

March 5, 2008

Rating	Outperformer
Price	Rs906
Target Price	Rs1,040
Implied Upside	14.8%
Sensex	16,340

(Prices as on March 4, 2008)

#### Trading Data

Market Cap. (Rs bn)	261.7
Shares o/s (m)	289.0
Free Float	45.8%
Avg. Daily Vol ('000)	137.3
Avg. Daily Value (Rs m)	122.3

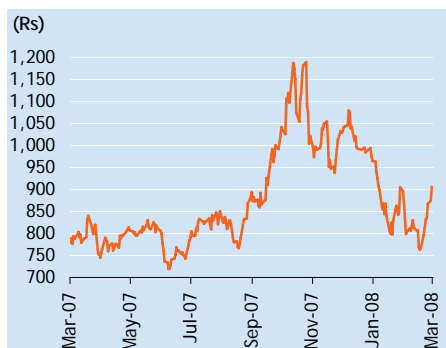
#### Major Shareholders

Promoters	54.2%
Foreign	15.9%
Domestic Inst.	27.4%
Public & Others	2.5%

#### Stock Performance

(%)	1M	6M	12M
Absolute	3.4	3.3	15.8
Relative	15.3	(3.1)	(16.7)

#### Price Performance (RIC: MRTI.BO, BB: MSIL IN)



Source: Bloomberg

We had organised a conference call with Maruti Suzuki to discuss the impact and implications of the recent Union Budget proposals on the auto sector. Key highlights of the call are enumerated below:

- Maruti Suzuki has passed on the full benefit of excise duty reduction (16% to 12%) proposed in the budget in the form of price reduction ranging from Rs6,500 for the entry level *M-800* to Rs18,030 for *Swift* diesel. The resultant price cut, coupled with the 6th pay commission proposals (expected by March end) have built a lot of expectations from the auto sector. However, the actual impact in terms of demand pick-up for cars is expected with a lag of a couple of months.
- The industry had witnessed muted growth in Jan and Feb, primarily due to postponement of purchases by consumers in anticipation of sops extended for the industry. As a result, channel inventory with the dealers had gone up to 28 days (from an avg. of 20 days). Dealers would be compensated for the month of February with the price differential.
- The market leader is facing increasing competition from Hyundai as well as Honda who have reported impressive growth numbers in the last few months. Maruti in turn has lined up two new launches, sedan version of *Swift*, *Dzire* (launch expected by March end) and *A-Star* by end CY08 to maintain its growth momentum. The *A-Star* would primarily cater to the European markets with some units to be sold in the local market.
- **Valuation:** We believe the budget would positively impact the sector in terms of increased domestic demand and hence have revised our topline estimates upwards by 3.5% and PAT estimates by 4.5%. The stock is currently trading at 11.9x FY09E EPS of Rs76.1 and at 10.8x FY10E EPS of Rs83.7 and appears attractive at these levels. Reiterate Outperformer.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenues (Rs m)	146,539	180,380	231,737	261,338
Growth (%)	21.6%	23.1%	28.5%	12.8%
EBITDA (Rs m)	19,904	24,548	32,112	36,290
PAT (Rs m)	15,619	19,407	22,000	24,190
EPS (Rs)	54.0	67.2	76.1	83.7
Growth (%)	31.4	24.3	13.4	10.0
Net DPS (Rs)	4.5	6.7	7.6	8.4

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	13.6	13.6	13.9	13.9
RoE (%)	25.4	25.5	23.6	21.3
RoCE (%)	24.0	23.8	22.4	20.5
EV / sales (x)	1.7	1.4	1.1	1.0
EV / EBITDA (x)	12.8	10.5	8.0	7.0
PE (x)	16.8	13.5	11.9	10.8
P / BV (x)	3.4	2.9	2.4	2.0
Net dividend yield (%)	0.5	0.7	0.8	0.9

Source: Company Data; PL Research

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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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