Maruti Suzuki India

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- **Reiterated guidance of 12-15% domestic volume growth in FY12**
- **Focused on maintaining market share; rural focus, RIII to help**
- **Expect margin to improve or at least be maintained**
- **No impact of JP earthquake; no progress on VW-Suzuki alliance**

Management meet takeaways

We hosted Maruti Suzuki's management for a series of meetings with investors. Here are the takeaways.

Any change in volume outlook on rising rates, fuel price?

Despite the increasing interest rates and rising fuel prices, management remains confident of 12-15% volume growth in the domestic market. While growth may be slightly subdued in 1QFY12, management expects a pick-up in 2HFY12 as consumer sentiment improves. Management believes that higher interest rates and fuel prices will only push back car purchases slightly. As long as income levels remain strong, demand is unlikely to see a permanent impact.

Is there a shift to diesel vehicles after petrol price hike?

In models with diesel variants (Swift, Ritz, SX4), diesel to petrol ratio has increased from 60:40 to 80:20. However, management believes that, if diesel prices are de-regulated by the government, the trend will start to reverse. Maruti currently has a diesel engine capacity of 300,000 units (it sold around 200,000 diesel cars in FY11) and is looking at the possibility of increasing diesel capacity further.

How significant is rural demand?

Rural India continues to grow much faster than urban India, due to increase in income levels as well as wealth effect (higher land prices). Management expects rural to urban volume split to move from the current 20:80 to 30:70 in five years and 40:60 in 10 years. We note that this implies rural demand will grow at 2x the growth rate for urban demand.

Where does Maruti see its market share trending?

Maruti is very focused on maintaining market share. It will rely on a strong product pipeline and higher sales/service penetration to protect market share.

Maruti plans to double its sales/service network in six to seven years. It targets to have a sales/service outlet within a 25km radius of every customer. Maruti should find it easier to expand sales/service network than its peers, as Maruti dealers have a significantly shorter investment payback period compared to peers' dealers.

Faster volume growth in rural India favours Maruti due to its deeper sales/service penetration compared to peers. In addition, entry into the utility vehicles segment (with RIII model) will help offset market share losses in the small car segment, if any.

Have Maruti's margins bottomed out?

Maruti expects EBITDA margin to improve or at least be maintained at current levels (10%). Over the medium term, Maruti targets improving margins from the current 10% to 12%.

What margin levers does Maruti have?

Aggressive localization plans: Maruti plans to cut down on import content of vendors (14% of sales) by half over the next three years. The company is also looking at alternative sources (Asia and Europe) for inputs/components (currently 90% of imports are from Japan). This will help it cut down JPY exposure significantly.

Margins to start improving as models mature: Maruti has had an aggressive new launch pipeline over the past 5-6 years. As new models mature, margins will start improving with higher localization (new models have higher import content when launched), economies of scale on sourcing, lower amortization of toolings etc.

Softening commodity prices is good news: The recent fall in commodity prices will benefit Maruti starting 2QFY12. The company is already looking to hedge certain commodities at these lower prices.

Export margins set to improve: Although the company expects export volumes to remain flat y-y, it expects export margins to be better on favourable exchange rates.

Will price-competition in the industry continue?

Management highlighted that Maruti's peers in India are operating at significantly lower profitability than Maruti. Some players (such as Ford India and General Motors India) made EBITDA level losses in FY10. Management believes that price-led competition is not sustainable.

Is Maruti seeing any impact from Japan earthquake?

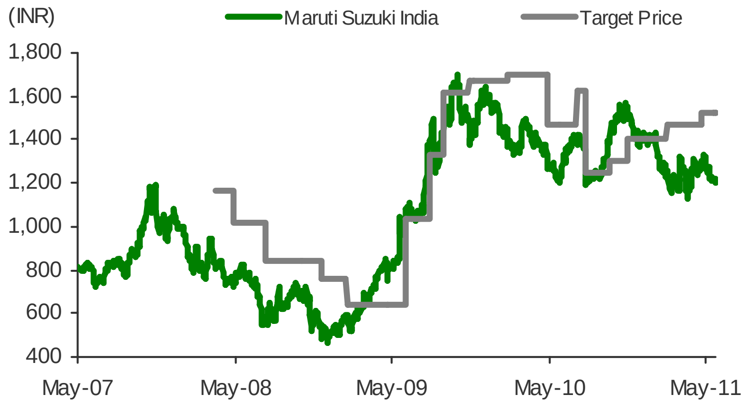
Management reiterated that Maruti's production has not been impacted (nor does it foresee any impact) because of the Japan earthquake. The only impact had been that some critical components had to be air-lifted from vendors.

Will Maruti see any impact from VW-Suzuki global alliance?

Management says there has been no new development on the global alliance between Volkswagen (VOW GR, not rated) and Suzuki (7269 JP, not rated). Therefore, it foresees no implication for Maruti in the near future.

HISTORY OF CHANGE IN INVESTMENT RATING AND/OR TARGET PRICE

Maruti Suzuki India (MSIL IN)



Date	Reco	TP
19-Mar-08	BUY	1,160
16-Jan-09	HOLD	636
31-Aug-09	BUY	1,615
27-Jul-10	HOLD	1,250
31-Jan-11	BUY	1,465

Joseph George started covering this stock from 19 March 2008
Price and TP are in local currency

***Valuation and risks**: Key risks to our PE-based TP for Maruti include any unexpected rise in competition, especially in the small-car segment, and an increase in commodity prices*

Sources: Bloomberg, BNP Paribas

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Maruti Suzuki	NA

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