INDIA

Maruti Udyog

25 April 2007

MUL IN		Not Rated
Stock price as of 18 Apr 07	Rs	794
Market cap	Rs m	2,21,839
3 mth avg turnover	US$m	21.4
Market cap	US$m	5,281

4Q results - margin pressure continues

Event

- Maruti Udyog (MUL IN, Rs794, Unrated) reported 4Q and full-year results.

Impact

- **Profits up 16.5%.** Pre-exceptional net profit up by 16.5% to Rs4.48bn, about 4% above consensus estimates. The variance is attributable to higher-than-expected other income (up 78% YoY), which was muted by larger-than-expected losses on its subsidiary, MSAIL (the Manesar manufacturing plant).
- **Margin pressure continues.** Operating margins declined by over 330bp YoY and 140bps QoQ to 12.4% because of higher raw material costs, a negative change in product mix and stronger marketing expenses. Excluding losses of Rs 585m at MSAIL, operating margins declined by 200bp.
- **New plant/models.** The plant at Manesar will eventually have a capacity of 300,000 units; production is being ramped up to 100,000 units in the first phase and, as capacity utilisation increases, the plant should turn around beginning next quarter. The SX4, a premium Seda to be launched in the next few weeks, will be manufactured in the plant.

Outlook

- **Management outlook.** No formal guidance, but management's tone is negative. Key points from the conference call: Interest rates are likely to have a negative effect on margins and sales; looking at volume over profitability growth; the product mix is shifting towards newer, lower-margin products; indigenisation of new models is extremely high, hence, a lever for profit expansion has already been utilised; expects raw material prices to remain stable.
- Increasing competition combined with a strong raw material cycle and high interest rates do not augur well for passenger vehicle manufacturers. There is likely to be greater margin pressure in the year ahead.

Analyst
Deepak Jain
91 22 6653 3157 deepak.jain@macquarie.com

Fig 1 4QFY07 – Sales Results

	4QFY06	4QFY07	% change	Macquarie Comments
Passenger Vehicles (Nos)	154,400	200,112	29.6	Strong increase as the *Zen Estilo* and *Swift Diesel* grew strongly.
Average realization Net (Rs/vehicle)	213,423	220,548	3.3	Higher value product mix
Market share (Passenger Vehicles %)	40.8	44.3		Gains market share as new product launches – *Swift Diesel* and *Zen Estilo* pick up

Source: SIAM, Company, Macquarie Research, April 2007

Fig 2 4QFY07 – Financial Results

	4QFY06	4QFY07	% change	Macquarie Comments
Net sales	32953	44134	33.9	Slightly above volume growth due to a higher value product mix
Income from services	167	163	-2.2	
Total income from operations	33119	44298	33.8	
Decrease/(Increase) in Stocks	-2356	-249	-89.4	
Raw Materials	26723	33915	26.9	Higher raw material cycle; negative product mix
Staff costs	567	807	42.3	Employee overheads from the Manesar plant
Other Expenses	2975	4315	45.0	Greater marketing costs on new launches; higher fuel expenses
Total Expenditure	27909	38787	39.0	
EBITDA	**5,211**	**5,510**	**5.7**	**Margins declined by 330bps**
Interest	34	156	356.3	On account of higher debt
Other income	1,153	2,050	77.8	Significantly higher income on investments
EBDT	6,329	7,405	17.0	
Depreciation	726	718	-1.0	Older machinery fully depreciated; will increase next quarter.
Exceptionals	349	-	-	
PBT	5,255	6,686	27.2	
Tax	1,645	2,201	33.8	
PAT	**3,609**	**4,486**	**24.3**	**4% above consensus estimates**
PAT (pre exceptionals)	**3849**	**4,486**	**16.5**	
Profit Margins				
OPM (%) (Net income)	15.7	12.4		Higher raw material costs, losses from Manesar
Other income / EBDIT (%)	18.1	27.1		Significantly higher; major reason for variance
Tax / PBT (%)	31.3	32.9		
Net profit margins (%)	11.6	10.1		
Cost ratios				
Raw materials / sales	73.6	76.0		Stronger raw material cycle; negative product mix
Staff costs / sales	1.7	1.8		
Other expenses / sales	9.0	9.7		

Source: Company, Macquarie Research, April 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South Securities (South Africa)
Outperform – expected return >+5%
Neutral – expected return from -5% to +5%
Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	44.37%	58.37%	42.60%
Neutral	44.01%	21.30%	46.80%
Underperform	11.62%	20.33%	10.60%

For quarter ending 31 March 2007

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

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Tel: (649) 377 6433	Tel: (662) 694 7999	Tel: (852) 2823 3588	Tel: (62 21) 515 1818	Tel: (27 11) 343 2258	Tel: (60 3) 2059 8833
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Automobiles/Auto Parts

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Deepak Jain (India)	(9122) 6653 3157
Liny Halim (Indonesia)	(6221) 515 7343
Toshisuke Hayami (Japan)	(813) 3512 7873
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Bonnie Liu	(4420) 7065 2014
Henry Liu	(4420) 7065 2014

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Eugene Ha (Korea)	(822) 3705 8643
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Ulrike Pollak-Tsutsumi (Frankfurt)	(49) 69 7593 8747
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Thomas Renz (Geneva)	(41) 22 818 7712
Ajay Bhatia (India)	(9122) 6653 3200
Stuart Smythe (India)	(9122) 6653 3200
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K.Y. Nam (Korea)	(822) 3705 8607
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Julien Roux (London)	(44) 20 7065 5887
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Ismael Pili (Philippines)	(65) 6231 2840
Greg Norton-Kidd (New York)	(1 212) 231 2527

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Mark Duncan (Taiwan)	(8862) 2734 7510
Angus Kent (Thailand)	(662) 694 7601
Dominic Henderson (Tokyo)	(813) 3512 7820
Nick Cant (Tokyo)	(813) 3512 7821
Charles Nelson (UK/Europe)	(44) 20 7065 2032
Rob Fabbro (UK/Europe)	(44) 20 7065 2031

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Mona Lee (Hong Kong)	(852) 2823 3519
Stuart Goddard (Europe)	(44) 20 7065 2033
Brendan Rake (India)	(9122) 6653 3204

Sales Trading cont'd

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Ed Robinson (London)	(44) 20 7065 5883
Robert Risman (New York)	(1 212) 231 2555
Isaac Huang (Taiwan)	(8862) 2734 7582
Kenichi Ohtaka (Tokyo)	(813) 3512 7830

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Margaret Hartmann	(612) 8232 9834

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