Thursday 26 April 2007

Change of target price

Maruti Udyog Ltd

New plant pressures margins

We build in margin pressure to reflect losses at Maruti's new plant and higher promotion costs to maintain sales-volume momentum in a rising interest-rate scenario. So we maintain our volume forecast but cut EPS 4% for FY08. Buy; target cut to Rs1,015.4.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	111467	123220	149193	174745	203289
EBITDA (Rsm)	16315.9	18578.8	22459.5	25294.6 ▼	29763.9 ▼
Reported net profit (Rsm)	8536.0	11890.2	15620.0	16813.7	19231.9
Normalised net profit (Rsm)[1]	8358.0	11854.2	15199.8	16813.7	19231.9
Normalised EPS (Rs)	28.9	41.0	52.6	58.2	66.5
Dividend per share (Rs)	2.00	3.50	4.50	5.00	6.25
Dividend yield (%)	0.25	0.44	0.57	0.63	0.79
Normalised PE (x)	27.3	19.2	15.0	13.6	11.9
EV/EBITDA (x)	12.7	10.5	8.67	7.81	6.73
Price/book value (x)	5.21	4.18	3.33	2.72	2.26
ROIC (%)	34.6	44.7	57.5	38.8	29.3

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts
year to Mar, fully diluted

New launches limit domestic market-share loss in FY07 to 50bp
The new model launches in FY07 (Wagon R Dio, Zen Estilo and Swift Diesel) helped increase Maruti's domestic market share from a low of 50.5% in July 2006 to 54.5% at the fiscal year-end. However, this is still 50bp lower than at end-FY06. The cheaper-fuel engine options contributed around 15% of sales.

Losses at new plant impact EBITDA margin in 4QFY07
EBITDA margin dropped 110bp qoq and 130bp yoy in 4QFY07 as the new plant at Manesar reported a Rs585m net loss. Lower-than-expected depreciation cost and higher other income offset 6% of the negative surprise on EBITDA, boosting PAT by 45% to Rs4.7bn. The 170bp EBITDA margin expansion in 1HFY07 helped Maruti report a flattish figure for FY07. EPS surprised marginally (actual Rs52.60 vs our forecast of Rs51.3) due to flattish depreciation and support from non-operating income.

New plant and promotional cost impact; FY08 EPS cut marginally
We retain our FY08 sales volume growth forecast of 14% to 774,490 cars, despite better-than-expected sales volume in FY07 driven by new launches. This is because we build in a 60bp EBITDA margin contraction to 14.5%, as we expect Maruti to enhance promotional efforts via subvention to financers, so that vehicle loans can be offered at attractive interest rates. Management has said it puts volume growth and market share above EBITDA margin. Hence, we cut our FY08F EPS by 4%.

Premium valuation for better ROE
The slight dilution in earnings quality in 4QFY07 may put the stock under pressure in the short term, but we expect new car launches and promotion schemes to ease the concerns on volume momentum. With the worst of the new-plant impact possibly behind us, we reiterate our Buy rating on Maruti. However, we marginally reduce our DCF-based target price to Rs1,015.4 (from Rs1,085), which implies 15.3x FY09F P/E and is supported by impressive ROE and limited equity-dilution risk.

Priced at close of business 25 April 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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Buy

Absolute performance
n/a
Short term (0-60 days)
Neutral
Market relative to region

Automobiles & Components
India

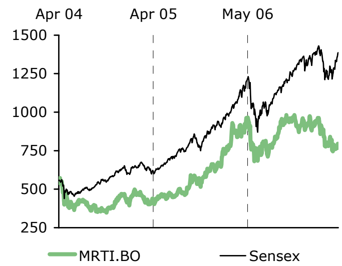
Price
Rs789.10
Target price
Rs1015.40 (from Rs1085.00)
Market capitalisation
Rs228.05bn (US$5.57bn)
Avg (12mth) daily turnover
Rs287.49m (US$6.34m)

Reuters	Bloomberg
MRTI.BO	MUL IN

Asset allocation

Equities	Underweight
Cash	Overweight
Bonds	Overweight

Price performance	(1M)	(3M)	(12M)
Price (Rs)	839.8	944.5	867.5
Absolute %	-6.0	-16.5	-9.0
Rel market %	-12.2	-16.1	-25.5
Rel sector %	2.1	-5.9	-6.6



Stock borrowing: Difficult
Volatility (30-day): 39.13%
Volatility (6-month trend): ↑
52-week range: 991.40-670.00
Sensex: 14217.77
BBG AP Autos: 223.15
Source: ABN AMRO, Bloomberg

Researched by
ABN AMRO Institutional Equities Team

www.abnamrobroking.co.in

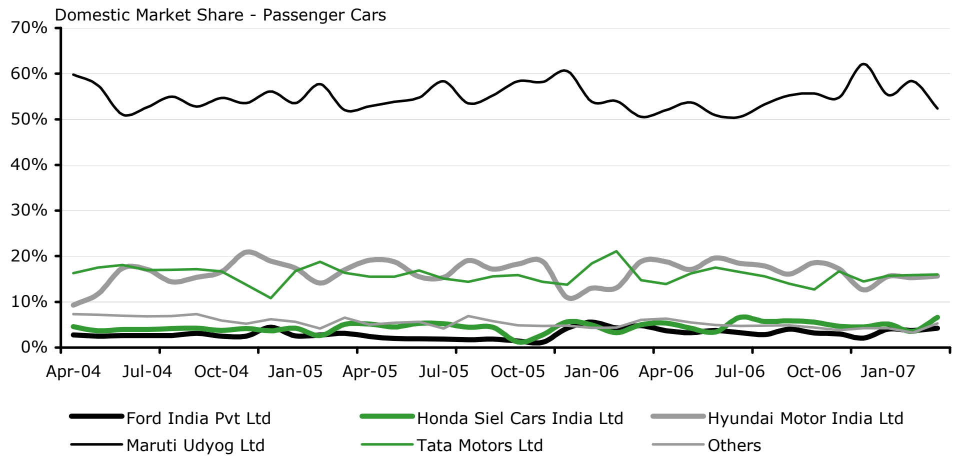
Volume momentum over profits

We trim our FY08 EPS forecast for Maruti to reflect the tough scenario of rising vehicle-finance rates. The company may have to resort to higher promotion expenses to maintain volume momentum.

Volume momentum in FY07 marginally ahead of expectations, yet market share declines

In FY07, two new models (Zen Estilo and Swift Diesel) and a variant (Wagon R Dio) led to a positive surprise on volume and helped lift Maruti's market share from a low of 50.5% in July 2006 to 54.5% by end-FY07. However, this was insufficient to prevent a yoy decline of 50bp in FY07 market share, resulting from a slow production ramp-up despite robust demand (waiting period of three months for Swift Diesel). Growth was tilted in favour of Wagon R (33.6% to 118,395) and Alto (41% to 223,846), which together contributed 54% of domestic sales volume.

Chart 1 : Monthly market share trend



Source: SIAM

New launches in FY08

After the duty cut for compact cars, global car companies have planned several launches in this segment for FY08-09. General Motors is to have a new entrant, the Spark, whereas existing players Tata Motors and Hyundai plan to strengthen their presence with more engine options or variants. These could be serious threats. But Maruti, with three launches in FY07 and new plant capacity, is ahead of the curve in our view.

Table 1 : Launches planned in the compact car segment

Company	Model Name	Segment	Launch period
Tata Motors	Indica CRDi	A2: Compact	1QFY08
Tata Motors	Indigo-CRDI	A3: Mid-size	1QFY08
Maruti	SX4	A3: Mid-size	1QFY08
General Motors	Optra-Diesel	A4-A6	1QFY08
BMW	Series 3	A4-A6	1QFY08
General Motors	Spark	A2: Compact	1QFY08
Fiat	Palio diesel	A2: Compact	2QFY08
Volkswagen	Passat	A4-A6	2QFY08
BMW	Series 5	A4-A6	2QFY08
BMW	Series 7	A4-A6	2QFY08
Hyundai	Santro-CNG	A2: Compact	3QFY08
FIAT-Tata	Punto	A2: Compact	3QFY08
Hyundai	Santro-twin small car	A2: Compact	3QFY08
Maruti	New small car	A2: Compact	3QFY08
Skoda	Fabia	A3: Mid-size	3QFY08
Hyundai	New Elantra	A4-A6	3QFY08
Hyundai	Getz-Diesel	A2: Compact	2QFY08

Source: CRIS Infac

Volume growth over margins

In the post-result analyst call, management clearly said it puts sales volume growth and market share above profit margin, and that it expects margin growth to follow in the medium term. Hence, in this rising interest-rate scenario, we would expect Maruti to extend subvention to leading vehicle financers to attract consumers through lower-than-prevailing lending rates of, say, 13-14%. This should help it achieve our FY08 sales volume growth estimate of 14%, to 770,490 vehicles. In FY09, we expect volume growth to recover to 15% on the back of 12% growth domestically and a 70% increase in exports.

4QFY07 EBITDA impacted by losses at new plant

For January-March 2007, Maruti reported 24% qoq growth in PAT to Rs4.49bn on 30% sales volume growth to 200,112 cars and a 35% net sales increase to Rs44.3bn. Adjusting for Rs100m in extraordinary costs towards a higher fuel charge, EBITDA margin was 12.7%. As a result, the company's EBITDA grew 22.5% to Rs5.6bn. Quarterly EBITDA was 6% below our expectation of Rs5.96bn, primarily due to lower-than-expected sales realisation and higher manufacturing expenses. However, lower depreciation and higher other income helped surprise on normalised PAT (Rs4.7bn vs our expectation of Rs4.2bn).

The EBITDA-level loss at the Manesar plant, despite 80% capacity utilisation, was a surprise to us. But the 170bp increase in 1HFY07 EBITDA margin helped the company absorb the cost pressure and the loss at its new plant in 2HFY07, and record a flattish EBITDA margin for the full year. Thus, FY07 EBITDA increased 25% to Rs22.1bn on a 20% increase in sales volume and a 22% increase in net sales. However, flattish depreciation expense and a 30% increase in other income saw normalised EPS increase 32% to Rs52.60.

Table 2 : Quarterly results at a glance

	4QFY06	4QFY07	% yoy ch.	3QFY07
Car sales volume (nos)	154,397	200,112	29.6%	172,181
Net sales	32,770	44,298	35.2%	36,795
Expenditure				
Raw material	27,003	33,915	25.6%	24,632.0
Change in stocks	(2,356)	(249)		3,030.1
% of net sales	75.2%	76.0%		75.2%
Personnel	567	807	42.3%	738.3
% of net sales	1.7%	1.8%		2.0%
Manufacturing & other expenses	2,975	4,215	41.7%	3,322.7
% Of net sales	9.1%	9.5%		9.0%
Miscellaneous expenses	-			
Total expenditure	28,189	38,687	37.2%	31,723
EBITDA	4,582	5,610	22.5%	5,072
EBITDA margin (%)	14.0%	12.7%	1.313	13.8%
Depreciation	726	718	-1.0%	759
EBIT	3,856	4,892	26.9%	4,313
Interest expenses	34	156	356.3%	157
Non-operating income	1,153	2,050	77.8%	1,155
PBT	4,975	6,786	36.4%	5,311
Tax - total	1,645	2,076	26.2%	1,676
Tax rate (%) - total	33.1%	30.6%		31.6%
Profit after tax	3,329	4,711	41.5%	3,635
Extraordinary income	280			129
Extraordinary expenses		225		
Reported profit	3,609	4,486	24.3%	3,764
EPS (Rs.)	12.5	16.3		12.6

Source: Company data

Estimates revised marginally, non-operational income limits impact of lower margins

For FY08, we maintain our sales volume estimate of 770,490 vehicles, building in a 60bp cut in EBITDA margin to 14.5% due to higher promotional expenses and lower EBITDA margin at the new plant. However, with one of the older plants completely depreciated in the December 2006 quarter, we cut the depreciation charge for FY08F and increase other income on rising yields for Maruti's Rs40bn cash in hand. This lowers the impact of a 9% decline in EBITDA, with our EPS estimate down only 3.5% to Rs58.20.

We maintain our FY09 EPS forecast of Rs66.50, driven by our assumptions of 15% sales volume growth to 887,042 cars and flattish EBITDA margin of 14.6%.

Table 3 : Earnings revisions

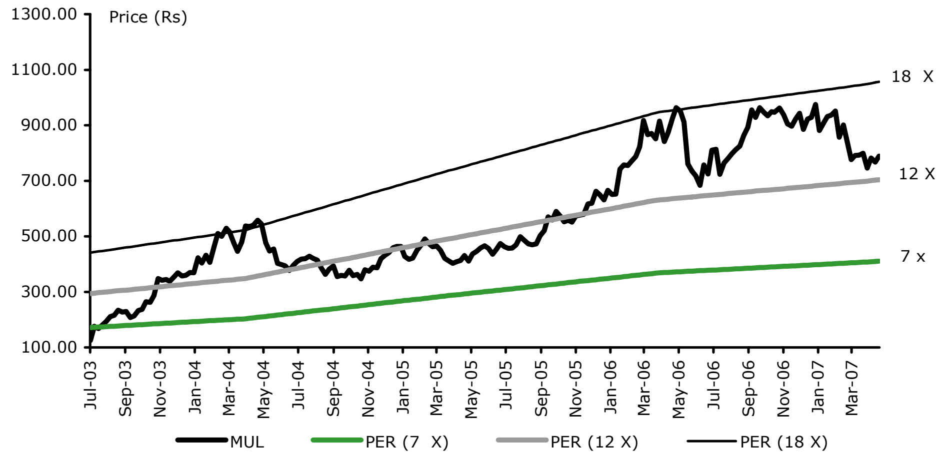
	FY08F		FY09F	
	Old	Revised	Old	Revised
Sales volume (nos)	770,490	770,490	887,042	887,042
Upgrade (%)		*0.0%*		*0.0%*
Net Sales (Rs m)	178,970	174,745	204,360	203,289
EBITDA (Rs m)	27,796	25,295	31,702	29,764
Upgrade (%)		*-9.0%*		*-6.1%*
PAT (Rs m)	17,421	16,814	19,204	19,232
EPS (Rs)	60.3	58.2	66.5	66.5
Upgrade (%)		*-3.5%*		*0.0%*

Source: ABN AMRO forecasts

New plant concerns near end, Buy for medium term

Maruti has relatively outperformed the leading automobile stocks, but in absolute terms, it was also on the receiving end. We had been cautious on the short term due to anticipated losses at its new plant in 4QFY07. Going forward, we believe the new plant will incrementally extend benefits by reducing losses as its operations stabilise. Hence, at current valuations of 13.6x FY08F and 11.9x FY09F PERs, we find the risk-reward favourable for the medium term. We reiterate our Buy rating, but reduce our DCF-based target price to Rs1,015.4 (from Rs1,085) on the back of EBITDA pressure.

Chart 2 : Forward PE band



Source: Bloomberg, ABN AMRO

Volume and operating assumptions

Table 4 : Volume & operating matrix assumptions

	FY05	FY06	FY07F	FY08F	FY09F
Domestic sales volume (nos)	487,419	527,035	635,629	725,490	810,220
Growth (%)		8.1%	20.6%	14.1%	11.7%
Export sales volume	48,882	34,784	39,295	45,000	76,822
Growth (%)		-28.8%	13.0%	14.5%	70.7%
Total sales volume	**536,301**	**561,819**	**674,924**	**770,490**	**887,042**
Growth (%)		**4.8%**	**20.1%**	**14.2%**	**15.1%**
Gross sales realisation per vehicle (Rs)	252,233	267,397	258,863	265,890	267,686
Growth (%)		6.0%	-3.2%	2.7%	0.7%
Net sales realisation per vehicle	207,844	219,323	221,052	226,797	229,177
Growth (%)		5.5%	0.8%	2.6%	1.0%
Contribution per vehicle	48,609	54,178	57,340	57,454	58,013
Growth (%)		11.5%	5.8%	0.2%	1.0%
Ebitda per vehicle	30,423	33,069	33,277	32,829	33,554
Growth (%)		8.7%	0.6%	-1.3%	2.2%
Ebitda margin (%)	14.6%	15.1%	15.1%	14.5%	14.6%

Source: Company data, ABN AMRO forecasts

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MARUTI UDYOG LTD: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	111467	123220	149193	174745	203289
Cost of sales	-85398	-92782	-110493	-130477	-151830
Operating costs	-9753.1	-11859	-16241	-18973	-21696
EBITDA	**16315.9**	**18578.8**	**22459.5**	**25294.6**	**29763.9**
DDA & Impairment (ex gw)	-4568.3	-2854.2	-2714.0	-3635.3	-4972.1
EBITA	**11747.6**	**15724.6**	**19745.5**	**21659.3**	**24791.8**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**11747.6**	**15724.6**	**19745.5**	**21659.3**	**24791.8**
Net interest	1123.0	1739.0	2507.9	3066.6	3699.9
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**12870.6**	**17463.6**	**22253.4**	**24726.0**	**28491.7**
Taxation	-4512.6	-5609.4	-7053.6	-7912.3	-9259.8
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	178.0	36.0	420.2	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**8536.0**	**11890.2**	**15620.0**	**16813.7**	**19231.9**
Normalised Items Excl. GW	178.0	36.0	420.2	0.00	0.00
Normalised net profit	**8358.0**	**11854.2**	**15199.8**	**16813.7**	**19231.9**

Source: Company data, ABN AMRO forecasts ***year to Mar***

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	24658.0	33269.0	39679.0	36549.6	33912.9
Other current assets	19426.0	23480.0	28319.9	30965.1	35506.1
Tangible fixed assets	19158.0	17872.0	28318.0	44682.7	63710.6
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	802.0	1259.0	3625.0	4675.0	5425.0
Total assets	**64044.0**	**75880.0**	**99941.9**	**116872**	**138555**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	12188.0	15058.0	17984.9	18384.2	21390.5
Long term debt (3)	3076.0	717.0	6342.0	6125.0	6125.0
Oth non-current liab	4992.0	5579.0	7076.1	8665.1	10177.4
Total liabilities	**20256.0**	**21354.0**	**31403.0**	**33174.4**	**37692.9**
Total equity (incl min)	43788.0	54526.0	68538.9	83698.0	100862
Total liab & sh equity	**64044.0**	**75880.0**	**99941.9**	**116872**	**138555**
Net debt (2+3-1)	-21582	-32552	-33337	-30425	-27788

Source: Company data, ABN AMRO forecasts ***year ended Mar***

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	16315.9	18578.8	22459.5	25294.6	29763.9
Change in working capital	-782.0	-1785.0	-3271.0	-325.1	-2189.7
Net interest (pd) / rec	1123.0	1739.0	2507.9	3066.6	3699.9
Taxes paid	-5245.7	-5929.8	-6156.5	-6923.3	-8547.5
Other oper cash items	83.0	1545.0	2378.2	-1320.8	1455.0
Cash flow from ops (1)	**11494.2**	**14148.0**	**17918.1**	**19792.1**	**24181.5**
Capex (2)	-4669.3	-1568.2	-13160	-20000	-24000
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	51.0	-457.0	-2366.0	-1050.0	-750.0
Cash flow from invest (3)	**-4618.3**	**-2025.2**	**-15526**	**-21050**	**-24750**
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-43.0	-2359.0	5625.0	-217.0	0.00
Ordinary dividend paid	-660.0	-1153.0	-1489.1	-1654.5	-2068.2
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	163.3	0.18	-118.1	0.00	0.00
Cash flow from fin (5)	**-539.7**	**-3511.8**	**4017.9**	**-1871.5**	**-2068.2**
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	**6336.2**	**8611.0**	**6410.0**	**-3129.4**	**-2636.6**
Equity FCF (1+2+4)	6824.9	12579.8	4758.1	-207.9	181.5

Lines in bold can be derived from the immediately preceding lines. ***year to Mar***
Source: Company data, ABN AMRO forecasts

MARUTI UDYOG LTD: PERFORMANCE AND VALUATION

Standard ratios

Performance	Maruti Udyog FY05A	FY06A	FY07F	FY08F	FY09F	Hyundai Motor FY07F	FY08F	FY09F	Tata Motors FY07F	FY08F	FY09F
Sales growth (%)	18.9	10.5	21.1	17.1	16.3	4.54	4.24	2.78	27.4	14.2	11.5
EBITDA growth (%)	55.0	13.9	20.9	12.6	17.7	7.89	13.8	3.75	26.4	13.8	12.2
EBIT growth (%)	110.7	33.9	25.6	9.69	14.5	7.38	14.4	3.55	28.7	11.2	7.40
Normalised EPS growth (%)	26.3	41.8	28.2	10.6	14.4	14.2	12.4	9.53	32.2	14.6	8.34
EBITDA margin (%)	14.6	15.1	15.1	14.5	14.6	8.88	9.69	9.78	12.4	12.4	12.5
EBIT margin (%)	10.5	12.8	13.2	12.4	12.2	4.64	5.09	5.13	9.74	9.48	9.13
Net profit margin (%)	7.50	9.62	10.2	9.62	9.46	6.10	6.55	6.97	7.31	7.57	7.39
Return on avg assets (%)	12.7	15.3	15.4	13.6	13.1	6.53	6.90	7.04	11.8	11.6	11.3
Return on avg equity (%)	21.0	24.1	24.7	22.1	20.8	10.4	10.6	10.6	28.0	24.7	22.3
ROIC (%)	34.6	44.7	57.5	38.8	29.3	11.2	12.1	12.0	21.3	16.8	17.1
ROIC - WACC (%)	21.3	31.5	44.3	25.6	16.1	-1.18	-0.31	-0.44	8.68	-1.16	-0.93
					year to Mar			*year to Dec*			*year to Mar*

Valuation	Maruti Udyog FY05A	FY06A	FY07F	FY08F	FY09F	Hyundai Motor FY07F	FY08F	FY09F	Tata Motors FY07F	FY08F	FY09F
EV/sales (x)	1.85	1.59	1.31	1.13	0.99	0.28	0.22	0.16	1.20	1.00	0.89
EV/EBITDA (x)	12.7	10.5	8.67	7.81	6.73	3.11	2.30	1.67	9.67	8.10	7.13
EV/EBITDA @ tgt price (x)	16.7	14.0	11.6	10.4	8.93	3.06	2.26	1.64	13.0	11.0	9.70
EV/EBIT (x)	17.6	12.4	9.86	9.12	8.08	5.94	4.38	3.19	12.3	10.6	9.73
EV/invested capital (x)	8.86	8.59	5.28	3.53	2.62	0.83	0.67	0.49	2.81	2.53	2.23
Price/book value (x)	5.21	4.18	3.33	2.72	2.26	0.95	0.86	0.79	3.74	3.03	2.59
Equity FCF yield (%)	2.99	5.52	2.09	-0.09	0.08	3.84	6.41	9.71	1.58	9.56	6.35
Normalised PE (x)	27.3	19.2	15.0	13.6	11.9	9.54	8.49	7.75	15.5	13.6	12.5
Norm PE @tgt price (x)	35.1	24.8	19.3	17.5	15.3	9.46	8.42	7.69	21.2	18.5	17.1
Dividend yield (%)	0.25	0.44	0.57	0.63	0.79	1.65	2.07	2.31	1.78	1.98	2.11
					year to Mar			*year to Dec*			*year to Mar*

Per share data	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (m)	289.0	289.0	289.0	289.0	289.0
Reported EPS (INR)	29.5	41.1	54.0	58.2	66.5
Normalised EPS (INR)	28.9	41.0	52.6	58.2	66.5
Dividend per share (INR)	2.00	3.50	4.50	5.00	6.25
Equity FCF per share (INR)	23.6	43.5	16.5	-0.72	0.63
Book value per sh (INR)	151.5	188.7	237.2	289.6	349.0
					year to Mar

Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Net debt to equity (%)	-49.3	-59.7	-48.6	-36.4	-27.6
Net debt to tot ass (%)	-33.7	-42.9	-33.4	-26.0	-20.1
Net debt to EBITDA	-1.32	-1.75	-1.48	-1.20	-0.93
Current ratio (x)	3.62	3.77	3.78	3.67	3.25
Operating CF int cov (x)	-13.9	-10.5	-8.60	-7.71	-7.85
Dividend cover (x)	12.7	10.3	10.2	10.2	9.30
					year to Mar

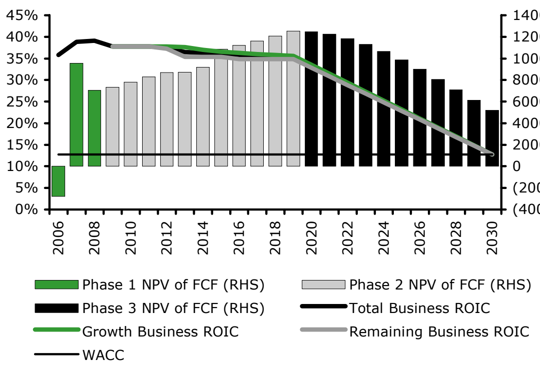
Priced as follows: MRTI.BO - Rs789.10; 005380.KS - W60500.00; TAMO.BO - Rs758.80
Source: Company data, ABN AMRO forecasts

MARUTI UDYOG LTD: VALUATION METHODOLOGY

Economic Profit Valuation	**Rs m**	**%**
Adjusted Opening Invested Capital	40382.8	15
NPV of Economic Profit During Explicit Period	19514.7	7
NPV of Econ Profit of Remaining Business (1, 2)	50220.6	19
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	150793.9	58
Enterprise Value	260912.0	100
Plus: Other Assets	0.0	0
Less: Minorities	0.0	0
Less: Net Debt (as at 26 Apr 2007)	-32552.0	-12
Equity Value	293464.0	112
No. Shares (millions)	289.0	
Per Share Equity Value	**1015.4**	
Current Share Price	789.1	

Discounted Cash Flow Valuation	**Rs m**	**%**
Value of Phase 1: Explicit (2007 to 2009)	-4116.2	-2
Value of Phase 2: Value Driver (2010 to 2020)	38072.1	15
Value of Phase 3: Fade (2021 to 2031)	99299.8	38
Terminal Value	127652.4	49
Enterprise Value	260908.2	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		14
FCF Grth Rate at end of Phs 1 implied by Current Price		14

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table

		No of Years in Fade Period 15	18	20	23	25
WACC	**11.2%**	1,535	1,711	1,836	2,038	2,183
	12.2%	1,319	1,451	1,544	1,691	1,795
	13.2%	1,139	1,238	1,306	1,414	1,488
	14.2%	989	1,062	1,113	1,190	1,244
	15.2%	863	917	954	1,010	1,048

Performance Summary	**2007**	**2008**	**Phase 2 Avg 2009**	**ıase 2 Avg (2010 - 2020)**
Invested Capital Growth (%)	62.1	51.7	36.7	22.2
Operating Margin (%)	14.5	14.0	13.9	12.6
Capital Turnover (x)	6.6	4.7	3.6	3.0

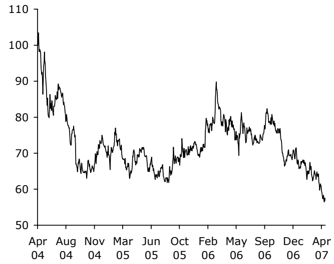
Source: ABN AMRO estimates
1. In periods following the Explicit Period i.e. Phase 2 and Phase 3
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
3. Net Investment is defined as capex over and above depreciation after Phase 1

Maruti Udyog Ltd

Company description — Buy

Maruti is a 54.2% subsidiary of Suzuki Motor Corporation, Japan. The company is also the largest car manufacturer in India, with a market share of 55%. Maruti's strategy is focused on leveraging its increasing penetration of the Indian car market, where it has a 67% market share of the small car & van segment. Suzuki is also developing Maruti as a global base for developing and manufacturing small cars. Apart from a volume focus, the company has also undertaken intensive cost-reduction and productivity-improvement programmes. As a result of these programmes, Maruti has consistently beaten its profitability and productivity targets.

Price relative to country



Strategic analysis — Average SWOT company score: 3

Strengths — 4
The company enjoys exceptionally high customer goodwill. It is also the lowest-cost car manufacturer in India with the highest market penetration, especially in the small car segment.

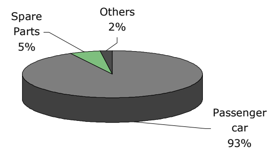
Weaknesses — 2
The company has a weak presence in the midsize and premium car segments. This may put it at a disadvantage if the market shifts towards premium cars.

Opportunities — 4
Strong demand in the small and compact car segments in India, where 50m motorcycle owners aspire to owning a car. It can also tap related services such as car insurance and financing.

Threats — 2
Increasing competition and pricing pressures are the two main threats to the company going forward.

Scoring range is 1-5 (high score is good)

Sales mix, FY06



Source: Company data

Market data

Headquarters
11th Floor, Jeevan Prakash, 25, Kasturba Gandhi Marg, New Delhi - 110001

Website
www.marutiudyog.com

Shares in issue
289.0m

Freefloat
36%

Majority shareholders
Suzuki (54%), Government of India (10%)

India

Country view — Neutral

The market looks expensive, but we believe it will remain supportive when regional funds seek a domestically-driven home with continuing robust earnings growth. The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. At the sector level, we still like autos, software and construction-related stocks.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 3+

Supplier power — 4+
Most of Maruti's suppliers are either captive or highly dependent on the company. As a result, the company enjoys significant bargaining power.

Barriers to entry — 2+
High capital investment, technology and ability to absorb losses in the initial years are the key entry barriers. Cost and time involved in setting up a service network also act as entry barriers.

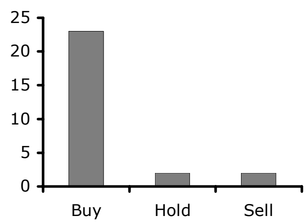
Customer power — 3-
Increasing competition, excess capacities and increasing financing options are resulting in a shift of power from manufacturers to customers.

Substitute products — 2+
Cars in the premium segment are facing competition from SUVs, whereas in the compact segment, there is no substitute available.

Rivalry — 3-
The 700,000 units pa produced locally for sale in India are shared by 11 players, with the top three accounting for 87% market share. To this extent, we believe rivalry is limited.

Scoring range 1-5 (high score is good)   Plus = getting better   Minus = getting worse

Broker recommendations



Source: Bloomberg