



Maruti Suzuki

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,701	MSIL IN
	REUTERS CODE
S&P CNX: 2,584	MRTI.BO

25 October 2008

Buy

Previous Recommendation: Buy

Rs534

Diluted Equity Shares	289.0
52-Week Range	1,252/475
1,6,12 Rel.Perf.(%)	12/18/0
M.Cap. (Rs b)	154.3
M.Cap. (US\$ b)	3.1

YEAR	TOTAL INC.	PAT	Adj. EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	149,038	15,620	54.0	28.9	9.9	2.2	22.8	30.3	0.8	5.0
3/08A	182,599	17,308	59.9	10.8	8.9	1.8	20.6	27.0	0.6	4.2
3/09E	209,307	15,054	52.1	-13.0	10.2	1.6	15.5	20.2	0.5	4.6
3/10E	245,324	17,081	59.1	13.5	9.0	1.4	15.1	20.3	0.4	3.6

Maruti reported EBITDA margin of 10.7% in 2QFY09 (-100bp QoQ and -440bp YoY), which is the lowest since FY05. Recurring PAT declined 37% YoY to Rs3.1b.

- Net sales grew 6.1% YoY, driven by 7.2% realization growth but 1% decline in volumes. Realization growth was driven by improvement in product mix and benefit of price increase taken in May 2008.
- EBITDA margin declined 440bp YoY (~100bp QoQ) to 10.7%, whereas EBTIDA declined by 24% to Rs5.36b. Margin was impacted by higher cost push in the form of raw material, royalty, and selling expenses. The company booked Rs200m MTM losses on outstanding ECBs. Further, higher depreciation (up 88%) due to change in accounting policy from 4QFY08 impacted recurring PAT to Rs3.1b (down 33.5%).
- The management indicated that benefits of lower commodity prices would be reflected only from 4QFY09 due to contracts and inventory. Also, it indicated that there would be limited benefits from correction in steel prices, due to price hike demand and depreciating rupee.
- We have marginally downgraded our estimates for FY09 by 1.9% to Rs52.1 and FY10 by 3.6% to Rs59.1 to factor in higher raw material cost and royalty, impact of which is diluted by improvement in realization. The stock trades at 10.2x FY09E and 9x FY10E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Volumes (nos)	169,669	191,325	201,623	202,225	192,584	189,451	212,500	215,522	764,842	810,057
Net Sales	39,308	45,297	46,741	48,384	47,536	48,063	54,099	54,888	179,907	204,585
Change (%)	25.8	32.5	27.0	9.2	20.9	6.1	15.7	13.4	22.8	13.7
Other Operating Income	833	1,490	853	2,088	1,052	1,874	900	896	4,878	4,722
Total Income	40,141	46,787	47,594	50,472	48,588	49,936	54,999	55,784	184,785	209,307
Total Cost	33,560	39,710	40,609	42,568	42,899	44,579	48,971	49,076	156,233	185,525
EBITDA	6,580	7,077	6,986	7,904	5,689	5,357	6,028	6,708	28,553	23,782
As % of Sales	16.4	15.1	14.7	15.7	11.7	10.7	11.0	12.0	15.5	11.4
Change (%)	27.3	30.4	19.3	22.8	-13.6	-24.3	-13.7	-15.1	24.4	-16.7
Non-Operating Income	1,400	786	853	772	2,236	960	800	727	3,806	4,723
Extraordinary Expense	-15	0	0	3,173	0	200	0	0	3,173	200
Interest	151	140	144	161	168	208	195	194	596	765
Gross Profit	7,844	7,722	7,695	5,342	7,756	5,910	6,633	7,241	28,589	27,540
Less: Depreciation	822	881	867	988	1,661	1,658	1,675	1,692	3,559	6,686
PBT	7,022	6,841	6,828	4,354	6,096	4,252	4,958	5,549	25,030	20,854
Tax	2,011	2,176	2,158	1,377	1,437	1,290	1,512	1,761	7,722	6,000
Effective Tax Rate (%)	28.6	31.8	31.6	31.6	23.6	30.3	30.5	31.7	30.9	28.8
PAT	5,011	4,665	4,670	2,977	4,659	2,961	3,446	3,788	17,308	14,854
Adjusted PAT	5,000	4,665	4,670	5,146	4,659	3,101	3,446	3,788	19,472	14,996
Change (%)	35.3	25.6	26.9	-0.2	-6.8	-33.5	-26.2	-26.4	25.0	-23.0

E:MOSSt Estimates

Realization drives revenue growth

Net sales grew 6.1% YoY, driven by 7.2% realization growth but 1% decline in volumes (first decline since 1QFY06). The growth in the quarter was driven by A3, exports and UV, which saw volume growth of 33.5%, 17% and 98.5% YoY respectively. Response to recent model (Dzire and SX4) launches is positive, which is driving growth in the A3 segment for the company. Dzire continues to have higher waiting period of four to six months, even six months after launch.

IMPROVING SALES MIX

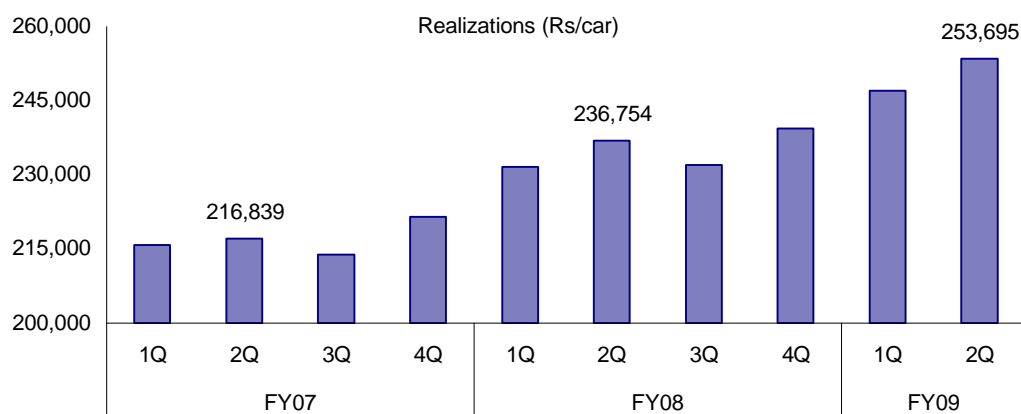
	2QFY09	2QFY08	YOY (%)	1QFY09	QOQ (%)
A1	12,137	16,671	-27.2	16,649	-27.1
% of total	6.4	8.7		8.6	
MPV	20,209	21,453	-5.8	20,761	-2.7
% of total	10.7	11.2		10.8	
A2	118,083	122,689	-3.8	125,427	-5.9
% of total	62.3	64.1		65.1	
A3	18,849	14,118	33.5	15,940	18.2
% of total	9.9	7.4		8.3	
UV	2,428	1,223	98.5	1,316	84.5
% of total	1.3	0.6		0.7	
Exports	17,745	15,171	17.0	12,491	42.1
% of total	9.4	7.9		6.5	
Total Sales	189,451	191,325	-1.0	192,584	-1.6

Source: Company/SIAM/Motilal Oswal Securities

Favorable product mix improved realization 7% YoY

Realization growth was driven by improvement in product mix (higher A3 segment sales) and benefit of price increase taken in May 2008. The depreciating rupee also aided sales growth (~Rs210m higher export sales due to weak rupee). Also, other operating income improved 26% by Rs1.87b.

REALIZATIONS – REFLECTION OF IMPROVING SALES MIX



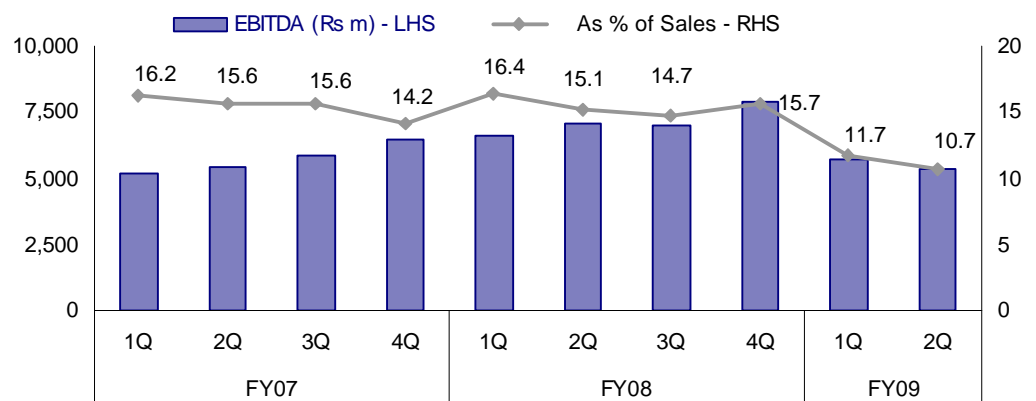
Source: Company/SIAM/Motilal Oswal Securities

EBITDA margin lowest since FY05

EBITDA margin declined 440bp YoY (~100bp QoQ) to 10.7%, whereas EBTIDA declined by 24% to Rs5.36b. Margin was impacted by higher cost push:

- ⌘ Raw material cost up 260bp YoY and 130bp QoQ, impacted by higher commodity prices and appreciating Yen
 - ⌘ Royalty higher by 80bp YoY and 50bp QoQ due to changing product mix, higher realizations and appreciating Yen
 - ⌘ Higher selling expenses (~90bp YoY and 50bp QoQ) due to higher export freight
- Appreciating Yen had impact of Rs390m on EBITDA due to higher RM and royalty.

TREND IN EBITDA



Source: Company/SIAM/Motilal Oswal Securities

The company booked Rs200m mark to market losses on outstanding ECB. Further, higher depreciation (up 88%) due to change in accounting policy from 4QFY08 (~Rs568m additional depreciation) impacted recurring PAT to Rs3.1b (down 33.5%).

Savings from lower RM cost (excl steel) to be reflected only in 4QFY09

The management indicated that benefits of lower commodity prices would be reflected only from 4QFY09, due to contracts and inventory. Also, it indicated that there would be limited benefits from correction in steel prices, as one of its vendor, Nippon Steel, had demanded 22% higher prices (over 1HFY09). It is negotiating with Nippon and other alternates, but doesn't expect any major savings, especially due to depreciating rupee.

Focused marketing to drive growth

The company is focusing on consumers who are less impacted by prevailing macro headwinds. It is targeting rural markets (~5% of sales), corporate sales (~20% of sales), government employees, radio cabs etc. It has registered about 59% volume growth in rural sales and 50% in corporate sales in 1HFY09. Further, it has introduced special scheme for government employees, so as to capitalize on pay hikes given by the Sixth Pay Commission.

Prices hiked ahead of A-Star launch

Maruti has announced marginal price hike of Rs2,000 to Rs6,000 (~0.7 to 1.1%) across all segments, except Swift and Swift Dzire. Further, it would be launching A-Star in India on 17 November, 2008, while global launch would take place early next year.

Valuation and view

We have marginally downgraded our estimates for FY09 by 1.9% to Rs52.1 and FY10 by 3.6% to Rs59.1 to factor in higher raw material cost and royalty (due to appreciating Yen and change in product mix), impact of which is diluted by improvement in realization (due to change in product mix and depreciating rupee). The stock trades at 10.2x FY09E and 9x FY10E EPS. Maintain **Buy** with target price of Rs740 (~12.5x FY10E EPS).

Maruti Suzuki: an investment profile

Company description

Maruti is the largest passenger vehicle manufacturer in India with strong presence in the small car A1 and A2 segments. The company was initially set up as a JV between the Government of India and Suzuki Motors, Japan, but subsequently the government divested a part of its stake, giving Suzuki a majority stake in the company.

Key investment arguments

- ☞ The outlook for passenger vehicles continues to be buoyant due to increased salary levels, rapid growth in high-income-earning households, vibrancy in the service sector, availability of new car models and rapid improvement in road network.
- ☞ Maruti continues to be the largest passenger vehicle company in India, and its internal efficiencies help it maintain the highest EBITDA margin in the industry.

Key investments risks

- ☞ Intense competition faced by Maruti in the various segments.
- ☞ Higher commodity prices may impact margins negatively.

Recent developments

- ☞ A-Star to be launched in India on 17 November, 2008

Valuation and view

- ☞ The stock trades at 10.2x FY09E and 9x FY10E EPS
- ☞ Maintain **Buy** with target price of Rs740 (~12.5x FY10E EPS).

Sector view

- ☞ Passenger vehicle segment is expected to continue its growth momentum.
- ☞ With low car penetration levels in India, the upside potential for growth is tremendous.
- ☞ We maintain an overweight stance on the sector.

COMPARATIVE VALUATIONS

		MARUTI	M&M	TATA MOTORS
P/E (x)	FY09E	10.2	4.0	3.5
	FY10E	9.0	3.3	2.9
EPS Gr (%)	FY09E	-13.0	1.3	-6.4
	FY10E	13.5	17.9	20.0
RoE (%)	FY09E	15.5	18.0	17.9
	FY10E	15.1	18.7	19.2
EV/EBITDA (x)	FY09E	4.6	2.5	2.1
	FY10E	3.6	1.7	1.7

SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	54.2	54.2	54.2
Domestic Inst	23.5	24.0	26.0
Foreign	15.8	14.9	14.2
Others	6.5	6.8	5.6

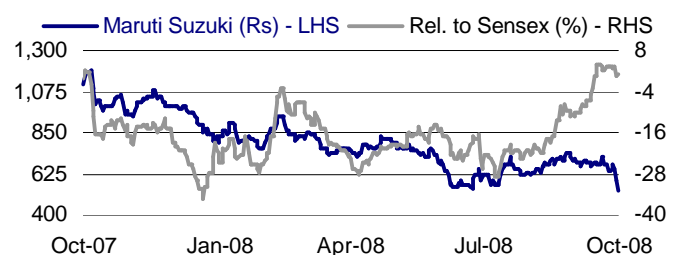
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	52.1	62.8	-17.1
FY10	59.1	71.7	-17.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
534	740	38.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net Sales	122,012	148,421	181,840	208,548	244,674
Change (%)	11.8	21.6	22.5	14.7	17.3
Operating Other Income	488	617	759	759	650
Total Income	122,500	149,038	182,599	209,307	245,324
EBITDA	18,177	22,259	25,472	23,782	29,035
Change (%)	29.8	22.5	14.4	-6.6	22.1
% of Net Sales	14.8	14.9	13.9	11.4	11.8
Depreciation	2,854	2,714	5,682	6,686	8,361
EBIT	15,323	19,546	19,790	17,096	20,674
Def Revenue Exp. / Others	-67	-143	-198	-198	-198
Interest & Finance Charges	204	376	596	765	720
Other Income	2,663	3,485	5,639	4,525	4,250
Non-recurring Expense	349	0	0	0	0
Non-recurring Income	0	0	0	0	0
P B T	17,500	22,798	25,030	21,054	24,402
Tax	5,609	7,178	7,722	6,000	7,321
Effective Rate (%)	32.1	31.5	30.9	28.5	30.0
P A T	11,891	15,620	17,308	15,054	17,081
Change (%)	64.8	31.4	10.8	-13.0	13.5
% of Net Sales	9.7	10.5	9.5	7.2	7.0
Adj. PAT	12,118	15,620	17,308	15,054	17,081
Change (%)	67.9	28.9	10.8	-13.0	13.5

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	1,445	1,445	1,445	1,445	1,445
Reserves	53,081	67,094	82,709	95,973	111,321
Net Worth	54,526	68,539	84,154	97,418	112,766
Loans	717	6,308	9,002	9,002	9,002
Deferred Tax Liability	779	1,675	1,701	1,701	1,701
Capital Employed	56,022	76,522	94,857	108,121	123,469
Gross Fixed Assets	49,546	61,468	72,853	90,216	113,716
Less: Depreciation	32,594	34,871	39,888	46,574	54,935
Net Fixed Assets	16,952	26,597	32,965	43,642	58,781
Capital WIP	920	2,507	7,363	7,500	1,500
Investments	20,512	34,092	51,807	51,807	51,807
Curr.Assets, Loans	37,496	38,341	30,909	34,559	41,588
Inventory	8,812	7,014	10,380	12,042	14,115
Sundry Debtors	6,548	7,474	6,555	8,602	10,082
Cash & Bank Balances	14,016	14,228	3,240	3,181	6,658
Loans & Advances	7,662	9,241	10,403	10,403	10,403
Others	458	384	331	331	331
Current Liab. & Prov.	19,858	25,015	28,187	29,387	30,208
Sundry Creditors	15,058	20,110	24,492	25,692	27,369
Provisions	4,800	4,905	3,695	3,695	2,839
Net Current Assets	17,638	13,326	2,722	5,172	11,381
Appl. of Funds	56,022	76,522	94,857	108,121	123,469

E: M O S t Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
Adjusted EPS	41.9	54.0	59.9	52.1	59.1
EPS Growth (%)	67.9	28.9	10.8	-13.0	13.5
Cash EPS	51.8	63.4	79.6	75.2	88.0
Book Value per Share	188.7	237.2	291.2	337.1	390.2
DPS	3.5	4.5	5.0	5.5	6.0
Payout (Incl. Div. Tax) %	8.3	8.3	8.3	10.6	10.2
Valuation (x)					
P/E		9.9	8.9	10.2	9.0
EV/EBITDA		5.0	4.2	4.6	3.6
EV/Sales		0.8	0.6	0.5	0.4
Price to Book Value		2.2	1.8	1.6	1.4
Dividend Yield (%)		0.8	0.9	1.0	1.1
Profitability Ratios (%)					
RoE	21.8	22.8	20.6	15.5	15.1
RoCE	32.2	30.3	27.0	20.2	20.3
Leverage Ratio					
Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
OP/(Loss) before Tax	15,390	19,689	19,988	17,294	20,872
Int./Dividends Received	2,663	3,485	5,639	4,525	4,250
Depreciation & Amort.	2,854	2,714	5,682	6,686	8,361
Direct Taxes Paid	-5,930	-6,282	-7,696	-6,000	-7,321
(Inc)/Dec in Wkg. Capital	-276	4,524	-384	-2,509	-2,731
CF from Oper. Activity	14,701	24,129	23,229	19,995	23,431
Extra-ordinary Items	-349	0	0	0	0
Other Items	0	0	0	0	0
CF after EO Items	14,352	24,129	23,229	19,995	23,431
(Inc)/Dec in FA+CWIP	-1,568	-13,946	-16,906	-17,500	-17,500
(Pur)/Sale of Invest.	-5,346	-13,580	-17,715	0	0
CF from Inv. Activity	-6,914	-27,526	-34,621	-17,500	-17,500
Change in Networth	-142	-307	-249	-200	0
Inc/(Dec) in Debt	-2,359	5,591	2,694	0	0
Interest Paid	-204	-376	-596	-765	-720
Dividends Paid	-1,011	-1,300	-1,445	-1,590	-1,734
CF from Fin. Activity	-3,716	3,608	404	-2,555	-2,454
Inc/(Dec) in Cash	3,722	212	-10,988	-59	3,477
Add: Beginning Balance	10,294	14,016	14,228	3,240	3,181
Closing Balance	14,016	14,228	3,240	3,181	6,658

N O T E S



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Disclosure of Interest Statement

	Maruti Suzuki
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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