

Company Flash

2 January 2007 | 5 pages

Maruti Udyog (MRTI.BO)

Buy: Dec Sales - CY06 Ends On a Strong Note

- Strong growth in Dec (c24% YoY) Driven by strong domestic growth (26% YoY) domestic volume growth over 3Q has been 19% higher than the c16% growth in 2Q, and commendable in the backdrop of a more challenging base effect. Exports declined by 17%YoY; 3Q export volume growth was however strong at 15% (vs. 31% YoY decline in 2Q)
- Segmental Analysis The key compact segment (A2) continued its strong growth (+36%YoY, 26% YTD) as the Alto continues to replace the M 800 as the vehicle of choice. Consequently, sales of the A1 segment (Maruti 800) were flat. Maruti's positioning within the higher end segments remained weak *Esteem* & *Baleno* (A3 segment) volumes together declined ~14% YoY.
- New Model Launches Over the month, Maruti launched the Zen Estilo at a price point from Rs319-402k (ex showroom Delhi), positioning it in the middle of the B segment. We expect the diesel Swift to be launched early next year. We also believe that a diesel variant of the new Zen might be launched. MUL reportedly plans (Source: Tol) to replace its Baleno with a new model in early FY08E.
- Price Hikes/Stake Sale Over the month, management has indicated that they may increase prices in Jan to offset material cost pressures. Govt. of India has approved the sale of its residual 10.3% stake in MUL, which would help improve liquidity.
- Downside Risks 1) demand growth slowing due to rising interest rates (which
 increase cost of financing); 2) Margin pressures, due to escalating material costs.

Buy/Low Risk	1L
Price (29 Dec 06)	Rs927.35
Target price	Rs1,107.00
Expected share price return	19.4%
Expected dividend yield	0.4%
Expected total return	19.8%
Market Cap	Rs267,921M
	NA

Figure 1. Maruti Dece	ember :	Sal	es
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	Dec-06 (Nos)	% chg YoY	% chg MoM	FY07 YTD	% chg YoY
Domestic	54,640	26.3	3.9	449,730	18.1
Exports	2,345	-17.1	-4.6	25,082	-5.9
Total Sales	56,985	23.7	3.5	474,812	16.5
A1 (M800)	7,289	0.5	20.7	60,128	-6.0
C (Omni, Versa)	6,523	40.6	(8.8)	58,758	21.2
A2 (Alto, Wagon-R, Zen, Swift)	38,461	35.6	3.8	305,658	26.1
A3 (Baleno, Esteem)	2,127	(13.5)	2.1	22,870	-0.1
MUV (Gypsy, Vitara)	240	-55.1	(0.4)	2,316	-23.0
Total Domestic	54,640	26.3	3.9	449,730	18.1
Source: Citigroup Investment Research					

Jamshed Dadabhoy¹

+91-22-6631-9883

jamshed.dadabhoy@citigroup.com

Deepak Jain¹

deepak3.jain@citigroup.com

See page 3 for Analyst Certification and important disclosures.

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Maruti Udyog

Company description

Maruti is a subsidiary of Suzuki Motor Corp (holds a 54% equity stake). The government of India remains a significant equity stakeholder (10%). With its early-mover advantage in the Indian market, Maruti retains a dominant market share despite increasing competition.

Investment thesis

We rate the stock as Buy/Low Risk (1L). The Indian car market has been on a structural growth path (estimated CAGR of 10-12% YoY over the medium term), driven by low penetration levels, improved demographics and infrastructure, tax cuts and availability of consumer finance at historically low interest rates. Despite the presence of most global majors, Maruti has managed to remain the dominant India player. Its competitive advantage stems from an early start, a balanced product portfolio targeted at the sweet spot of the market, its having the largest distribution and service network, and its consistently high quality ratings. While competitive pressures increase, we expect market share erosion to be gradual and growth in absolute terms to be robust for Maruti. We estimate cash earnings growth of c19.5% CAGR for FY06-08E, driven by unit sales CAGR of 11.8% and margin expansion aided by cost-cutting initiatives.

Valuation

Our 12-month target price of Rs1,107 is based on 15x P/CEPS FY08E. We believe the multiple compares favorably with the cash earnings CAGR of c19.5% for FY06-08E. At our target price, the stock would trade at the upper end of the current trading band. The price to cash earnings multiple of 15x reflects our belief that MUL is now well positioned to emerge as Suzuki's regional manufacturing hub over the longer term, which we view as a significantly positive because it would enable MUL to reduce its dependence on the local market. We prefer price/cash earnings as a valuation metric for the automobile sector given the relatively high capital intensity (both on capacity and product development) of the business.

Risk

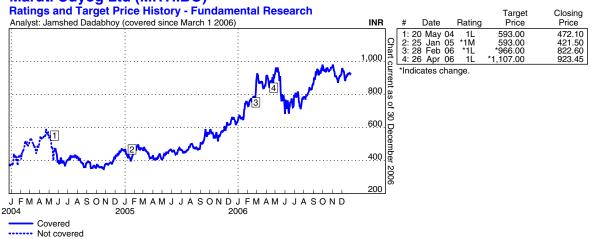
We rate Maruti as Low Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. Risks to our target price and rating include: (1) sales of passenger vehicles are sensitive to economic variables; (2) revised emission and safety norms could bring cost pressures; and (3) competitive pressures in the Indian market continue to increase.

Analyst Certification Appendix A-1

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