
Interest Paid	(42.6)	(189.8)	(189.8)	(189.8)
Dividend and Tax paid	(251.8)	(251.8)	(268.6)	(298.4)
Borrowings change	910.9	713.0	0.0	0.0
Cash flow: Financing	616.5	271.3	(458.4)	(488.2)
Opening Cash	2,508.5	2,436.1	775.0	2,776.7
Net Change in Cash	(72.4)	(1,661.2)	2,001.7	2,195.0
Closing Cash	2,436.1	775.0	2,776.7	4,971.7

**Ratio Analysis (Post Merger)**

	FY12	FY13	FY14E	FY15E
<b>Profitability</b>				
Operating EBITDA%	7.1%	9.7%	12.8%	12.9%
Core EBITDA%	4.7%	7.6%	10.8%	11.0%
Operating EBIT%	3.9%	5.4%	8.5%	8.9%
PAT%	4.7%	5.6%	7.5%	7.9%
<b>Du Pont ROAE breakup</b>				
PAT / Sales	4.7%	5.6%	7.5%	7.9%
Sales / Avg Total Assets	1.78	1.74	1.52	1.55
Avg Total Assets / Avg Equity	1.34	1.45	1.42	1.40
ROAE	11.2%	14.2%	16.3%	17.0%
ROACE%	9.1%	13.3%	17.7%	18.7%
<b>Other Ratios and Calculations</b>				
Current Ratio	1.69	1.60	1.77	1.94
Long Term Debt / Equity	0.04	0.07	0.06	0.05
EPS	56.6	79.2	108.0	131.6
DPS	7.50	8.00	8.50	9.00
Dividend %	150%	160%	170%	180%
Dividend Payout ratio	13.3%	10.1%	7.9%	6.8%
P/E	29.6	21.1	15.5	12.7
BVPS	525.7	615.0	713.1	834.2
P/BV	3.2	2.7	2.3	2.0



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**Stock Rating Scale**

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRA	0-5
REDUCE	<0

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