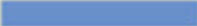











Royalty Burden

The royalty burden on the company has been rising due to the addition of newer models in its product portfolio. This can rise further, as the government, in April 2010 removed a cap of 5% of domestic sales and 8% of exports on the amount that local companies can pay their overseas partners for transfer of technology without seeking prior government approval. This structural change will have a recurring impact. In fiscal 2009-10, Maruti paid royalty on 86% of its total unit sales. Payments for use of trademarks and brand names were also liberalized.

Suzuki has decided that Maruti Suzuki India would now conform to Suzuki's global royalty payment strategy. Royalty payments have been typically calculated as a percentage of net sales and derived from the use of an asset or a fixed price per unit sold, minus the value of imported content. After the notification, Suzuki got a free hand in fixing the technical fee it can charge Maruti Suzuki on newer and existing models. Typically, new models attract a higher fee. As the model matures in its life cycle and the investment on fixed costs is amortized, royalty on the model is reduced, eventually exempting it from the fee. With the exception of the Maruti 800, Omni and Gypsy, all models in Maruti Suzuki's stable attract royalty.

Maruti's royalty payments.			
		Royalty (In Rs cr)	Royalty as % of net sale
Q1 FY10		228	 3.6
Q2 FY10		260	 3.7
Q3 FY10		263	 3.6
Q4 FY10		279	 3.4
Q1 FY11		410	 5.1

Source: Company

Outlook

Maruti reached its production limit of 1 million cars in March this year, but is stretching its existing manufacturing capacities to make more cars to meet demand. It is expanding capacity to produce an additional 250,000 cars annually, but that will only be available in April 2012. In the June quarter it sold 283,324 cars.

Total Indian passenger car industry is projected to grow by a lower double-digit, in the range of 11-12 per cent, and Maruti will register similar growth. However, higher royalty charges, fuel prices hike, an expected increase in interest rates and depreciation of the euro will continue to put pressure on the company's margins in the ongoing financial year.

Valuation and Recommendation

At Rs 1,191, the stock trades at PER of 16x and 13.4x to FY11 and FY12 estimates of 74.3 and 88.9 respectively. We have valued the stock at PER of 13x FY12 earnings. We have neutral view on stock.

Result Update



Kyon ki bhaiya, sabse bada rupaiya.

(Rs. In Cr.)

Maruti Suzuki India Ltd.	Q1FY10	Q1FY09	% Chg.	Q1FY10	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	8050.7	6340.3	27.0	8050.7	8234.9	-2.2	28958.5	20358.3	42.2
Other operational Income	180.9	152.7	18.4	180.9	189.7	-4.7	664.5	494.2	34.5
Total Oper. Income(TOI)	8231.5	6493.0	26.8	8231.5	8424.6	-2.3	29623.0	20852.5	42.1
Raw Materials Cons.-	6079.7	4827.3	25.9	6079.7	6127.6	-0.8	21701.7	15235.3	42.4
% to TOI	73.9%	74.4%	-	73.9%	72.7%	-	73.3%	73.1%	-
Stock adj. (-)Inc / (+)Dec-	54.9	-59.6	LP	54.9	12.9	327.6	-193.3	281.9	PL
% to TOI	0.7%	-0.9%	-	0.7%	0.2%	-	-0.7%	1.4%	-
Net Raw Mat adj. for stock	6134.7	4767.7	28.7	6134.7	6140.5	-0.1	21508.4	15517.1	38.6
% to TOI	74.5%	73.4%	-	74.5%	72.9%	-	72.6%	74.4%	-
Other expenses	1143.4	798.6	43.2	1143.4	1019.6	12.1	3614.7	3032.2	19.2
% to TOI	13.9%	12.3%	-	13.9%	12.1%	-	12.2%	14.5%	-
Contribution Net_Sales	953.5	926.7	2.9	953.5	1264.4	-24.6	4499.9	2303.2	95.4
Personnel	161.0	133.6	20.5	161.0	153.4	5.0	545.6	471.1	15.8
% to TOI	2.0%	2.1%	-	2.0%	1.8%	-	1.8%	2.3%	-
Total expenditure	7439.0	5699.8	30.5	7439.0	7313.5	1.7	25668.7	19020.5	35.0
Operating Profit	792.5	793.2	-0.1	792.5	1111.1	-28.7	3954.3	1832.1	115.8
% to TOI	9.6%	12.2%	-	9.6%	13.2%	-	13.4%	8.8%	-
Non-Operating Income	100.2	216.5	-53.7	100.2	79.0	26.9	496.8	601.3	-17.4
Interest	8.0	6.3	26.5	8.0	12.9	-37.9	33.5	51.0	-34.3
Exceptional Items		0.0				-	0.0		0.0
Gross Profit	884.7	1003.4	-11.8	884.7	1177.2	-24.8	4417.6	2382.4	85.4
Depreciation	241.7	196.1	23.3	241.7	223.0	8.4	825.0	706.5	16.8
PBT before Extra-ord	643.0	807.3	-20.4	643.0	954.2	-32.6	3592.5	1675.9	114.4
% to TOI	7.8%	12.4%	-	7.8%	11.3%	-	12.1%	8.0%	-
Extraordinary Items		0.0				-	0.0		0.0
PBT	643.0	807.3	-20.4	643.0	954.2	-32.6	3592.5	1675.9	114.4
Tax Rate	27.6%	27.7%	-	27.6%	31.2%	-	30.5%	27.3%	-
Prov. for Tax	177.7	223.8	-20.6	177.7	297.6	-40.3	1094.9	457.1	139.5
% to TOI	2.2%	3.5%	-	2.2%	3.5%	-	3.7%	2.2%	-
Profit after Tax	465.4	583.5	-20.3	465.4	656.6	-29.1	2497.6	1218.7	104.9
% to TOI	5.7%	9.0%	-	5.7%	7.8%	-	8.4%	5.8%	-
Face Value	5.0	5.0	0.0	5.0	5.0		5.0	5.0	0.0
Equity Share capital	144.5	144.5	0.0	144.5	144.5	0.0	144.5	144.5	0.0
EPS (Rs.)	16.1	20.2	-20.3	16.1	22.7	-29.1	86.5	42.2	104.9
CEPS (Rs.)	24.5	27.0	-9.3	24.5	30.4	-19.6	115.0	66.6	72.6

Source: ACE Equity

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Ventura Securities Limited

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