Detailed Report
SECTOR: AUTOMOBILES

Maruti Udyog

Tough and spirited

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Maruti Udyog

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,164	MUL IN
	REUTERS CODE
S&P CNX: 4,115	MRTI.BO

23 August 2007 **Buy**

Previous Recommendation: Buy Rs777

Y/E MARCH	2006	2007	2008E	2009E
Total Income (Rs b)	122.5	149.7	183.8	218.4
EBITDA (Rs b)	18.2	22.9	29.2	34.1
Net Profit (Rs b)	12.1	15.6	19.6	22.9
Adjusted EPS (Rs)	41.9	53.9	67.7	79.2
EPS Growth (%)	42.0	28.5	25.6	17.0
BV/Share (Rs)	188.7	237.2	299.9	373.6
P/E (x)	18.5	14.4	11.5	9.8
P/BV (x)	4.1	3.3	2.6	2.1
EV/EBITDA (x)	10.5	8.0	5.9	4.8
EV/Sales (x)	1.6	1.2	0.9	0.8
RoE (%)	21.8	22.8	22.6	21.2
RoCE (%)	32.2	30.2	30.6	29.1

Key beneficiary of robust demand for passenger vehicles: Though volume growth in segments like commercial vehicles (CVs) and two-wheelers turned sluggish, the passenger vehicle (PV) segment maintained its healthy growth in 1QFY08. We believe that this indicates the imperviousness of the PV industry to temporary negative factors like higher interest rates and tightness in bank financing. The structural factors sustaining the robust growth in PVs are still in place and we expect volumes to grow at 16.5% CAGR over FY07-10. As the leading player in the industry, Maruti would be a key beneficiary.

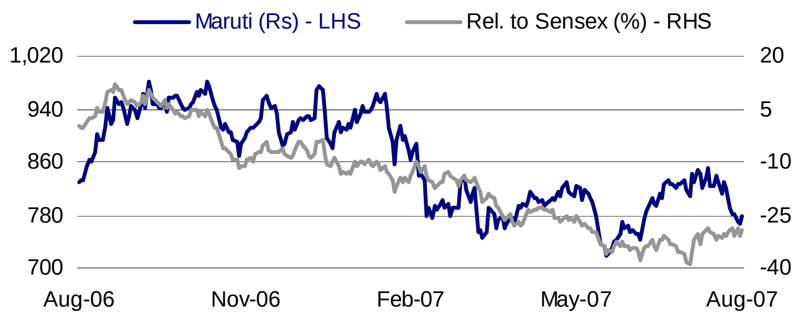
Best placed to maintain profitability: Its internal efficiencies and superior product mix make Maruti the most efficient car manufacturer in India. Despite a series of price cuts across its product range, competitive pressure and cost inflation, Maruti has consistently expanded its margins over the past three years (220bp over FY04-07). Though rising input/power costs, consolidation of the Manesar assembly plant and higher royalty payments due to new model launches are challenges to the margins, Maruti will be able to improve them due to successful cost reduction, productivity improvement and increased localisation leading to higher internal efficiencies.

Valuations attractive; maintain Buy: We remain positive on Maruti's growth prospects. We estimate volume growth at 16.4% CAGR over FY07-10; aggressive model launches could result in positive surprises. Margins would expand from 15.3% in FY07 to 15.9% in FY08, despite consolidation of the Manesar plant. We estimate EPS at Rs67.7 for FY08 and Rs79.2 for FY09. The stock is attractive at 11.5x FY08E EPS and 9.8x FY09E EPS. **Buy** with a target price of Rs1,188 – an upside of 53%.

KEY FINANCIALS	
Shares Outstanding (m)	289.0
Market Cap. (Rs b)	221.6
Market Cap. (US$ b)	5.5
Past 3 yrs Sales Growth (%)	17.6
Past 3 yrs NP Growth (%)	36.0
Dividend Payout (%)	8.3
Dividend Yield (%)	0.6

STOCK DATA	
52-W High/Low Range (Rs)	991/713
Major Shareholders (as of June 2007)	(%)
Promoters	58.7
Domestic Institutions	22.7
Foreign	12.9
Public	5.7
Average Daily Turnover	
Volume ('000 shares)	958.5
Value (Rs million)	832.0
1/6/12 Month Rel. Performance (%)	5/-15/-29
1/6/12 Month Abs. Performance (%)	-5/-11/-6

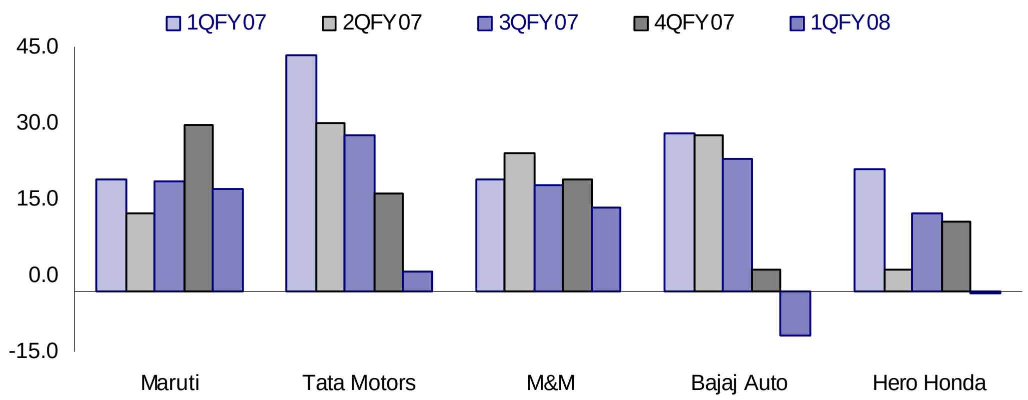
STOCK PERFORMANCE (1 YEAR)



Tough and spirited: a consistent outperformer

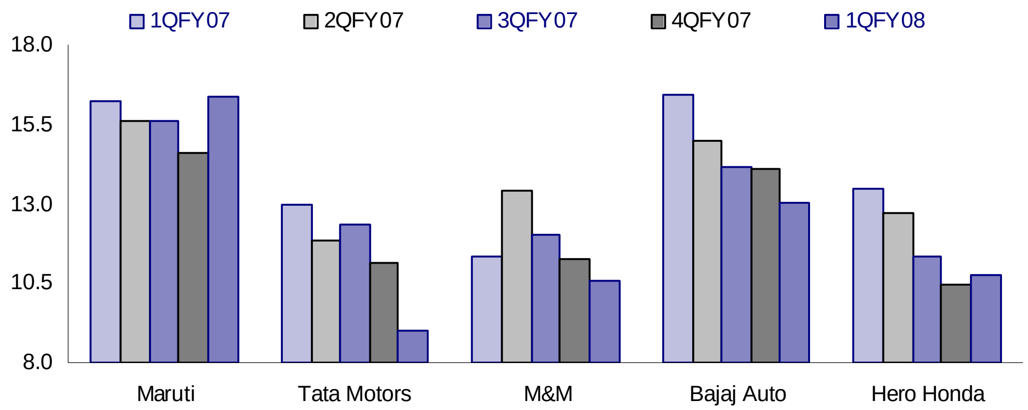
Maruti has shown the most consistent volume growth in the auto sector…

AUTO COMPANIES: QUARTERLY VOLUME GROWTH (%)



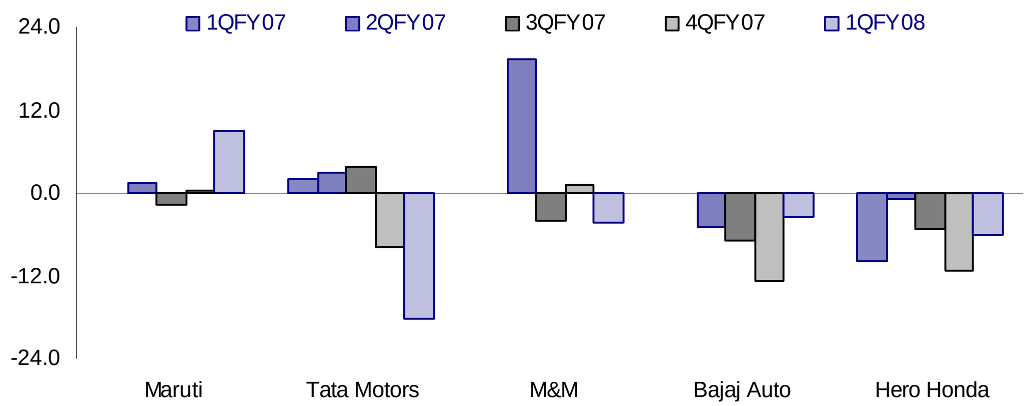
…and its EBITDA margin has also been the best

AUTO COMPANIES: QUARTERLY EBITDA MARGINS (%)



Besides, Maruti's profits have consistently witnessed upgrades

AUTO COMPANIES: CHANGE IN FY08 PAT ESTIMATES SINCE 1QFY07 (%)



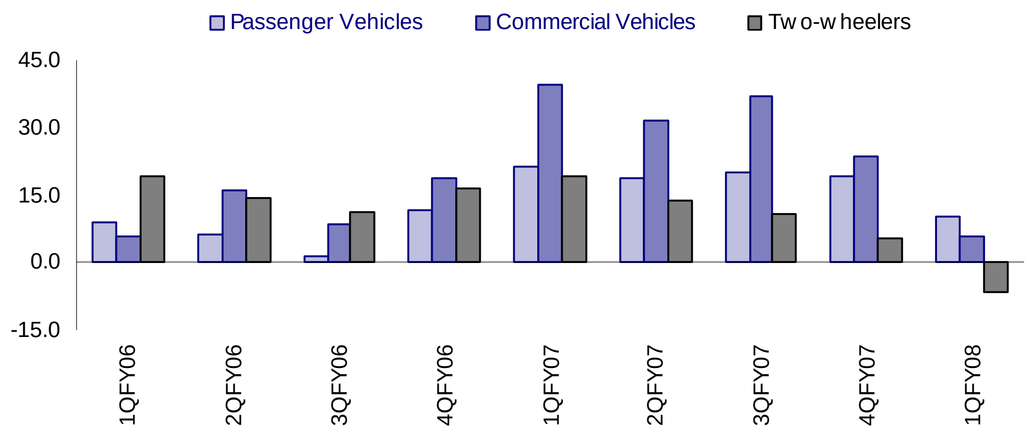
Source: Industry/Motilal Oswal Securities

Passenger vehicles: robust growth to sustain

Though volume growth in segments like commercial vehicles (CVs) and two-wheelers turned sluggish, the passenger vehicle (PV) segment maintained its healthy growth in 1QFY08. We believe that this indicates the imperviousness of the PV industry to temporary negative factors like higher interest rates and tightness in bank financing. The structural factors sustaining the robust growth in PVs are still in place and we expect volumes to grow at 16.5% CAGR over FY07-10. As the leading player in the industry, Maruti would be a key beneficiary.

The PV industry has maintained a growth rate of 10-20%

PASSENGER VEHICLES: MAINTAINING STEADY GROWTH (%)



Source: Industry/Motilal Oswal Securities

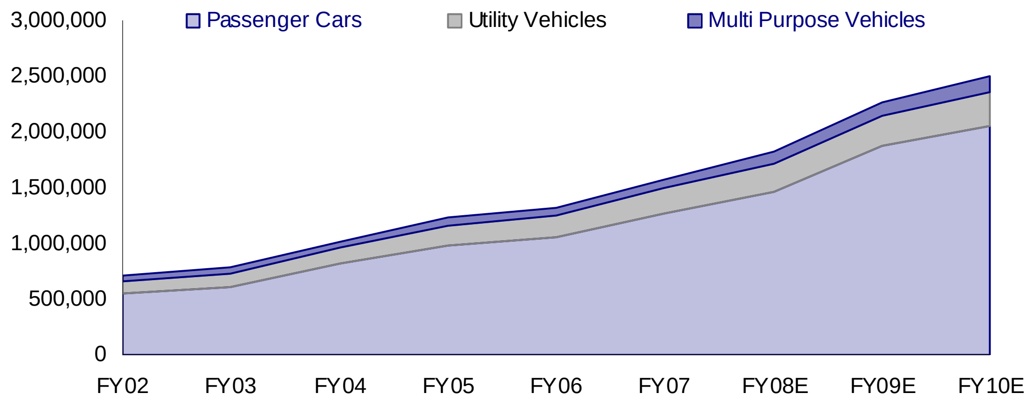
Expect PV industry to grow at 16.5% CAGR over FY07-10

PASSENGER VEHICLES: EXPECT ROBUST VOLUME GROWTH TO SUSTAIN

	TOTAL PASSENGER VEHICLES ('000 UNITS)			CHANGE (%)		
	DOMESTIC	EXPORTS	TOTAL	DOMESTIC	EXPORTS	TOTAL
FY03	707	72	779	5.8	35.3	7.9
FY04	898	129	1,027	26.9	79.6	31.8
FY05	1,062	166	1,229	18.3	29.1	19.7
FY06	1,143	176	1,319	7.6	5.6	7.3
FY07	1,380	198	1,578	20.7	12.9	19.7
FY08E	1,584	233	1,817	14.8	17.6	15.2
FY09E	1,772	501	2,273	11.9	114.7	25.1
FY10E	1,962	536	2,498	10.7	7.0	9.9

Source: Industry/Motilal Oswal Securities

PASSENGER CARS CONTINUE TO DOMINATE THE PASSENGER VEHICLES SEGMENT (VOLUME UNITS)



Source: Industry/Motilal Oswal Securities

Key growth drivers

- **Rapid growth in middle/high income households:** Strong economic growth is leading to rapid growth in middle/high income households. With increasing salaries, changing lifestyles, and increased urbanization, the demand for passenger vehicles is likely to remain strong.

RAPID GROWTH IN MIDDLE/HIGH INCOME HOUSEHOLDS (INCOME IN RS '000 PA AND HOUSEHOLDS IN '000)

			NUMBER OF HOUSEHOLDS			CAGR (%)	
	CLASSIFICATION	INCOME CLASS	2001-02	2005-06*	2009-10*	2002-10	2006-10
	Deprived	<90	135,378	132,250	114,394	-2.1	-3.6
Mainly two-wheeler buyers	Aspirers	90 - 200	41,262	53,276	75,304	7.8	9.0
Key target audience for Maruti	Seekers	200 - 500	9,034	13,813	22,268	11.9	12.7
	Strivers	500 - 1,000	1,712	3,212	6,173	17.4	17.7
	Near Rich	1,000 - 2,000	546	1,122	2,373	20.2	20.6
	Clear Rich	2,000 - 5,000	201	454	1,037	22.8	22.9
	Sheer Rich	5,000 - 10,000	40	103	255	26.1	25.4
	Super Rich	>10,000	20	53	141	27.7	27.7
		Total	**188,193**	**204,283**	**221,945**	**2.1**	**2.1**

* *Estimates* *Source: NCAER*

Maruti's target audience are the 'Seekers' and 'Strivers' segment households, which are expected to nearly treble in size to 28m households in the ongoing decade, on account of population growth and improvement in the financial condition of the 'Aspirers'. This upward mobility of the formerly two-wheeler purchasing households will boost demand for compact cars leading to increase in demand for Maruti's *Alto*, *Wagon R*, and *Swift* models, Hyundai's *Santro*, Tata Motor's *Indica*, etc.

An increase in the number of high income households will favor higher sales of A3 and other premium segments, where Honda *City* dominates. However, Maruti is increasing its presence in the premium segment through the successful launch of the

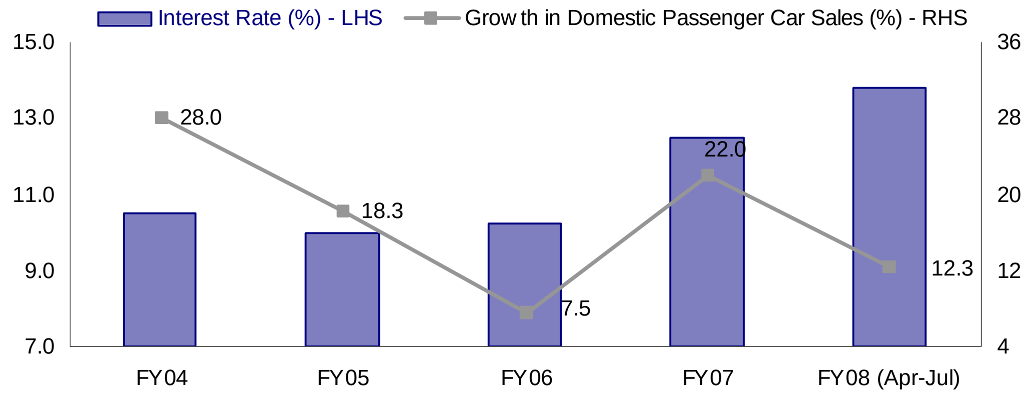
SX4 and the planned launch of the *'Swift sedan version'* (as a replacement of the long-serving *Esteem* model).

- **Interest rate expected to stabilize:** Stability in interest rates and increase in availability of finance will be a major sentimental positive for four-wheeler stocks, and will result in higher volume growth. Maruti, the industry leader in passenger vehicles, would be the key beneficiary of the increase in demand.

  With the inflation rate having subsided from a high of 6.5% in January 2007 to 4% as per the latest data, a stable interest rate regime could emerge. Moreover, we also believe that availability of finance would increase significantly due to strong deposit growth and this would have a positive impact on sectors that faced liquidity crunch earlier.

Higher interest rates have negatively impacted domestic passenger car sales growth in YTD FY08

IMPACT OF INTEREST RATE ON SALES GROWTH (%)



Source: SIAM/CrisInfac

- **Availability of a wide range of car models:** The Indian PV market has come a long way from being a duopoly, with just a handful of models to choose from. Today, a wide choice is available to the customer and the frequency of new launches has been increasing over the years. Some recent launches include the *Swift Diesel*, *Teana*, *Logan*, *SX4*, *Spark*, etc. On the horizon are Honda's *Jazz*, variants of *Logan*, Hyundai's *Pa*, Volkswagen's small car, Tata Motor's Rs100,000-car, etc. Increasing availability of newer alternatives would favorably impact demand.

- **Increasing exports:** Global majors are committing resources to India to gain a share of the domestic market and have a low-cost export base (as already seen with Hyundai). Some of the global majors committing resources to India are:
  1. **Hyundai:** Doubling its production capacity in India to 600,000 vehicles, with the aim to double exports by 2008.
  2. **General Motors:** Investing US$300m to build its second plant, which will increase its installed capacity to 220,000 units.

3. **Fiat:** Increasing production capacity to 100,000 units; also has a tie-up with Tata Motors for co-branded showrooms and technology sharing.
4. **Honda:** Intends to invest Rs30b in India over 10 years; already in the process of increasing production capacity.
5. **Renault & Nissan:** Renault already has a joint venture with Mahindra & Mahindra (M&M) to manufacture the *Logan* at Nashik. A 300,000-unit joint manufacturing capacity of M&M, Renault and Nissan is coming up at Chennai.
6. **Volkswagen:** Setting up a 110,000-unit plant to be completed by 2010.
7. **DaimlerChrysler:** Doubling its installed capacity to 4,500 units.

Increase in capacity in India would also lead to higher growth potential for exports, as global majors take advantage of India being a low cost manufacturing base.

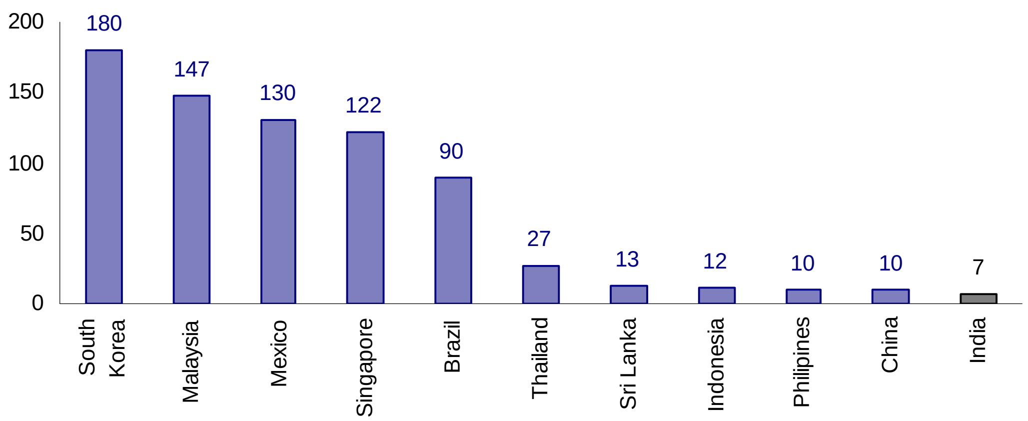
PASSENGER VEHICLES: POTENTIAL EXPORTS FROM NEW EXPORT DEDICATED CAPACITIES COMING UP

ADDITIONAL EXPORT DEDICATED CAPACITIES COMING UP	FY09E	FY10E
Maruti (for Nissan)	50,000	50,000
Maruti (other exports targets)	-	50,000
Hyundai (assumed 60% of capacity)	150,000	150,000
Mahindra Renault (assumed 30% of capacity)	2,500	20,000
General Motors	30,000	30,000
Tata Motors - Fiat	10,000	10,000
Others	12,500	12,500
Total	**255,000**	**322,500**

Source: Industry

- **Low passenger car penetration:** Vehicle penetration in India is low even by developing countries' standards – even lower than countries like Sri Lanka, Indonesia and Philippines. We believe that demand for motor vehicles in India would see robust growth. Among the main demand drivers for motor vehicles are robust economic growth and increasing prosperity, improving road infrastructure, and access to financing.

PER CAPITA PASSENGER CAR PENETRATION (PER '000)



Source: SIAM

Maruti: a key beneficiary

Being the leading player, Maruti would be one of the key beneficiaries of the rapid growth in demand for passenger cars. We expect the company to post strong volume growth, driven by aggressive model launches, entry into the diesel space and rising exports. We estimate 17% growth in Maruti's domestic volumes in FY08 to 743,686 units and expect its market share to inch up from 51.1% in the beginning of the year to 51.9% by the end of the year.

To maintain leadership in passenger cars

We believe that any concerns over Maruti's dominance in the passenger car industry are unfounded

We believe that any concerns over Maruti's dominance in the passenger car industry are unfounded. Competition is set to intensify in the A1 and A2 segments, where Maruti currently reigns supreme. Tata Motors would be launching its Rs100,000 car, Renault intends to launch a US$3,000 (about Rs125,000) car, and Honda and General Motors (GM) are entering the small car segment in India. However, we believe that Maruti would maintain its dominance in the passenger car market, aided by the following:

- Rapid growth of the market
- Established and loyal customer base
- Suzuki's market familiarity – it has spent over 25 years in India
- Persistent attractive schemes for customers such as the teachers' scheme, government employees' scheme, new schemes for the rural populace, etc.
- Most of Maruti's competitors are still in the initial phase of putting up their plants, with ramp up yet to happen (GM, Honda), or have failed to increase their capacities in time to catch the demand upswing (Hyundai) or have jaded models that need revamping (Tata Motors).

VOLUME SHARE IN DOMESTIC PASSENGER CAR MARKET (%)

	FY06	FY07	FY08	FY09	FY10	CHG. FY06-10
Maruti Udyog	51.7	51.1	51.9	52.0	51.5	-0.2
Hyundai	17.9	18.1	15.9	15.1	14.9	-3.0
Tata Motors	17.1	16.6	15.8	15.8	16.0	-1.1
Honda	4.6	5.5	5.1	4.9	4.8	0.2
Ford	3.1	3.7	3.2	3.0	2.8	-0.3
Hindustan Motors	1.7	1.2	0.7	0.5	0.4	-1.3
General Motors	1.3	1.6	3.3	4.0	4.0	2.7
Skoda	1.1	1.2	0.9	0.8	0.7	-0.4
Toyota	1.1	0.7	0.6	0.5	0.4	-0.7
Fiat	0.2	0.1	0.2	0.2	0.2	0.0
DaimlerChrysler	0.2	0.2	0.2	0.2	0.2	0.0
Mahindra-Renault	0.0	0.0	2.0	2.9	3.9	3.9
Nissan	0.0	0.0	0.0	0.1	0.1	0.1
Total Domestic Sales	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	

Source: Industry/Motilal Oswal Securities

Note: Based on existing models operating in the market. Does not factor in the impact of the Rs0.1m car and some prospective launches like Honda's Jazz and Volkswagen's small car etc. Logan sales have been assumed to be completely in the A3 segment (even if the hatchback version is launched).

SX4 to revive fortunes in the A3 segment

The launch of the SX4 should revive its fortunes in the A3 segment

While we are confident that Maruti would maintain its market leadership in the A1 and A2 segments, it would lose some market share by FY10 following new launches by competitors. Yet we expect Maruti to outpace the domestic PV industry growth rate, with the launch of the *SX4* reviving its fortunes in the A3 segment. We estimate that the company's domestic volumes would grow 17% in FY08 and 12% in FY09, while overall volumes would increase by 16.9% in FY08 and by 16% in FY09. Maruti would maintain its market share in the domestic passenger car market at 51.5% till FY10 (51.1% in FY07).

PASSENGER CARS: NEW MODEL LAUNCHES EXPECTED

COMPANY	MODEL	EXPECTED LAUNCH
Chevrolet	Beat	FY09/FY10
Fiat	Grande Punto / Linea	Mid 2008
Honda	Jazz	FY10
Hyundai	PA	FY08 end
Mahindra Renault	Logan Variants	No firm schedule
Maruti	Swift Sedan	No firm schedule
Maruti	Splash	FY08 end
Skoda	Fabia	3QFY08
Tata Motors	Small Car	FY08 end / FY09
Tata Motors	New Indica Platform	No firm schedule
Toyota	Vios	3QFY09
Toyota	Yaris/Small Car on Yaris Platform	FY10
Volkswagen	Polo/Small Car based on Polo Platform	FY09/FY10

Source: Industry/Motilal Oswal Securities

We expect the company to maintain its volume share in the overall domestic passenger car market

MARUTI'S MODELS: VOLUME SHARE IN DOMESTIC PASSENGER CAR MARKET (%)

	FY06	FY07	FY08	FY09	FY10	CHG. FY06-10
Alto	18.0	20.8	21.1	21.8	22.4	
800	10.1	7.4	5.8	4.2	3.0	
Swift	6.0	5.9	6.5	6.7	6.9	
Wagon R	10.0	11.0	10.8	10.9	11.0	
Zen	3.9	0.6	0.0	0.0	0.0	
Estillo	0.0	2.6	3.8	3.7	3.5	
Baleno	1.1	0.6	0.0	0.0	0.0	
Esteem	2.5	2.2	1.4	1.2	0.9	
SX4	0.0	0.0	2.6	3.5	3.6	
Total Maruti	**51.7**	**51.1**	**51.9**	**52.0**	**51.5**	**-0.2**

Note: Assuming the existing models are continued *Source: Industry/Motilal Oswal Securities*

MARUTI TO MAINTAIN ITS DOMINANCE...

	EXISTING CAR MODELS BY SEGMENT					VOLUME CAGR (%)	INSTALLED CAPACITY ('000 UNITS)	
	A1	A2	A3	A4	A5	FY02-07	FY07	FY10
Maruti	M-800	Alto, Estillo, WagonR, Swift	SX4, Esteem			15.5	650	1,000
Hyundai		Santro, Getz	Accent, Verna	Elantra	Sonata	27.2	300	600
Tata Motors		Indica	Indigo			24.1	300	600
Ford			Fiesta, Fusion, Ikon			6.6	100	100
Honda			City	Civic	Accord	40.3	50	150
General Motors		Spark, Aveo UVA	Aveo	Optra,		14.6	85	220
Mahindra Renault			Logan			-	-	300
Domestic volumes FY07	79,245	752,280	196,827	40,960	5,963	**Total**	**1,485**	**2,970**
Segment growth FY07	-4.3	27.2	7.8	46.7	-4.3			
Segment CAGR FY02-07	-8.2	25.7	15.3	115.6	10.8			

Source: Company/Motilal Oswal Securities

Maruti is best placed to maintain market share due to adequate capacity, higher productivity, established domestic presence and consistent new model launches

... DESPITE SEVERAL NEW MODEL LAUNCHES

	CAR MODELS			
	A1	A2	A3	COMMENT
General Motors		Beat		Next generation Spark, but revamping of older model Matiz unlikely to sustain the innovation effect over the long term
Fiat		Grande Punto	Linea	Global models being launched in India, will capitalize on the tie-up with Tata Motors for visibility, but co-branded showrooms with Tata Motors may lead to lower recognition
Honda		Jazz		Will bank on the strong brand image created by Honda City; however, capacity ramp-up likely to be slow
Hyundai		PA		To be positioned between Santro & Getz, likely to see a reduction in Santro prices, will help Hyundai sustain volumes
Mahindra Renault			Logan variants	Launch of variants will offer greater variety, will help increase exports
Maruti		Splash	Swift sedan	Splash is likely to be exported as part of the Nissan deal; the Swift sedan will replace the Esteem
Skoda		Fabia		Fabia will test the waters in the compact car segment, likely to be priced at the upper end of the A2 segment
Tata Motors	Rs100,000 car	New Indica platform		People's car can change the paradigm in the Indian auto industry, threat to Maruti's dominance
Toyota		Yaris	Vios	Global leader is yet to make a mark in the domestic PC industry, like Skoda will offer an A2 car at A3 prices
Volkswagen		Polo		Polo will test the waters in the compact car segment, may make an impact initially

Source: Company/Motilal Oswal Securities

Diesel debut opens a new niche

Through the launch of its diesel-powered Swift*, Maruti has entered the fast-growing diesel segment*

Through the launch of its diesel-powered *Swift*, Maruti has entered the fast-growing diesel segment. This opens up a hitherto untapped market for the company – that of diesel car buyers. Amongst the company's target audience is the daily commuter who travels up to 30km or more one way to get to work everyday. Maruti intends to replicate the success of the diesel version of Ford's *Fiesta*, which despite being more expensive than the petrol version, accounts for a greater proportion of the model's sales.

Diesel cars are increasingly becoming more popular and we believe Maruti would be able to garner growth in this segment as well. We expect the company to gain double-digit share of ~21% in the diesel segment by FY10.

DIESEL CARS TO BE A FAST-GROWING SEGMENT

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Maruti Udyog						
Total Volumes - D+E	537,198	561,819	674,924	788,875	914,721	1,063,448
Growth (%)	*13.8*	*4.6*	*20.1*	*16.9*	*16.0*	*16.3*
Market Share in Total PV Industry (%)	*43.7*	*42.6*	*42.8*	*43.4*	*40.2*	*42.6*
Domestic Volumes - D	488,299	527,038	635,629	743,686	832,928	916,221
Growth (%)	*16.0*	*7.9*	*20.6*	*17.0*	*12.0*	*10.0*
Market Share (%)	*46.0*	*46.1*	*46.1*	*46.9*	*47.0*	*46.7*
Petrol Version	488,299	527,038	626,629	695,686	754,928	796,221
Proportion of Petrol Version (%)	*100*	*100*	*98.6*	*93.5*	*90.6*	*86.9*
Growth (%)	*16.0*	*7.9*	*18.9*	*11.0*	*8.5*	*5.5*
Market Share (%)	*57.5*	*58.4*	*59.0*	*58.6*	*58.4*	*57.2*
Diesel Version			9,000	48,000	78,000	120,000
(%) Proportion of Diesel Version			*1.4*	*6.5*	*9.4*	*13.1*
Growth (%)				*433.3*	*62.5*	*53.8*
Market Share (%)			*2.8*	*12.1*	*16.3*	*21.1*
Export Volumes - E	48,899	34,781	39,295	45,189	81,793	147,227
Growth (%)	*-4.4*	*-28.9*	*13.0*	*15.0*	*81.0*	*80.0*

Source: Company/Motilal Oswal Securities

'People's car' not such a big threat

Through its Rs100,000 'people's car', Tata Motors intends to target the vacuum between two-wheelers (priced at Rs25,000 - Rs60,000) and the A1 segment (*M-800* priced at Rs180,000 onwards). The likely audience for such a car would be households earning Rs10,000 - Rs15,000 per month, where passenger car penetration is just 12.2%.

TARGET AUDIENCE FOR 'PEOPLE'S CAR'

MONTHLY HOUSEHOLD INCOME (RS)	NO. OF HOUSEHOLDS (M)	CAR OWNING HOUSEHOLDS (M)	CAR PENETRATION (%)
Upto Rs5,000	165.6	0.5	0.3
Rs5,000 - 10,000	34.6	1.0	2.8
Rs10,000 - 15,000	6.6	0.8	12.2
Rs15,000 - 20,000	3.1	0.7	23.3
Greater than Rs20,000	3.2	1.3	39.4
Total	**213.1**	**4.2**	**2.0**

Source: National Readership Survey - 2005

It also has the ability to effectively complete against Tata Motors' Peoples Car by slashing prices of M-800

Maruti has the option of competing in this segment by offering the *M-800* at lower prices. *M-800* assets have fully depreciated (the model was launched in 1983 and has seen several upgrades over the years), and royalty payments on the model have been completely made. Maruti could offer a toned-down version of the model with no frills and lower profit margins to effectively compete with Tata Motors.

FY08 volumes could be higher than estimated

We expect Maruti to continue witnessing robust volume growth

During YTD FY08, Maruti has garnered total volumes of 227,578 units – a growth of 18.9%. We believe that volume growth in FY08 will be robust at 16.9%. The early success of the *SX4* and robust demand for A2 segment cars leaves potential for positive surprises on the volume front. Our view is affirmed by the good response even to the variants on the existing models like the diesel version of *Swift* and CNG option on *WagonR Duo*.

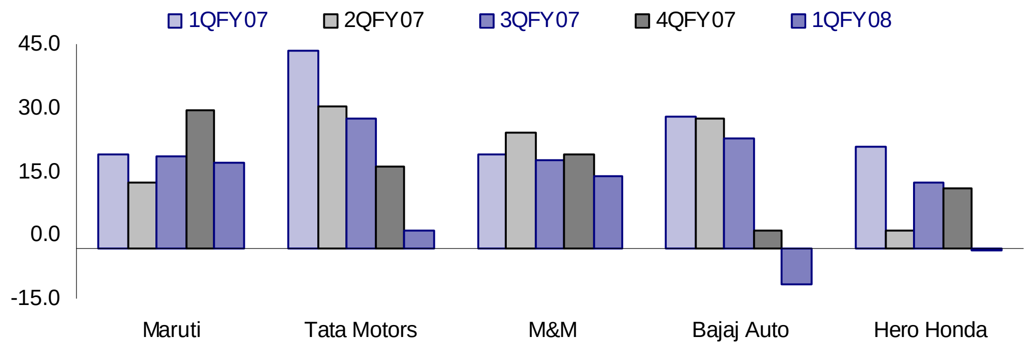
MARUTI: EXPECT RESIDUAL VOLUME GROWTH OF 16.1% FOR THE REST OF FY08

	YOY			MOM		YTD			RESI-
	JUN-07	JUN-06	YOY (%) CHG	MAY-07	MOM (%) CHG	2008	2007	YTD (%) CHG	DUAL GR. (%)
Segments	**57,909**	**46,408**	**24.8**	**59,917**	**-3.4**	**227,578**	**191,356**	**18.9**	**16.1**
A1	5,970	6,040	-1.2	6,214	-3.9	23,964	26,340	-9.0	
MPV	7,214	6,899	4.6	8,017	-10.0	27,845	23,708	17.4	
A2	34,737	29,326	18.5	37,646	-7.7	145,150	120,776	20.2	
A3	4,394	2,142	105.1	3,923	12.0	15,450	9,713	59.1	
UV	524	246	113.0	200	162.0	1,034	1,220	-15.2	
Export	5,070	1,755	188.9	3,917	29.4	14,135	9,599	47.3	

Source: Motilal Oswal Securities

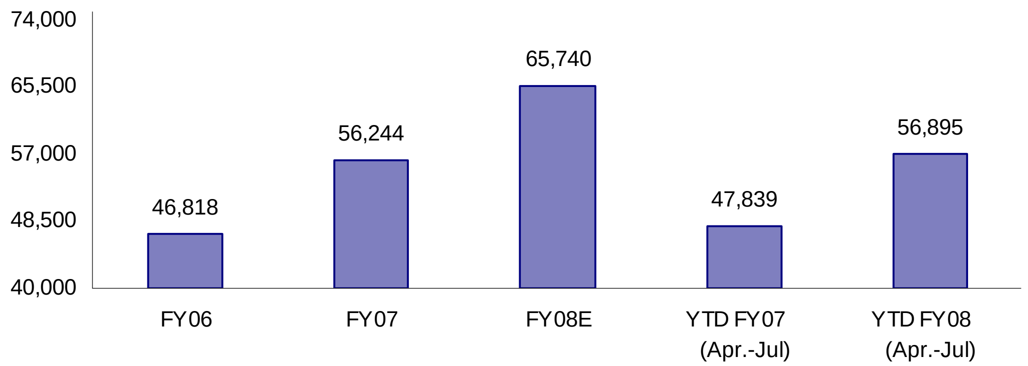
At our current estimates, we expect residual growth of 16.1% for the rest of the year. We believe that Maruti's actual volumes for the year could surprise positively.

AUTO COMPANIES: QUARTERLY VOLUME GROWTH (%)



Maruti has shown the most consistent volume growth in the auto sector

MARUTI: AVERAGE MONTHLY VOLUMES ARE RISING



Source: Company/Motilal Oswal Securities

Capacity expansion to support volume growth

Volume growth will be supported by timely capacity addition

Maruti has raised the scope of its capex program from Rs60b (announced earlier) to Rs90b. In our opinion, the capacity expansion is well timed and comes at an opportune time – particularly when its key competitor, Hyundai is facing capacity constraints. The expansion would help Maruti sustain its double-digit volume growth. We expect the company's production capacity to reach 1m cars per year by 2010. Currently, its capacity stands at 650,000 cars per year.

Maruti's diesel engine is being manufactured by Suzuki Power Train India, a 70:30 joint venture between Suzuki Motor Company and Maruti Udyog. The diesel engine manufacturing facility at Manesar currently has a capacity to manufacture 100,000 engines per year. Suzuki Power Train India would be investing over Rs25b in this plant up to 2010 and capacity would be scaled up 300,000 engines per year. The diesel engines, which have a localization level of 75.5% would also be exported to Suzuki's subsidiaries worldwide.

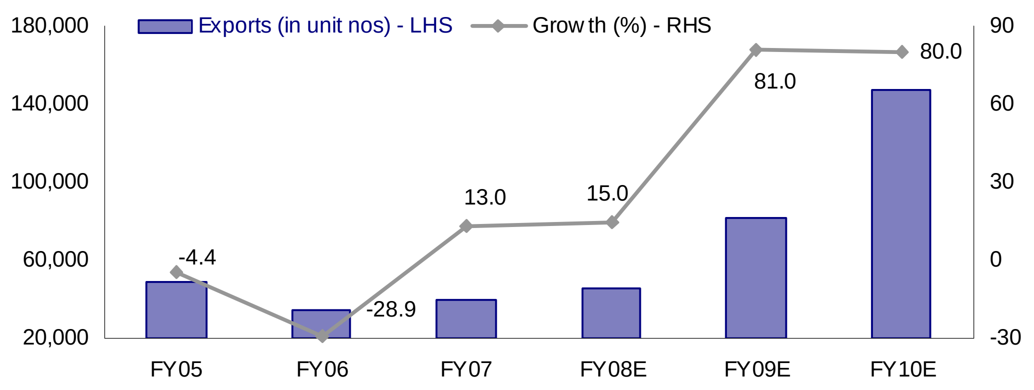
Higher exports to push up volume growth further

Maruti is targeting exports of 200,000 by FY10. To boost exports, it intends to launch a new export oriented car in FY09. Other key growth drivers for exports are forays into newer markets and commencement of production for Nissan. We have assumed exports of 147,227 units by FY10. If the company delivers on its guidance, there would be substantial upside to our estimates.

Recent export orders: Maruti has bagged an order to export 11,000 units of the *Zen Estilo* to Indonesia and 1,500 units of the *Alto* to the Philippines. It aims to export 55,000 cars in FY08 (v/s our estimate of 45,189 units), a growth of 45%. Indonesia and the Philippines are traditional Honda and Toyota strongholds.

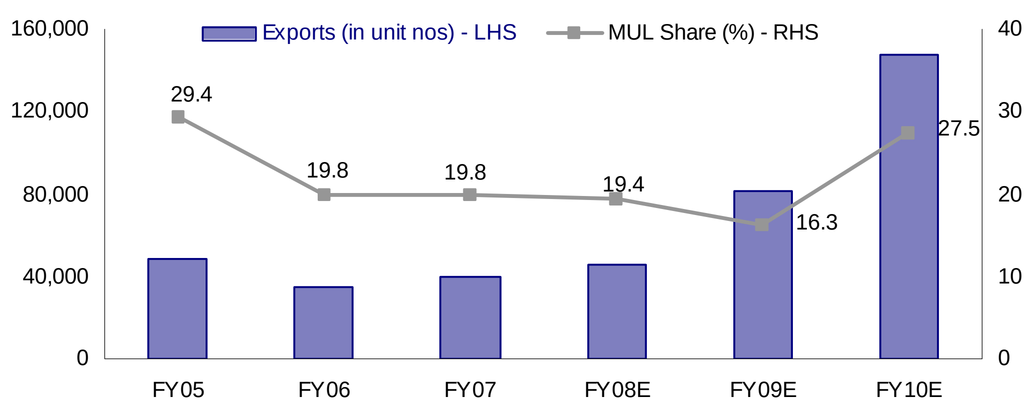
Other key export destinations for Maruti are Algeria, Saudi Arabia, Morocco and Chile.

MARUTI: EXPORT GROWTH



Source: Company/Motilal Oswal Securities

MARUTI: MARKET SHARE IN INDUSTRY EXPORTS

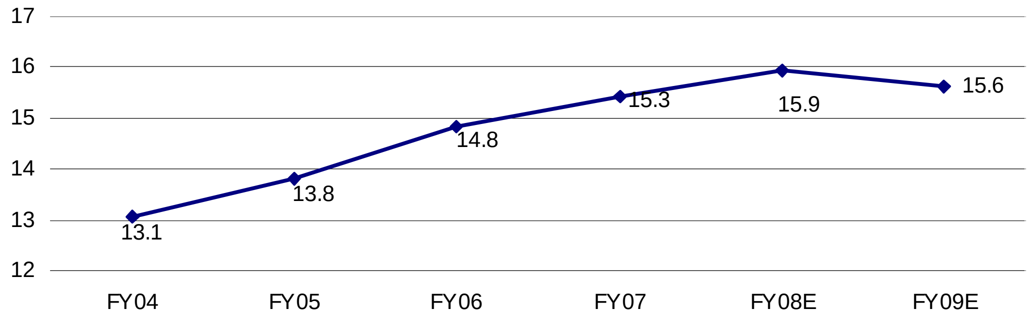


Source: Company/Motilal Oswal Securities

Best placed to maintain profitability

Its internal efficiencies and superior product mix make Maruti the most efficient car manufacturer in India. Despite a series of price cuts across its product range, competitive pressure and cost inflation, Maruti has consistently expanded its margins over the past three years (220bp over FY04-07). Though rising input/power costs, consolidation of the Manesar assembly plant and higher royalty payments due to new model launches are challenges to its profitability, we expect Maruti to achieve a 60bp margin expansion in FY08 to 15.9%.

MARUTI: CONSISTENT EBITDA MARGIN EXPANSION (%)



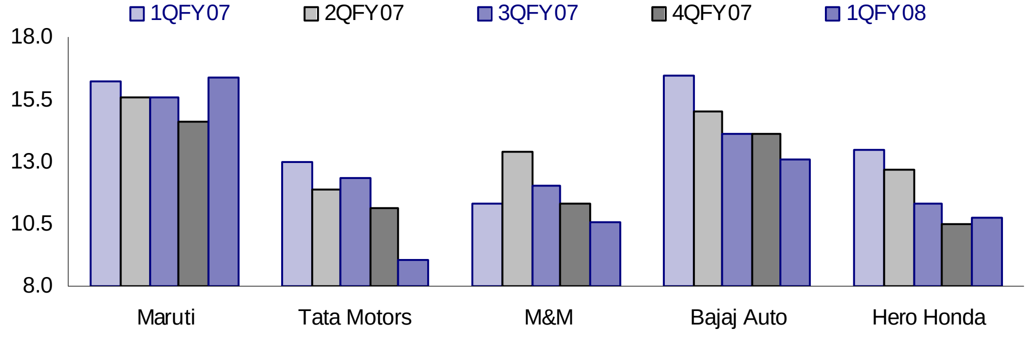
Source: Company/Motilal Oswal Securities

Consistently outperforming the auto sector

Maruti has registered the strongest volume growth in the auto sector over the past five quarters, growing faster than Tata Motors and M&M, and easily outstripping the two-wheeler companies, which saw volume declines. Apart from outperforming the auto sector on the volumes front, Maruti has also posted the highest EBITDA margin in the auto sector. The improvement in its operating performance has led to a robust upgrade in our profit estimate for FY08. We expect Maruti to show the most steady growth in profitability in the auto sector over the next two years.

Maruti's EBITDA margin has been the best in the auto sector

AUTO COMPANIES: QUARTERLY EBITDA MARGINS (%)



Source: Industry/Motilal Oswal Securities

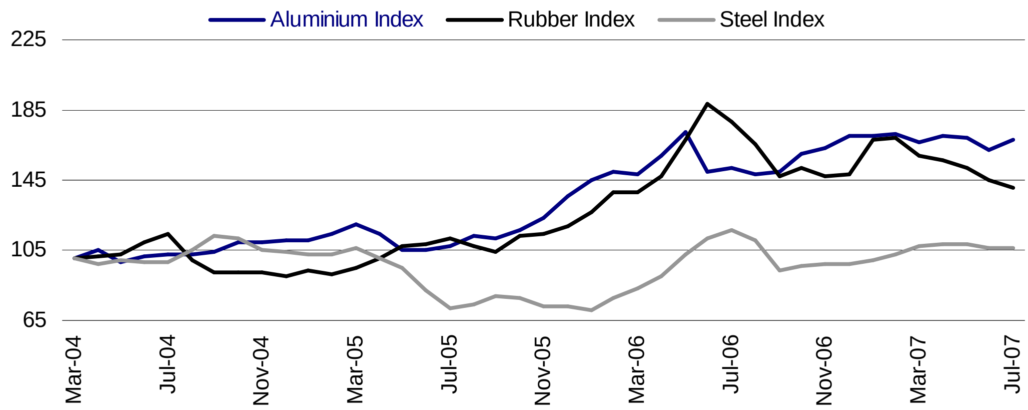
Though there are threats to profitability...

While there are concerns that Maruti's EBITDA margins could decline over FY08-10...

There are concerns that Maruti's EBITDA margins could decline over FY08-10. The concerns have arisen on the following counts:

- **Steady increase in input costs:** Maruti has accorded a 1.5% price increase to its vendors in 2QFY07 and in 4QFY07. It may have to accord similar increases again if the scenario of rising raw material costs persists. The rise in input costs could arrest EBITDA margin expansion.

AUTOS: KEY INPUT PRICES HAVE BEEN INCREASING



Source: Industry/Motilal Oswal Securities

- **Consolidation of the Manesar plant:** The new Manesar plant (previously owned by Maruti Suzuki Automobiles India, a 70:30 JV between Maruti and Suzuki) has been consolidated with Maruti with effect from April 2006. Currently, Maruti assembles the *Swift* and *SX4* at this plant, which has an initial capacity of 100,000 units. As production at this plant has commenced only recently and is yet to reach optimal levels, it is making a loss at the operational level. Until production at the Manesar plant reaches critical mass, it would be a drag on Maruti's overall EBITDA margin.

  Maruti's EBITDA margin had declined in 4QFY07, partly due to the consolidation of the Manesar plant. We expect the plant to turn EBITDA positive in FY09, following which there would be greater visibility of EBITDA margin improvement for Maruti.

MARUTI'S MANESAR PLANT: BREAKEVEN ANALYSIS (RS M)

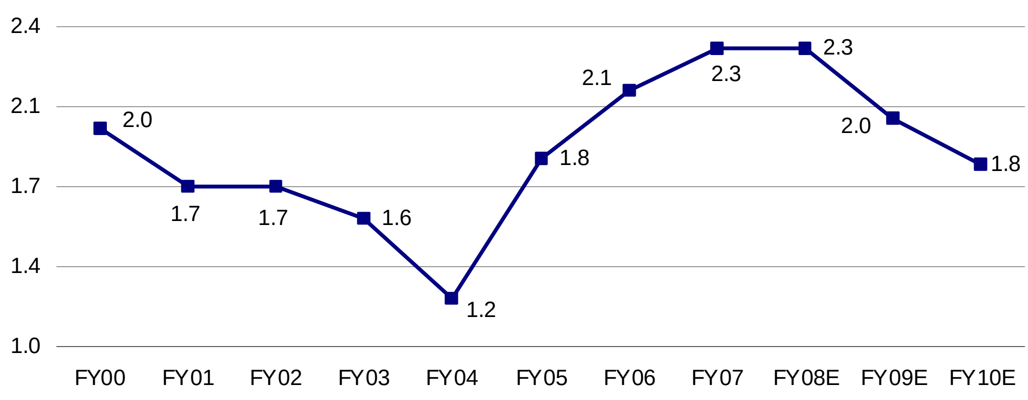
	FY07	FY08E	FY09E
Installed Capacity (Units)	50,000	100,000	150,000
Volume (units)	25,000	100,000	150,000
Average Realization (Rs)	360,000	385,200	404,460
Net Sales	9,000	38,520	60,669
EBITDA	-544	-578	910
EBITDA Margins (%)	-6.0	-1.5	1.5
EBITDA/UNIT (Rs)	-21,740	-5,778	6,067
Interest	214	428	400
Depreciation	373	747	800
Other Income	0	0	20
PBT	-1,131	-1,752	-270

Source: Company/Motilal Oswal Securities

- **New model launches:** The need for vehicle manufacturers to keep launching new models is evident. However, this means higher royalty payment as well as higher promotional and advertising expenditure, thereby impacting margins adversely. We expect Maruti to maintain a royalty payment to net sales ratio of more than 2% over the next two years.

Expect Maruti's royalty payments as a percentage of net sales to decline

MARUTI: ROYALTY PAYMENT AS A PERCENTAGE OF NET SALES



Source: Company/Motilal Oswal Securities

DISCOUNT OFFERED IN JUNE 2007

MODEL	~ DISCOUNT
M-800	15,000
Omni	6,500
Alto	10,000
WagonR	15,000
Swift	5,000
Zen Estilo	15,000
Esteem	35,000
Versa	10,000

Source: Company/MOSL

- **Higher power costs:** Power costs in 4QFY07 were higher by Rs100m mainly due to the use of diesel in place of gas. The company may also have to bear an increase in gas prices from GAIL to the extent of 30% in FY08.

- **Higher discounts in the lean phase:** Discounts and subventions would negatively impact realizations, but higher volumes due to subvention would help maintain the growth in profitability.

…we expect margins to be steady/expand further

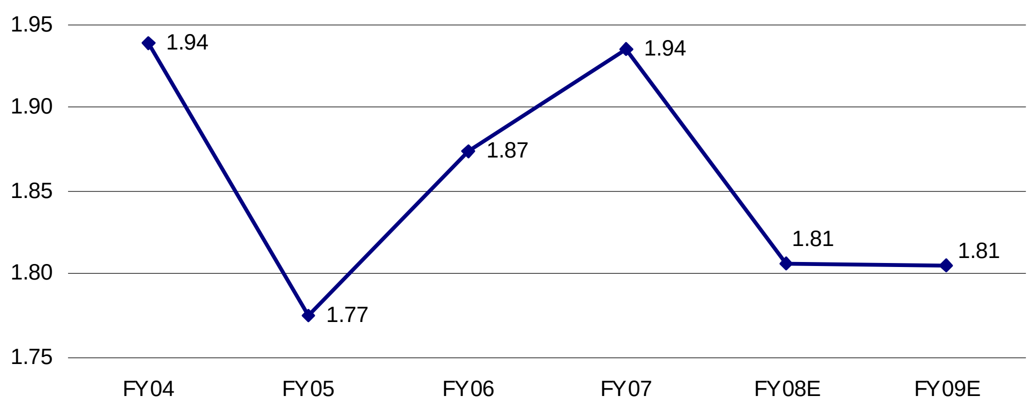
… we believe that its margins would be steady or even expand further

Despite the above negatives, we believe that Maruti would notch up a 60bp improvement in its EBITDA margin in FY08 to reach 15.9%. The key arguments supporting our expectation of an EBITDA margin improvement are:

- The negative pressures on EBITDA margins should be set off by Maruti's own internal efficiencies, its steps at productivity improvement, cost reduction, and attempts to increase indigenization. Consider the following: despite a series of price cuts across its product range in FY06, coupled with competitive pressures and cost inflation in FY06 and FY07, Maruti has consistently expanded its margins (excluding the impact of consolidation of the Manesar plant).

- Maruti's attempts to maintain margins in FY08 would be aided by its "Next Leap" cost reduction program, higher productivity and low wage costs. Maruti's staff cost is the lowest in the industry (1.9% of sales in FY06 and FY07). The company has managed to keep costs under control by offering VRS (in FY04), increasing the productivity/employee post its 'Challenge-30' program (over FY02-05) and by negotiating productivity-linked agreements with workers.

MARUTI: EMPLOYEE COST TO SALES (%)



Source: Company/Motilal Oswal Securities

'Next Leap' cost reduction program: Maruti successfully completed its cost reduction and productivity improvement ('Challenge-30' and 'Challenge-50') programs in FY06. These helped achieve 30% cost reduction and 46% productivity improvement over FY02-05. The company subsequently started its new cost reduction program called 'Next Leap', which targets 20% cost reduction and productivity improvement over FY06-08. Through focussing on lean manufacturing, where workers and supervisors on the shop floor jointly drive improvements in quality and productivity and through interactions between senior management and workers, Maruti was able to achieve 6.5% improvement in productivity in FY07. Under the 'Next Leap' initiative, Maruti intends to reduce the import content in input costs (19% in FY06) by localizing production.

MARUTI: LOWERING RELIANCE ON IMPORTED RAW MATERIAL

	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E
Import Content	13,436	13,538	16,035	16,647	12,803	15,515	17,885
Materials Consumed	52,590	66,349	81,419	88,766	101,374	129,293	155,523
% of Materials Cons.	*25.5*	*20.4*	*19.7*	*18.8*	*12.6*	*12.0*	*11.5*

Source: Company/Motilal Oswal Securities

- Rupee appreciation contributed to a 60bp QoQ margin expansion to 16.4% in 1QFY08. Maruti's forex earnings are mainly in US dollars, while its forex expenses (inclusive of royalty payment) are in Japanese yen. We estimate that rupee appreciation vis-à-vis the yen can result in potential savings of 1.5% on total expenditure; the loss in forex income due to rupee appreciation vis-à-vis the US dollar is only 0.3%. Hence, the net impact of currency appreciation is positive for Maruti.

MARUTI: IMPACT OF RUPEE APPRECIATION ON YEN DENOMINATED FOREX EXPENDITURE

	FY05	FY06	FY07	FY08E
Revenue Expenses in Forex (Rs m)	18,158	17,822	16,867	19,318
Forex Expenditure/Total Expenditure (%)	19.0	17.1	13.3	12.5
% Change Yen to Rupee			-1.1	-12.3
% Change to Total Expenditure			-0.2	-1.5

Assuming conversion on current exchange rate for FY08 *Source: Company/Motilal Oswal Securities*

MARUTI: IMPACT OF RUPEE APPRECIATION ON DOLLAR DENOMINATED FOREX INCOME

	FY05	FY06	FY07	FY08E
Revenue Earnings in Forex (Rs m)	9,830	5,839	5,781	7,563
Forex Earnings (%)	6.6	3.3	2.7	3.0
% Change Dollar to Rupee			2.2	-9.2
% Change to Gross Sales			0.1	-0.3

Assuming conversion on current exchange rate for FY08 *Source: Company/Motilal Oswal Securities*

- The Manesar plant is already operating at near full capacity (~26,000 units in 1QFY08) to meet the strong demand for Maruti's products. Earlier than expected ramping up of production at this plant will help Maruti reach breakeven at this plant faster, and potentially improve overall EBITDA margins, further.

  We present below the estimated performance of Maruti's Manesar plant under different scenarios. We have assumed a base case scenario of EBITDA loss of Rs578m in FY08 and an EBITDA margin of 1.5% in FY09. If Maruti reports better margins at the new plant than we have assumed, it may lead us to upgrade our EBITDA margins for the company.

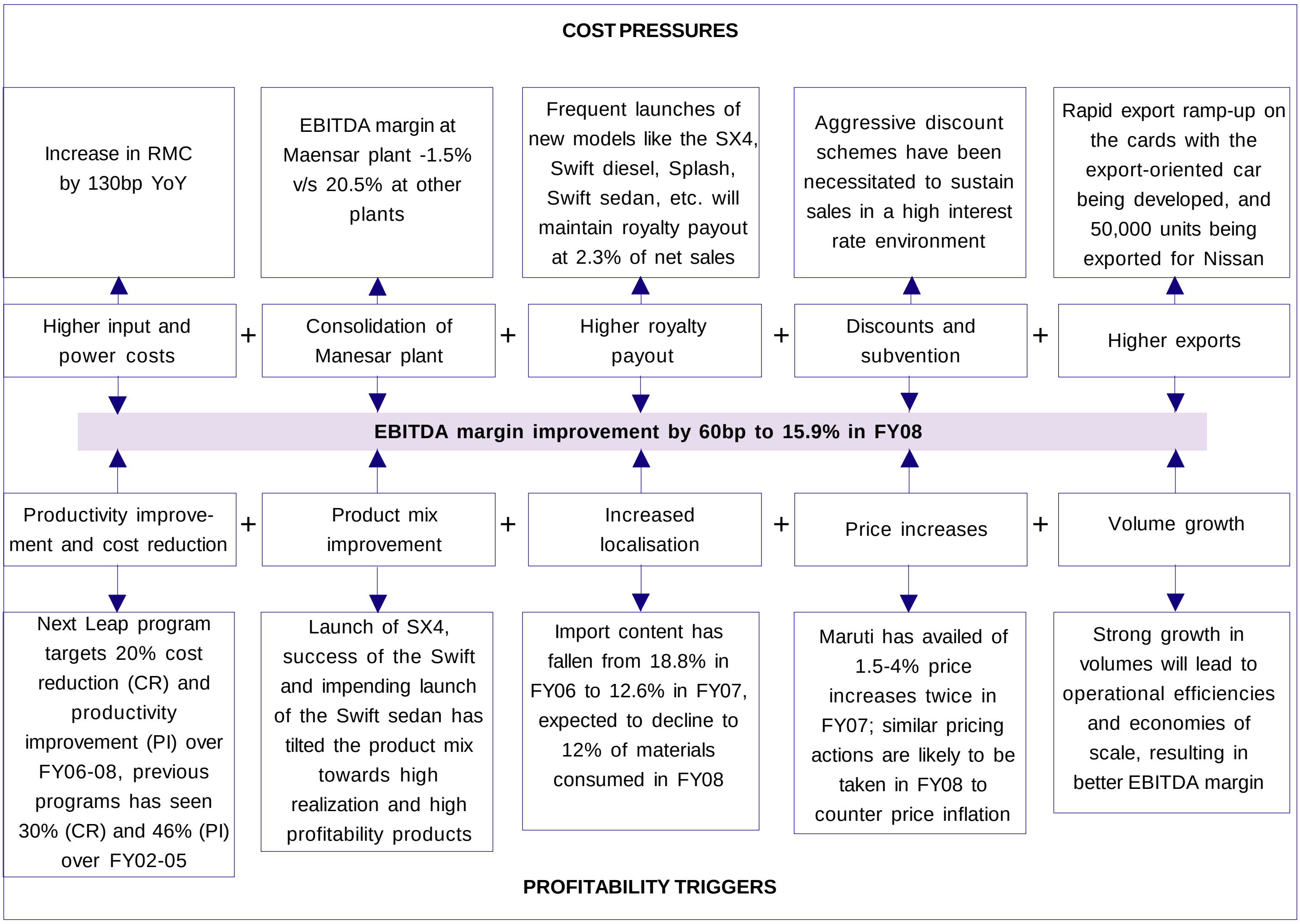
MARUTI'S MANESAR PLANT: SCENARIO ANALYSIS (RS M)

	FY08E NEW PLANT			FY09E NEW PLANT		
	BASE	OPTIMISTIC	PESSIMISTIC	BASE	OPTIMISTIC	PESSIMISTIC
Total Volumes (nos)	100,000	125,000	75,000	150,000	175,000	125,000
Total Income	38,520	45,000	27,000	60,669	70,781	50,558
Total Cost	39,098	43,875	28,350	59,759	65,472	51,316
EBITDA	-578	1,125	-1,350	910	5,309	-758
EBITDA Margin (%)	*-1.5*	*2.5*	*-5.0*	*1.5*	*7.5*	*-1.5*
Interest	428	471	385	400	471	385
Depreciation	746	821	671	800	903	739
PBT	-1,752	-166	-2,407	-270	3,955	-1,882

Source: Company/Motilal Oswal Securities

In arriving at our overall EBITDA estimates of 15.9% in FY08 and 15.6% in FY09, we have assumed that production at Maruti's older plants would be maintained. If production at the older plants is lower than previous years, there would be a case for lowering our EBITDA margin estimates, until efficiencies of scale are achieved at the Manesar plant.

PROFITABILITY TRIGGERS OUTWEIGH COST PRESSURES

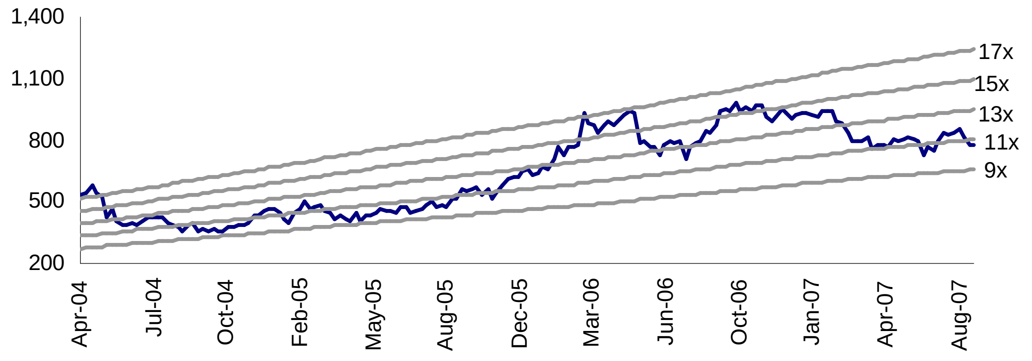


Valuations attractive; maintain Buy

We maintain Buy with a target price of Rs1,188 - an upside of 53%

We remain extremely positive on Maruti's growth prospects. We estimate volume growth at 16.4% CAGR over FY07-10; aggressive model launches could result in positive surprises both in the domestic and export markets. Margins would expand from 15.3% in FY07 to 15.9% in FY08, despite consolidation of the Manesar plant. We estimate EPS at Rs67.7 for FY08 and Rs79.2 for FY09. The stock trades at attractive valuations of 11.5x FY08E EPS and 9.8x FY09E EPS. Also, subsidiaries/associate companies could add further value, once their scale of operations improve. We maintain **Buy** with a target price of Rs1,188 – an upside of 53%.

MARUTI: P/E BAND



Source: Motilal Oswal Securities

Investment portfolio gaining prominence

Maruti has made investments in several of its vendors, and provided them both financial and technological backing. Over the years, these companies have grown in size and value, resulting in a substantial appreciation in the value of Maruti's investment portfolio. While the book value of its quoted investments is merely Rs11m, the market value has increased multi-fold to Rs2.7b. Apart from contributing to Maruti's portfolio value, these companies are likely to remain benefactors of Maruti's operational growth, as well.

The market value of Maruti's quoted investments is Rs2.7b against a book value of just Rs11m

MARUTI: VALUE OF QUOTED INVESTMENTS

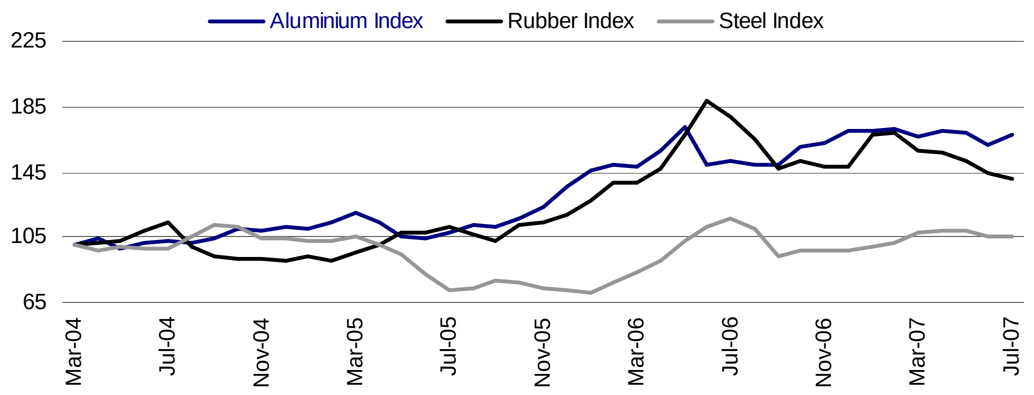
COMPANY	NO. OF SHARES JUNE 2007	HOLDING IN COS. %	CMP (RS)	MARKET VALUE RS M	BOOK VALUE RS M
Asahi India Glass	17,760,000	11.1	103.2	1,833	0
Bharat Seats	465,000	14.8	11.8	6	1
Denso India	2,862,758	10.3	82.1	235	7
Jay Bharat Maruti	6,340,000	29.3	39.8	252	2
Machino Plastics	941,700	15.4	71.0	67	1
Sona Koyo Steering	6,900,000	7.1	44.5	307	1
Total				**2,699**	**11**
Value/Share of Maruti (Rs)				9.3	0.0

Source: Company/Motilal Oswal Securities

Concerns

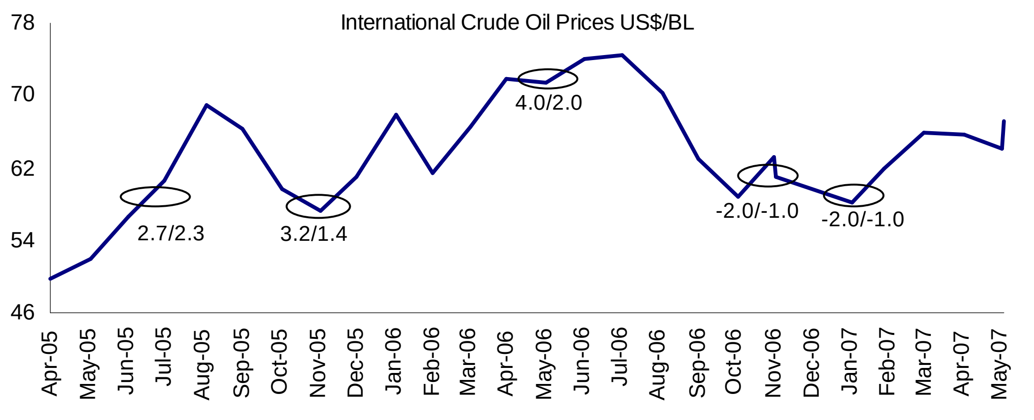
Cost pressures continue: Commodity prices continue to be high, adversely impacting the operating performance of auto companies. Maruti would minimize the impact through increased economies of scale following completion of capex and higher volumes, and steady increases in vehicle prices through the year.

AUTOS: KEY INPUT PRICES HAVE BEEN INCREASING



Source: Bloomberg/Motilal Oswal Securities

CRUDE PRICES HAVE RISEN AGAIN



Note: Values in circles denote the corresponding increase/decrease in the domestic petrol and diesel prices in Rs/liter *Source: Bloomberg/Motilal Oswal Securities*

Higher interest rates suppressing demand: Interest rates on auto loans have moved up by almost 400bp in the last 12 months and by almost 200bp in the last five months. The rate rise has led to the cost of ownership of cars and CVs increasing by 9.4% and 7.4%, respectively in FY07, resulting in near-term concerns over demand. If despite all signals to the contrary, interest rates increase once again, there could be a visible impact on Maruti's sales volumes as well.

PASSENGER CARS: IMPACT OF CHANGE IN INTEREST RATE ON COST OF OWNERSHIP (RS)

	FY06	FY07	SCENARIO I	SCENARIO II	SCENARIO III
Passenger Cars					
Average Cost of Compact Car	300,000	300,000	300,000	300,000	300,000
Finance (%)	*80.0*	*80.0*	*80.0*	*80.0*	*80.0*
Loan Amount	240,000	240,000	240,000	240,000	240,000
Interest Rate (%)	*11.0*	*14.0*	*13.0*	*15.0*	*16.0*
Duration (months)	60	60	60	60	60
Monthly EMI	5,218	5,584	5,461	5,710	5,836
Per Day Usage (km)	30	30	30	30	30
Fuel Efficiency (km/lt	12	12	12	12	12
Petrol Price (per lt)	45	51	51	51	51
Fuel Cost per Month	3,368	3,855	3,855	3,855	3,855
Monthly Maintainance Cost	750	775	800	800	800
PV Ownership Cost (per Month)	9,336	10,214	10,116	10,365	10,491
% Increase Over FY06		*9.4*	*-1.0*	*1.5*	*2.7*

Source: Industry/Motilal Oswal Securities

INCOME STATEMENT						(RS MILLION)
Y/E MARCH	2004	2005	2006	2007	2008E	2009E
Volume (Units)	472,122	536,301	561,819	674,924	788,875	914,721
Volume Growth%	*30.3*	*13.6*	*4.8*	*20.1*	*16.9*	*16.0*
Net Sales	**91,739**	**110,427**	**122,012**	**149,047**	**183,108**	**217,781**
Change (%)	*27.4*	*20.4*	*10.5*	*22.2*	*22.9*	*18.9*
Operating Other Income	278	443	488	617	678	650
Total Income	**92,017**	**110,870**	**122,500**	**149,664**	**183,786**	**218,431**
EBITDA	**12,022**	**15,321**	**18,177**	**22,946**	**29,243**	**34,145**
Change (%)	*129.3*	*27.4*	*18.6*	*26.2*	*27.4*	*16.8*
% of Net Sales	*13.1*	*13.8*	*14.8*	*15.3*	*15.9*	*15.6*
Depreciation	4,949	4,568	2,854	2,714	3,451	4,068
EBIT	**7,073**	**10,753**	**15,323**	**20,232**	**25,792**	**30,077**
Def Revenue Exp. / Others	596	-61	-67	-143	-143	-143
Interest & Finance Charges	434	360	204	376	612	612
Other Income	2,849	2,595	2,663	2,730	3,033	3,569
PBT	**7,696**	**13,049**	**17,500**	**22,798**	**28,356**	**33,178**
Tax	2,277	4,513	5,609	7,178	8,790	10,285
Effective Rate (%)	*29.6*	*34.6*	*32.1*	*31.5*	*31.0*	*31.0*
PAT	**5,419**	**8,536**	**11,891**	**15,620**	**19,566**	**22,893**
Change (%)	*270.2*	*57.5*	*39.3*	*31.4*	*25.3*	*17.0*
% of Net Sales	*5.9*	*7.7*	*9.7*	*10.5*	*10.7*	*10.5*
Adj. PAT	**6,196**	**8,536**	**12,118**	**15,575**	**19,566**	**22,893**
Change (%)	*263.4*	*37.8*	*42.0*	*28.5*	*25.6*	*17.0*

E: MOSt Estimates

BALANCE SHEET						(RS MILLION)
Y/E MARCH	2004	2005	2006	2007	2008E	2009E
Share Capital	1,445	1,445	1,445	1,445	1,445	1,445
Reserves	34,467	42,343	53,081	67,094	85,215	106,518
Net Worth	**35,912**	**43,788**	**54,526**	**68,539**	**86,660**	**107,963**
Loans	3,119	3,076	717	6,308	6,308	6,308
Deferred Tax Liability	1,833	1,100	779	1,675	1,675	1,675
Capital Employed	**40,864**	**47,964**	**56,022**	**76,522**	**94,643**	**115,946**
Gross Fixed Assets	45,667	50,531	49,546	61,468	73,857	88,857
Less: Depreciation	27,359	31,794	32,594	34,871	38,322	42,390
Net Fixed Assets	**18,308**	**18,737**	**16,952**	**26,597**	**35,535**	**46,467**
Capital WIP	749	421	920	2,389	0	0
Investments	16,773	15,166	20,512	34,092	34,092	34,092
Curr.Assets, Loans	20,189	29,720	37,496	38,459	50,804	63,281
Inventory	4,398	6,666	8,812	7,132	8,758	10,409
Sundry Debtors	6,894	5,995	6,548	7,474	9,178	10,908
Cash & Bank Balances	2,402	10,294	14,016	14,228	23,243	32,339
Loans & Advances	5,744	6,082	7,662	9,241	9,241	9,241
Others	751	683	458	384	384	384
Current Liab. & Prov.	**15,318**	**16,080**	**19,858**	**25,015**	**25,789**	**27,894**
Sundry Creditors	12,114	12,188	15,058	20,110	22,184	24,289
Provisions	3,204	3,892	4,800	4,905	3,605	3,605
Net Current Assets	**4,871**	**13,640**	**17,638**	**13,444**	**25,016**	**35,387**
Appl. of Funds	**40,864**	**47,964**	**56,022**	**76,522**	**94,643**	**115,946**

E: MOSt Estimates

RATIOS

Y/E MARCH	2004	2005	2006	2007	2008E	2009E
Basic (Rs)						
Adjusted EPS	**21.4**	**29.5**	**41.9**	**53.9**	**67.7**	**79.2**
EPS Growth (%)	*263.4*	*37.8*	*42.0*	*28.5*	*25.6*	*17.0*
Cash EPS	38.6	45.3	51.8	63.3	79.6	93.3
Book Value per Share	124.3	151.5	188.7	237.2	299.9	373.6
DPS	1.5	2.0	3.5	4.5	5.0	5.5
Payout (Incl. Div. Tax) %	7.0	6.8	8.3	8.3	7.4	6.9
Valuation (x)						
P/E			18.5	14.4	11.5	9.8
EV/EBITDA			10.5	8.0	5.9	4.8
EV/Sales			1.6	1.2	0.9	0.8
Price to Book Value			4.1	3.3	2.6	2.1
Dividend Yield (%)			0.5	0.6	0.6	0.7
Profitability Ratios (%)						
RoE	15.1	19.5	21.8	22.8	22.6	21.2
RoCE	22.8	28.0	32.2	30.2	30.6	29.1
Turnover Ratios						
Debtors (Days)	23	16	16	16	16	16
Asset Turnover (x)	2	2	2	2	2	2
Leverage Ratio						
Debt/Equity (x)	0.1	0.1	0.0	0.1	0.1	0.1

E: MOSt Estimates

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2004	2005	2006	2007	2008E	2009E
OP/(Loss) before Tax	6,477	10,814	15,390	20,375	25,935	30,220
Int./Dividends Received	2,849	2,595	2,663	2,730	3,033	3,569
Depreciation & Amort.	4,949	4,568	2,854	2,714	3,451	4,068
Direct Taxes Paid	-2,515	-5,246	-5,930	-6,282	-8,790	-10,285
(Inc)/Dec in Wkg. Capital	679	-877	-276	4,406	-2,556	-1,275
CF from Oper.Activity	**12,439**	**11,854**	**14,701**	**23,943**	**21,072**	**26,297**
Extra-ordinary Items	-1,196	0	-349	69	0	0
Other Items	724	163	0	0	0	0
CF after EO Items	**11,967**	**12,017**	**14,352**	**24,012**	**21,072**	**26,297**
(Inc)/Dec in FA+CWIP	-1,356	-4,669	-1,568	-13,828	-10,000	-15,000
(Pur)/Sale of Invest.	-15,741	1,607	-5,346	-13,580	0	0
CF from Inv. Activity	**-17,097**	**-3,062**	**-6,914**	**-27,408**	**-10,000**	**-15,000**
Change in Networth	-54	-82	-142	-307	0	0
Inc/(Dec) in Debt	-1,441	-43	-2,359	5,591	0	0
Interest Paid	-434	-360	-204	-376	-612	-612
Dividends Paid	-433	-578	-1,011	-1,300	-1,445	-1,590
CF from Fin. Activity	**-2,362**	**-1,063**	**-3,716**	**3,608**	**-2,057**	**-2,201**
Inc/(Dec) in Cash	**-7,492**	**7,892**	**3,722**	**212**	**9,015**	**9,095**
Add: Beginning Balance	9,894	2,402	10,294	14,016	14,228	23,243
Closing Balance	**2,402**	**10,294**	**14,016**	**14,228**	**23,243**	**32,339**

E: MOSt Estimates

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Disclosure of Interest Statement	Maruti Udyog
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No