

## **Maruti Suzuki: Liva's aggressive pricing may increase competitive intensity (MSIL IN, mcap US\$7.4bn, SELL, TP Rs1,250, 8% upside)**

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Toyota yesterday launched its entry level 1.2 litre petrol hatchback Etios Liva priced between Rs3.99lakh and Rs5.99lakh (ex-showroom Delhi) for its base and top end variant respectively. The pricing of the base variant at Rs3.99lakh came in below the market expectation of Rs4.1lakh and is cheaper than the base Maruti Swift LXI by around Rs10,000. Swift is one of the flagship model for Maruti Suzuki with annual sales contribution in excess of 15%.

While we do not anticipate any significant impact on the volume dynamics in the near term (Toyota Kirloskar Motors expects to sell 20,000 units of Liva in calendar year 2011), the aggressive pricing of Liva is likely to impact the pricing power of Maruti Suzuki and further intensify the competitive intensity in the passenger car segment. This, at the time of slowdown being witnessed in the passenger car segment, does not augur well for Maruti Suzuki.

Since our downgrade to SELL, Maruti Suzuki's share price has declined by 6% on absolute basis and relative basis (to BSE Sensex) and now trades at 13.3x our current FY12 net earnings estimates. While our existing net earnings estimates are lower than consensus by 5%, we are likely to review our earnings estimates given the continuing weak trends in volumes (management's volume growth forecast of 8% is lower than our estimate of 13%, which implies further downgrades to our FY12 net earnings estimates). **We maintain SELL on the stock.**

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## Explanation of Investment Rating

### Investment Rating

Expected return  
(over 12-month period from date of initial rating)

Buy >5%

Sell ≤5%

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