

MoneyWorks4me's Company Pulse Report: Maruti Suzuki India Ltd.

With 10 YEAR X-RAY, Future Prospects & MRP

Company Summary: Maruti Suzuki

- » India's largest passenger car company, with 44.9% domestic car market share
- » 10 Year X-RAY : **Green (Very Good)**
- » Long-term Future Prospects: **Orange ('Somewhat Good')**
- » The MRP (right value) is Rs. 1424. A long-term investor can consider a Margin of safety of 35% while investing in a company like Maruti Suzuki

MoneyWorks4me Synopsis

10 YEAR X-RAY	Long Term Future Prospects
 Green (Very Good)	 Orange ('Somewhat Good')
MRP	Discount Price
1424	925

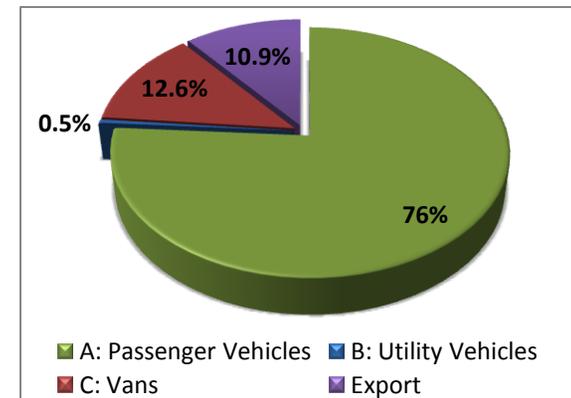
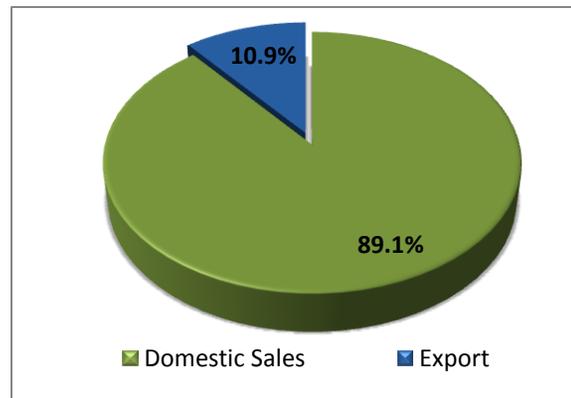
Tell me more about Maruti Suzuki

Maruti Suzuki India Ltd, a subsidiary of Suzuki Motor Corporation of Japan, is **India's largest passenger car company, with 44.9% domestic car market share**. Maruti Suzuki offers full range of cars- from Maruti 800 & Alto to stylish hatchback Ritz, A star, Swift, Wagon R, Estilo and sedans DZire, SX4 and Sports Utility vehicle Grand Vitara. It has nearly all its models in the A2 passenger car segment. Its technical superiority lies into its compact & lightweight engine and clean and fuel efficient. It exports its cars to over 100 countries. Exports accounted for over 11% of the company's sales in FY11. Maruti Suzuki has a strong sales and service network.

Sales Outlets (FY11)	Cities covered by sales network	Service Stations (FY11)	Cities covered by service network	Maruti Driving Schools (FY11)
933	666	2946	1395	164

Segment	Sub-segment	Models
A	Passenger vehicles : Minis	M800, Alto, A-Star, WagonR
	Passenger vehicles : Compact	Swift, Estilo, Ritz
	Passenger vehicles : Super Compact	Dzire
	Passenger vehicles : Mid-Size	SX4
	Passenger vehicles : Executive	Kizashi
B	Utility Vehicles	Gypsy, Grand Vitara
C	Vans	Omni, Eeco

Revenue Segregation (FY11)



In 2010-11, the company sold over 1.27 million vehicles including 1,38,266 units of exports. Today, one in every two cars in India is a product of Maruti Suzuki.

Suzuki Motor Corporation of Japan holds 55% stake in the Company. It contributes 30% in its total revenue and 60-70% in the profit. Maruti Production System is based on its parent company's concepts - 'lean manufacturing'. Setting trends in new products and achieving customer delight starts with Manufacturing Excellence and Maruti's manufacturing excellence hinges around four important pillars - **Cost, Quality, Safety and Productivity.**

Manufacturing Facilities:

Maruti Suzuki has **two state-of-the-art manufacturing facilities, one at Gurgaon and the other at Manesar, with a total installed capacity of 8,00,000 vehicles per year**. Both the manufacturing facilities have a combined production capacity of 12,00,000 vehicles annually - The Gurgaon manufacturing facility has a production capacity of 7,00,000 vehicles annually whereas the Manesar manufacturing facility has 5,00,000 vehicles annually. The Company manufactures A-star, Swift, Swift DZire and SX4 at its Manesar Plant and the rest models at Gurgaon Plant. It also manufactures 2,40,000 K-Series engines annually at its Gurgaon manufacturing facility.

Suzuki Powertrain India Ltd, a joint venture of Maruti Suzuki (30% stake) with Suzuki Motor Corporation (70% stake), manufactures world class diesel engines and transmissions for cars. This diesel engine plant has a capacity to manufacture 300,000 diesel engines a year.

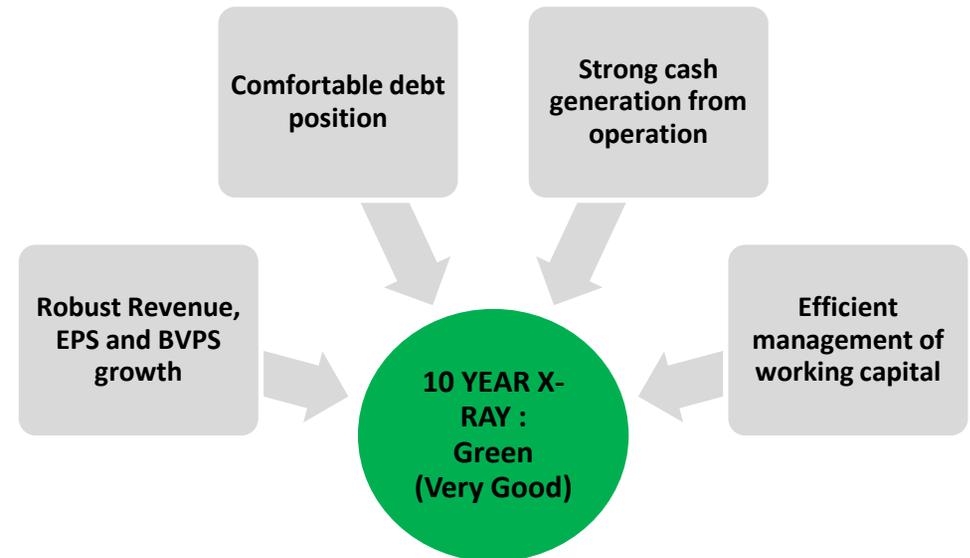
Suzuki Motorcycle India Pvt Ltd manufactures two wheelers under brand name 'Suzuki'.

MoneyWorks4me's 10 YEAR X-RAY Analysis

Maruti Suzuki, has increased its net sales by 24.8% on a CAGR basis, in the last 6 years, from Rs. 12,143 Cr in FY06 to Rs. 36,811.7 Cr. in FY11 on the consolidated basis. But, due to continuous increase in the raw material cost, the company managed to increase its earnings per share only by 12.5%, from Rs. 43.4 to Rs. 78 during the same period of time. Its operating profit margins fell from 13% to 8% and net profit margins from 10% to 6% over the last 6 years. The Company has grown its book value per share by 20.8%, from Rs. 192 to Rs. 495.

Maruti Suzuki managed to maintain a six-year-average ROE at 21% and ROIC at 26%; but, showing decreasing trend in the last 6 years. ROE has decreased from 25% in FY06 to 17% in FY11 and ROIC from 28% to 23.8%. The debt to equity ratio of the company was 0.03 and the debt to net profit ratio was 0.2 in the last financial year, which show the company is not leveraged. Maruti Suzuki, currently has a surplus of operating cash flow and it is efficiently managing its working capital.

Considering above factors, we conclude that the 10 YEAR X-RAY of the Maruti Suzuki is **Green (Very Good)**.



Long-term Future Prospects

Competition in the small car segment is increasing very fast in India: Since January 2010, Auto-maker Toyota, Volkswagen, Ford, Nissan, etc. are gearing up to launch small cars in Indian market which is increasing competition. Meanwhile, homegrown auto major Tata Motors has also taken over the tag of entry-level car-maker from Maruti Suzuki by launching the Nano, priced significantly below the company's Maruti 800 model. All these indicate its market share is at stake in the future.

Maruti Suzuki has completely **phased out its entry-level car, the Maruti 800. At the competitive price, its entry-level car, now, is the Alto.** It is **planning to launch 15-20 new products in the next 5 years.** Its 70-80% upcoming models will be low-cost small cars that would include new variants and facelifts for existing cars to remain competitive and protect its market shares. The company is planning to launch Swift Dzire and sub-4 metre at the Auto Expo 2012 in Delhi. This would be further followed by the multipurpose automobile based on R-III concept, Ritz backlift, A-Star facelift and a new generation of Alto 800 to be launched by 2013.

Maruti Suzuki **plans to expand its manufacturing capacity to 1.75 million by 2013.** It is also **setting up its independent R&D facility in Rohtak, India,** the biggest outside Japan for parent Suzuki, in the next 3-5 years, with an expenditure of up to Rs 1,500 Cr; in collaboration with Suzuki's product development cell to meet global standards. The unit would be fully operational in the initial 6 months of 2014. It will manufacture cars for the local and export market, keeping in mind expectations of customers. This will help India turn into a global hub for small car design.

Volkswagen, the largest car-maker in Europe with 57% market share, purchased a 19.9% stake in Suzuki Motors in 2010. Where Volkswagen is known for diesel-engine technology, Suzuki Motors lags far behind. But, it has a very small presence in the entry-level car segment; where Suzuki has a proven track-record. Though Europe is a major export destination for Maruti Suzuki, the current relationship between the two companies indicates that Maruti Suzuki is not going to enjoy export benefits or access to better technology from Volkswagen in the near future.

Though increasing per capita income and a favorable demographic pattern is boosting the demand of passenger vehicle in India, there are many road blocks in the path of the company, apart from increasing competition. These are **increasing interest rates and fuel price**, which is affecting demand and transportation cost; **increasing raw material cost**, which will affect margins; and **labour dispute**, which is affecting production.

Considering all the above factors, we expect that long-term future prospects of Maruti Suzuki will be **Orange ('Somewhat Good')**.



Positives

- Market leader in passenger car industry
- The widest sales & service network to reach customers
- Large no. of models in each market segment
- Superior technology; clean & fuel efficient engine



Negatives

- Intense & increasing competition
- Increasing raw material cost
- Increasing interest rates
- Supply constraint

Long Term Future Prospects: Orange ('Somewhat Good')

PRICE CALCULATOR

Over the last 6 years, Maruti Suzuki has paid out only 8% of its net profits as dividend to its shareholders. The balance of 92%, it has invested back in its business, on which it has earned a very high 21% average return every year. This helped the Company increase its Net Sales by 24.8%, EPS by 12.5% and BVPS by 20.7%. The company is currently struggling with the problems of high raw material price, labour dispute, supply constraint, etc. Looking at its historical performance and future prospects **we expect Maruti Suzuki will maintain around 17% ROE, on an average, in the next 5 years and will grow its EPS by 16% CAGR** on the back of growing demand for passenger vehicles, strong network, pricing policy and superior technology.

During the last 6 years, Maruti Suzuki has traded at 16 multiples of its EPS. As per our analysis, we expect that the company **is fairly valued at 15.5 multiples of its EPS**. A long-term investor can **consider 35% margin of safety** from its MRP of Rs. 1424 to invest in Maruti Suzuki.

Reach us at:**MoneyWorks4me.com**

B-101, Signet Corner Building, Baner Road, Baner,
Pune – 411 045, India. Tel: 91-20-27293990, 91-20-67210400

Email: customercare@moneyworks4me.com | Visit us at: <http://www.moneyworks4me.com>

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