

Maruti Udyog

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,521	MUL IN
	REUTERS CODE
S&P CNX: 2,901	MRTI.BO

20 January 2006

Buy
Previous Recommendation: Buy
Rs707

		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
Equity Shares (m)	289.0	3/05A	110,943	8,455	29.3	36.5	24.2	4.7	19.3	27.8	1.6	12.0
52-Week Range	712/389	3/06E	122,163	11,727	40.6	38.7	17.4	3.8	21.6	30.1	1.4	9.5
1,6,12 Rel.Perf.(%)	7/24/25	3/07E	141,447	13,876	48.0	18.3	14.7	3.1	21.0	29.4	1.2	7.6
M.Cap. (Rs b)	204.4											
M.Cap. (US\$ b)	4.6											

Maruti reported impressive results in 3QFY06 with a growth of 10.8% in revenues, 27% in EBITDA and 41% in net profits at Rs.3.39b. Sharp improvement in margins were the key highlight of the results.

MUL's domestic volume increased 12% while exports degrew 44% leading to a modest growth of 6.6% YoY in total volumes. A2 segment (driven by *Swift*) grew 31% YoY whereas all other segments reported sales declines. The product mix has improved in 3QFY06 with A2 and A3 segments contributing 70% to total volumes compared with 62.2% in 3QFY05 and 69.7% in YTD-FY06.

The major surprise came at the EBITDA level, which registered growth of 27.2%, resulting in an EBITDA margin of 16.4% v/s 14.3% in 3QFY05. This improvement is driven by a higher share of A2 segment, lower share of exports in total revenues (which are lower margin compared with domestic sales) and falling raw material cost to sales (down 180bp YoY). Higher non-operating income, lower interest and depreciation have also contributed to the PAT growth of 41%.

We have upgraded our earnings for FY06 by 8.6% to Rs40.6 and for FY07 by 14.7% to Rs48 respectively and are introducing FY08 EPS of Rs55.7. MUL currently trades at P/E of 14.7x and 12.7x on FY07 and FY08 earnings estimates respectively. We maintain **Buy** with our upgraded target price of Rs836 based on 15x FY08 earnings.

QUARTERLY PERFORMANCE

(Rs Million)

	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	123,624	129,848	136,069	146,760	121,866	140,540	145,013	159,049	536,301	566,468
Total Income	24,793	26,270	28,109	30,452	26,271	30,399	31,142	32,816	110,943	122,163
Change (%)	31.3	21.4	23.8	9.3	6.0	15.7	10.8	7.8	20.4	10.1
Total Cost	21,606	23,123	24,536	26,297	23,024	26,901	26,483	27,686	95,712	104,094
EBITDA	3,262	3,558	4,015	4,559	3,739	4,094	5,107	5,130	15,231	18,069
As % of Sales	13.2	13.5	14.3	15.0	14.2	13.5	16.4	15.6	13.8	14.8
Change (%)	86.5	31.8	27.1	41.1	14.6	15.1	27.2	12.5	26.7	18.6
Non-Operating Income	694	492	832	565	491	495	618	774	2595	2,378
Interest	91	95	75	100	91	61	17	92	360	261
Gross Profit	3,865	3,955	4,773	5,025	4,139	4,528	5,708	5,812	17,466	20,186
Less: Depreciation	1193	1,201	1052	1122	783	665	681	706	4498	2,835
PBT	2,672	2,754	3,721	3,902	3,356	3,863	5,027	5,105	12,968	17,351
Tax	963	918	1324	1308	1,091	1,236	1,637	1,659	4,513	5,623
Effective Tax Rate (%)	36.0	33.3	35.6	33.5	32.5	32.0	32.6	32.5	34.8	32.4
Adjusted PAT	1,709	1,836	2,397	2,595	2,265	2,627	3,390	3,446	8,455	11,727
Change (%)	75.0	67.4	46.1	65.0	32.5	43.1	41.4	32.8	36.5	38.7

E:MOSt Estimates, * The FY05 quarterly and full year no's will not tally due to difference in classification of income by the company and MOSL

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Domestic volume grows 12% in 3QFY06

Volumes grew by 6.6% led by 12% growth in the domestic market. Exports degrew 44% YoY. Growth in the domestic segment has been led by the A2 segment which has grown by 31% YoY. The primary growth driver has been the Swift', which has already sold 40,000 vehicles since being launched eight months ago. Our interaction with dealers indicate that the waiting period of five months for Swift at the start of 3QFY06 has been cleared, with MUL increasing the production of Swift to 6,500 vehicles per month in November 2005 (from 5,000 units earlier).

VOLUME GROWTH: LED BY A2 SEGMENT

	3QFY06	3QFY05	GR(%)	FY06YTD	FY05YTD	GR(%)
A1	23,736	28,476	-16.6	63,950	88,347	-27.6
A2	87,917	67,026	31.2	242,421	191,911	26.3
A3	7,954	8,910	-10.7	22,889	20,733	10.4
MPV	16,264	16,728	-2.8	48,496	47,625	1.8
UV	1,256	902	39.2	3,007	2,967	1.3
Domestic	137,127	122,042	12.4	380,763	351,583	8.3
Exports	7,886	14,027	-43.8	26,656	37,958	-29.8
Total	145,013	136,069	6.6	407,419	389,541	4.6

Source: Company/Motilal Oswal Securities

The product mix has improved in 3QFY06 with the A2 and A3 segment contributing 70% to total volumes compared with 62.2% in 3QFY05 and 69.7% in YTD-FY06 v/s 60.5% in YTD-FY05. The richer sales mix has led to a 4% increase in the realizations.

SALES BREAK UP (%)

	3QFY06	3QFY05	GR(%)	FY06YTD	FY05YTD	GR(%)
A1	17.3	23.3	-6.0	16.8	25.1	-8.3
A2	64.1	54.9	9.2	63.7	54.6	9.1
A3	5.8	7.3	-1.5	6.0	5.9	0.1
MPV	11.9	13.7	-1.8	12.7	13.5	-0.8
UV	0.9	0.7	0.2	0.8	0.8	-0.1

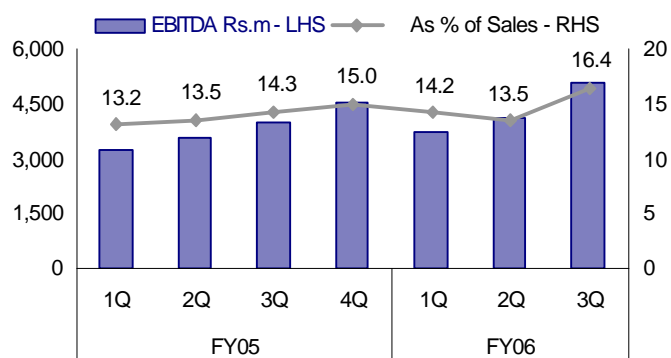
Source: Company/Motilal Oswal Securities

Operating performance impressive

The major surprise came in EBITDA, which registered a growth of 27.2%, resulting in an EBITDA margin of 16.4% v/s 14.3% in 3QFY05 and 13.5% in 2QFY05. This

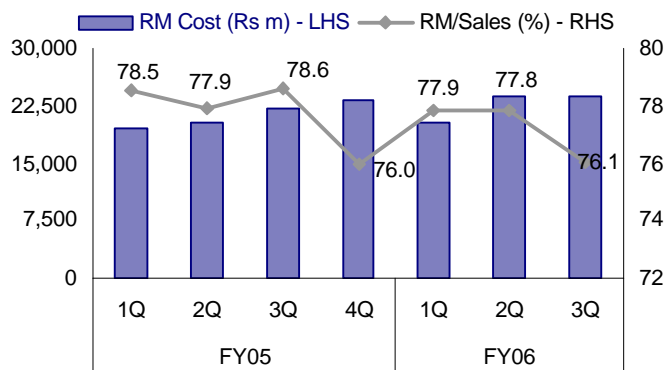
improvement is driven by higher share of A2/A3 segment, lower share of exports in total revenues (which have lower margins compared with domestic sales) and falling raw material cost to sales (down 250bp YoY).

EBITDA MARGINS: HIGHEST EVER FOR MUL IN 3QFY06



Source: Company/Motilal Oswal Securities

RAW MATERIAL AS A % OF SALES: LOWER IN 3QFY06



Source: Company/Motilal Oswal Securities

Product price increased by 2.5%-3% in past 3 months

Maruti has recently raised the prices of its products by 2.5%-3% in the past three months. The price hike has been on account of rising freight costs and other input costs. This price increase has been in line with industry, where players in every segment of the auto sector — CVs, UVs and cars have raised prices.

Revising our FY06 and FY07 estimates

We are revising our FY06 and FY07 estimates upwards by 8.6% and 14.7% in FY06 and FY07 respectively to take into account the improved operating performance and lower depreciation charges. The impact of this is shown in the table below:

REVISED ESTIMATES (RS M)

	FY06			FY07		
	OLD	NEW	% CHG.	OLD	NEW	% CHG.
Sales	125,792	122,163	-2.9	141,005	141,447	0.3
EBITDA	17,487	18,069	3.3	19,979	21,261	6.4
Margin (%)	13.9	14.8		14.2	15.0	
Net Profit	10,803	11,727	8.6	12,101	13,879	14.7
EPS (Rs)	37.4	40.6		41.9	48.0	

Source: Motilal Oswal Securities

Valuation and view

We expect 12% growth for the passenger vehicle industry over FY06-FY08, driven by changing lifestyles, rapid growth in high-income earning households, vibrancy in the service sector and higher penetration level. Lower car prices due to excise levy cuts; lower interest rates and easy

vehicle financing will continue to be catalysts for demand growth.

Within the passenger segment, we expect MUL to maintain its market share due to its strong marketing initiatives and aggressive product launch strategy. MUL has met with success in targeting government employees, teachers and lawyers. It has stated that five new models will be launched over the next five years. Also, its capacity expansion is on track and will be completed by end-CY06. This will allow MUL entry into the diesel segment (20% of Indian car market), which is essential to maintain its 50%+ share.

We expect MUL to maintain the volume growth and retain market share over the period of forecast. We have upgraded our earnings for FY06 by 8.6% to Rs40.6 and for FY07 by 14.7% to Rs48 respectively and are introducing FY08 EPS of Rs55.7. MUL currently trades at P/E of 14.7x and 12.7x on FY07 and FY08 earnings estimate, respectively. We maintain **Buy** with an upgraded target price of Rs836 (18% upside) based on 15x FY08 earnings.

Maruti Udyog: an investment profile

Company description

Maruti is the largest passenger vehicle manufacturer in India with strong presence in the lower end A1 and A2 segments that have a combined 80% market share. The company was initially set up as a JV between the Government of India and Suzuki Motors of Japan. Recently, 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 structural changes in the Indian economy.
- ☞ Maruti continues to be the largest passenger vehicle company in India.

Key investments risks

- ☞ Maruti faces intense competition in the various segments.
- ☞ Maruti's absence in the quickly growing diesel segment (currently 20% share) allows the company to compete only in the remaining market. However, the company will set up a diesel engine plant in the near future.

COMPARATIVE VALUATIONS

		MARUTI	MAHINDRA	TATA MOTORS
P/E (x)	FY06E	17.4	20.0	18.3
	FY07E	14.7	17.6	16.7
EPS Gr (%)	FY06E	38.7	28.0	11.7
	FY07E	18.4	12.9	9.6
RoE (%)	FY06E	21.6	26.4	27.9
	FY07E	21.0	25.8	25.8
EV/EBITDA (x)	FY06E	9.5	12.6	8.7
	FY07E	7.6	10.8	7.8

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	72.5	72.5	72.5
Domestic Institutions	7.4	6.7	6.1
FII's/FDIs	16.9	17.6	16.0
Others	3.3	3.3	5.4

Recent developments

- ☞ The government recently sold an 8% stake in MUL at Rs678 to public institutions such as Life Insurance Corporation (LIC), taking its own stake lower to 10%.
- ☞ Maruti has announced that it will launch five new models over the next five years.

Valuation and view

- ☞ We have upgraded our earnings for FY06, FY07 by 8.6% and 14.7% respectively to Rs40.6 and Rs48 and are introducing FY08 earnings of Rs55.7 on the back of a marginal upgrade in domestic volume growth and improved margins.
- ☞ MUL currently trades at P/E of 14.7x and 12.7x on FY07 and FY08 earnings estimates, respectively.
- ☞ We maintain **Buy** with an upgraded target price of Rs836 (18% upside) based on 15x FY08E earnings.

Sector view

- ☞ Passenger vehicle segment is expected to continue its growth momentum.
- ☞ Penetration in India at seven per '000 is extremely low even when compared with its closest neighbors such as Pakistan and Sri Lanka.
- ☞ We maintain an overweight stance on the sector.

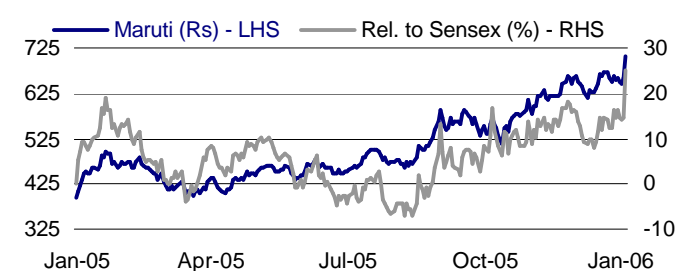
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	40.6	35.4	14.7
FY07	48.0	41.8	14.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
707	836	18.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						RATIOS						
(Rs Million)												
Y/E MARCH	2004	2005	2006E	2007E	2008E	Y/E MARCH	2004	2005	2006E	2007E	2008E	
Net Sales	91,739	110,427	121,613	140,797	162,061	Basic (Rs)						
Change (%)	27.4	20.4	10.1	15.8	15.1	Adjusted EPS	21.4	29.3	40.6	48.0	55.7	
Operating Other Income	278	516	550	650	650	EPS Growth (%)	263.4	36.5	38.7	18.3	15.9	
Total Income	92,017	110,943	122,163	141,447	162,711	Book Value per Share	124.3	1515	188.0	228.8	273.4	
Total Cost	79,995	95,712	104,094	120,186	138,268	DPS	15	2.0	4.1	7.2	11.1	
EBITDA	12,022	15,231	18,069	21,261	24,442	Payout (Incl. Div. Tax) %	7.0	6.8	10.0	15.0	20.0	
Change (%)	29.3	26.7	18.6	17.7	15.0	Valuation (x)						
% of Net Sales	13.1	13.7	14.8	15.0	15.0	P/E		24.2	17.4	14.7	12.7	
Depreciation	4,949	4,568	3,059	3,591	3,872	EV/EBITDA		12.0	9.5	7.6	6.2	
Deferred Revenue Exp.	596	-70	-224	-224	-224	EV/Sales		1.6	1.4	1.2	0.9	
Interest & Finance Charges	434	360	261	261	246	Price to Book Value		4.7	3.8	3.1	2.6	
Other Income	2,849	2,595	2,378	2,772	3,179	Dividend Yield (%)		0.3	0.6	1.0	1.6	
Non-recurring Expense	1,196	0	0	0	0	Profitability Ratios (%)						
PBT	7,696	12,968	17,351	20,405	23,728	RoE		15.1	19.3	21.6	21.0	20.4
Tax	2,277	4,513	5,623	6,530	7,640	RoCE		19.9	27.8	30.1	29.4	28.8
Effective Rate (%)	29.6	34.8	32.4	32.0	32.2	Turnover Ratios						
PAT	5,419	8,455	11,727	13,876	16,087	Debtors (Days)		23	16	15	14	14
% of Net Sales	5.9	7.7	9.6	9.9	9.9	Inventory (Days)		20	25	23	24	25
Adj. PAT	6,196	8,455	11,727	13,876	16,087	Creditors (Days)		63	52	51	47	45
Change (%)	263.4	36.5	38.7	18.3	15.9	Asset Turnover (x)		2.2	2.3	2.1	2.0	1.9
BALANCE SHEET	(Rs Million)					Leverage Ratio						
Y/E MARCH	2004	2005	2006E	2007E	2008E	Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0	
Share Capital	1,445	1,445	1,445	1,445	1,445	CASH FLOW STATEMENT	(Rs Million)					
Reserves	34,467	42,343	52,898	64,692	77,562	Y/E MARCH	2004	2005	2006E	2007E	2008E	
Net Worth	35,912	43,788	54,343	66,137	79,007	OP/(Loss) before Tax	6,477	10,733	15,234	17,894	20,794	
Loans	3,119	3,076	3,076	3,076	3,076	Int./Dividends Received	2,849	2,595	2,378	2,772	3,179	
Deferred Tax Liability	1,833	1,100	1,100	1,100	1,100	Depreciation & Amort.	4,949	4,568	3,059	3,591	3,872	
Capital Employed	40,864	47,964	58,519	70,313	83,183	Direct Taxes Paid	-2,515	-5,246	-5,623	-6,530	-7,640	
Gross Fixed Assets	45,667	50,531	54,952	59,952	63,952	(Inc)/Dec in Wkg. Capital	679	-2,484	326	-828	-1,282	
Less: Depreciation	27,359	31,794	34,853	38,444	42,316	CF from Oper. Activity	12,439	10,166	15,374	16,900	18,924	
Net Fixed Assets	18,308	18,737	20,099	21,508	21,636	Extra-ordinary Items	-1,196	0	0	0	0	
Capital WIP	749	421	0	0	0	Other Items	724	163	0	0	0	
Investments	16,773	15,166	15,166	15,166	15,166	CF after EO Items	11,967	10,329	15,374	16,900	18,924	
Curr. Assets, Loans	20,189	29,720	40,052	51,282	65,402	(Inc)/Dec in FA+CWIP	-1,356	-3,062	-4,000	-5,000	-4,000	
Inventory	4,398	6,666	6,694	7,751	9,361	(Pur)/Sale of Invest.	-15,741	1,607	0	0	0	
Sundry Debtors	6,894	5,995	6,359	6,975	8,024	CF from Inv. Activity	-17,097	-1,455	-4,000	-5,000	-4,000	
Cash & Bank Balances	2,402	10,294	20,234	29,791	41,251	Change in Networth	-54	-1	0	0	0	
Loans & Advances	5,744	6,082	6,082	6,082	6,082	Inc/(Dec) in Debt	-1,441	-43	0	0	0	
Current Liab. & Prov.	15,318	16,080	16,798	17,643	19,021	Interest Paid	-434	-360	-261	-261	-246	
Sundry Creditors	12,114	12,188	12,906	13,751	15,129	Dividends Paid	-433	-578	-1,173	-2,081	-3,217	
Provisions	3,204	3,892	3,892	3,892	3,892	CF from Fin. Activity	-2,362	-982	-1,434	-2,343	-3,464	
Net Current Assets	4,871	13,640	23,254	33,639	46,381	Inc/(Dec) in Cash	-7,492	7,892	9,940	9,557	11,460	
Misc. Expenditures	163	0	0	0	0	Add: Beginning Balance	9,894	2,402	10,294	20,234	29,791	
Appl. of Funds	40,864	47,964	58,519	70,313	83,183	Closing Balance	2,402	10,294	20,234	29,791	41,251	

E: MOST Estimates



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Disclosure of Interest Statement

Maruti Udyog

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| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |

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