



Maruti Q4FY11 update -26th April, 2011

CMP: 1,326.5

Marginally above street estimates, margins to remain under pressure...

Net sales witnessed yoy growth of 19.8% and 6.3% on qoq basis to touch Rs. 100.9 bn beating street estimates of 99.9 bn. The growth was primarily driven by 19.5% volume growth on yoy basis (3.8% qoq) and improvement in realization of 0.3% on yoy basis (2.4%) on qoq basis. Sequential improvement in realization can be attributed to new launches of cars like SX4 Diesel and Kizashi.

OPM stood at 10% as against street expectation of 9.2%. OPM witnessed a decline of 320 bps in Q4FY11.

On the expenditure front, raw material cost declined by 50 bps on qoq basis to touch 77.9%. This was mainly due to change in accounting treatment related to vendor toolings. This has led to reduction in raw material cost of Rs. 500 mn, while the same expenditure has been included in the depreciation figure. This change has resulted in EBITDA improving by 50 bps but the bottomline remains the same. According to management, apart from this above change, raw material cost is similar to Q3FY11 levels. Management believes there would be some pressure in Q1FY12 on account of increased rubber and copper prices. Due to write back of gratuity provision of Rs.300 mn, employees cost stood at 1.5%. Royalty stood at 5.2% and is expected to be 5-5.5% based on the product mix and yen movement.

Going ahead, management believes, that OPM would be under pressure due to commodity price inflation, increasing competition and forex movement. It targets to maintain an OPM of 11-12% over the next two-three years by having cost reduction initiatives and improved pricing by new product launches.

PAT beat street estimates of 6,280 mn to touch Rs. 6,599 mn in Q4FY11. This was due to write back of gratuity provision and lower tax provision (Q4FY11 tax rate witnessed a decline of 850 bps on qoq basis to touch 20.2%) on account of higher R&D spends.

Q4FY11 Financial summary (Rs. in mn)

Particulars	Q4FY11	Q4FY10	% yoy change	Q3FY11	% qoq change
Net Sales	100,922	84,246	19.8	94,945	6.3
EBITDA	10,097	11,111	(9.1)	9,018	12
EBITDA Margin (%)	10	13.2	(320)bps	9.5	50 bps
Other income	1,199	790	51.8	1,283	(6.5)

Interest expenses/(income)	64	129	(50.6)	4	1,663.9
Depreciation	2,967	2,230	33.0	2,369	25.2
PBT	8,266	9,542	(13.4)	7,928	4.3
Reported PAT	6,599	6,566	0.5	5,652	16.8
EPS	22.8	22.7	0.5	19.6	16.8

Key highlights of Q4FY11 conference call:

1. Domestic market driven by consumer confidence
2. FY11 passenger vehicles market share at 44.9%
3. Japan operations going smooth despite crisis in the country, no concerns regarding shortage of supplies
4. Maruti has given a guidance of 10-15% of volume growth in FY12.
5. The company has increased prices of all the models in the range of 1% in April, 2011
6. Average discount per vehicle stood at Rs. 10,500 for FY11
7. 40% of yen exposure has been hedged for imports. Total yen exposure including royalty payments along with vendor imports accounts for ~28% of net sales.
8. Research and Development expenditure to lead a lower tax rate of 26-27% for FY12. R&D expenditure constituted 1.1% of net sales for FY11. Management expects R&D expenditure to rise and touch 1.3-1.4%.
9. It plans to launch new car model every year.
10. Management indicated that due to higher inflation levels and interest rates, the footfalls and conversions in dealerships have started reducing from Jan 2011 onwards.
11. In FY11, performance of the subsidiaries/JVs was impacted due to restructuring of the insurance business which was inactive during FY11. However, other JVs/subsidiaries have reported good profits.

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