# MARUTI UDYOG

INR 911

Edelweiss
Ideas create, values protect

## *Export story*

ACCUMULATE

### Increased visibility on exports, but to kick in from FY09E onwards

The global tie-up between Suzuki and Nissan, wherein Suzuki will supply more than 50,000 small cars produced by Maruti Udyog (MUL) to Nissan globally, as well as Suzuki's plans to export another 100,000 vehicles under its own brand from Maruti, provides a big boost to Maruti's exports. These developments are significant since the company's exports had been lackluster recently following the phase out of the *Alto* from Europe. The initial exports are expected to kick off from FY09E onwards and Maruti is likely to ramp up the capacity of its new Manesar plant to cater to the export requirement. We expect exports to be 12% of total volumes in FY09 and increase further going forward.

### Domestic volume growth robust, but to lag overall industry

We believe Maruti will lose market share, though gradually, in the domestic market, given the expected introduction of several new models in the compact car segment by competitors, namely, *Spark* and *Aveo UVA* by GM, new *Indica* and the INR 100,000 car by Tata Motors, *Getz* diesel by Hyundai, and yet unnamed models by Honda and Toyota. Further, given the lack of a new product range in the sedan segment, Maruti's performance in that segment will continue to be constrained in the medium term as buyers upgrade to bigger vehicles. We expect Maruti's domestic volume growth to be at a CAGR of 13.6% over the next three years, as compared with the expected industry growth of 15-16% p.a.

### Margin surprise from input costs in first half, but further improvement challenging

Given its scale of operations, Maruti has been in a position to extract significant cost efficiencies from all aspects of its operation—employee productivity, material procurement, vendor prices, and other factory costs. However, going forward, we believe improving margins will become increasingly challenging, due to 1) the introduction of new models, 2) commissioning of the new assembly plant, 3) pricing pressure resulting from increased competition, and 4) rising share of exports in the sales mix.

### Valuations

At INR 911, Maruti is quoting at a fairly rich valuation of 17.7x FY07E and 15.8x FY08E our revised EPS estimates. Our earnings revision has been triggered by stronger than expected domestic volumes, better export visibility, and higher than estimated margins. As a result, we are also upgrading our recommendation to 'ACCUMULATE' from previous 'REDUCE'. However, in view of its volume growth lagging the industry, and sustained pressure on its margins, as well as the huge capex being undertaken, we do not recommend a 'BUY'.

Financials

| Year to March | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|
| Net revenues (INR mn) | 110,943 | 122,151 | 141,774 | 165,973 |
| *Growth (%)* | *20.6* | *10.1* | *16.1* | *17.1* |
| EBITDA (INR mn) | 15,545 | 17,895 | 21,382 | 24,922 |
| Net profit (INR mn) | 8,536 | 11,891 | 14,863 | 16,718 |
| Shares outstanding (mn) | 289 | 289 | 289 | 289 |
| EPS (fully diluted) (INR) | 29.5 | 41.1 | 51.4 | 57.8 |
| *Growth (%)* | *57.5* | *39.3* | *25.0* | *12.5* |
| P/E (x) | 30.9 | 22.2 | 17.7 | 15.8 |
| EV/EBITDA (x) | 15.5 | 13.5 | 11.3 | 9.7 |
| ROE (%) | 19.5 | 21.8 | 21.9 | 20.2 |
| ROCE (%) | 28.0 | 31.6 | 30.8 | 28.1 |

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| | | |
|---|---|---|
| Reuters | : | MRTI.BO |
| Bloomberg | : | MUL IN |

Market Data

| | | |
|---|---|---|
| 52-week range (INR) | : | 991 / 568 |
| Share in issue (mn) | : | 288.9 |
| M cap (INR bn/USD mn) | : | 263.2/5,756.7 |
| Avg. Daily Vol. BSE/NSE ('000) | : | 1,816.6 |

Share Holding Pattern (%)

| | | |
|---|---|---|
| Promoters | : | 64.5 |
| MFs, FIs & Banks | : | 16.9 |
| FIIs | : | 14.4 |
| Others | : | 4.2 |

## Investment Rationale

* **Increased visibility on exports, though volumes to kick in from FY09E onwards**

The recent global tie-up between Suzuki and Nissan, wherein Suzuki will supply more than 50,000 small cars produced by Maruti to Nissan globally, as well as Suzuki's plans to export another 100,000 vehicles under its own brand from Maruti, provides a big boost to Maruti's export efforts. These developments are significant given that its exports had been lackluster recently following the phase out of the *Alto* from Europe. There is a significant potential upside to these numbers going forward. The initial exports are expected to kick off from FY09E onwards and Maruti is likely to ramp up capacity of its new Manesar plant to cater to Nissan's requirement.

In the past two years, Maruti's exports had foundered as Suzuki phased out *Alto* from the European market and replaced it with *Swift,* produced at its Hungary plant. According to management, exports are expected to remain muted (mainly to neighbouring markets and certain smaller markets in Europe) for the next two years. In FY09E, Maruti's exports will get a big boost with Suzuki expected to launch a new small car model for export to Europe.

Maruti's manufacturing facility will also be utilized to supply a small car to Nissan for the European market under a global alliance between Suzuki and Nissan. According to the arrangement, Maruti will export about 50,000 vehicles per year to Nissan and another 100,000 vehicles will be exported under the Suzuki brand. We expect further upside from exports for Maruti, given Suzuki has announced its plans to use Maruti as a hub for making small cars. We expect Maruti to significantly scale up its capacity at both its plants (Gurgaon and Manesar) to take care of the export requirements over the next three-four years. Out of the total INR 90 bn capex plans to be undertaken by Maruti over the next three-four years, INR 50 bn is likely to be spent on the new Manesar plant to scale up its capacity to 300,000 vehicles per year from the initial 100,000 vehicles per year.

* **Domestic volume growth robust, but to lag overall industry**

We believe Maruti will lose market share, though gradually, in the domestic market, given the expected introduction of several new models in the compact segment by competitors, namely, *Spark* and *Aveo UVA* by GM, new *Indica* and the INR 100,000 car by Tata Motors, *Getz* diesel by Hyundai, and yet unnamed models by Honda and Toyota. Further on, the Tata Motors and Fiat alliance is also likely to bring out Fiat *Grande Punto* in the premium compact segment. Also, given the lack of a new product range in the sedan segment, Maruti's performance in that segment will continue to be constrained in the medium term, as buyers upgrade to bigger vehicles. We expect Maruti's domestic volume growth to be at a CAGR of 13.6% over the next three years, as compared with the expected industry growth of 15-16% p.a.

Table 1: Maruti Udyog - Sales

| (Units) | | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|---|
| Domestic sales | | 421,027 | 487,388 | 527,041 | 609,751 | 700,578 |
| | *% growth* | | *15.8* | *8.1* | *15.7* | *14.9* |
| Exports | | 51,175 | 48,899 | 34,781 | 36,520 | 39,442 |
| | *% growth* | | *(4.4)* | *(28.9)* | *5.0* | *8.0* |
| Total sales | | 472,202 | 536,287 | 561,822 | 646,272 | 740,020 |
| | *% growth* | | *13.6* | *4.8* | *15.0* | *14.5* |

*Source: Company data, Edelweiss research*

Maruti has announced plans to launch five new models in the next five years, across segments. While we believe the initiative will refresh the company's ageing model line up (with sales weighted average age of its model at nearly 4.5 years), we maintain that Maruti will lose market share as more and more models become available in its mainstay compact segment and as customers upgrade to larger cars (where Suzuki has limited presence and model pipeline).

Table 2: Maruti Udyog - Average age of models

| | Sales | Launch | | Age (months) as on |
|---|---|---|---|---|
| | Sep-06 | Date | Remarks | Sep-06 |
| M800 | 7,680 | Jul-97 | Major facelift | 110 |
| Alto | 19,794 | Jul-00 | Initial launch | 74 |
| WagonR | 12,707 | Jul-06 | Minor makeover | 2 |
| Swift-Petrol | 5,454 | Jun-05 | Initial launch | 15 |
| Esteem | 2,063 | Jul-04 | Major facelift | 26 |
| Baleno | 1,347 | Dec-99 | Initial launch | 81 |
| Weighted average fleet age (months) | | | | 53 |
| Weighted average fleet age (years) | | | | 4.4 |

*Source: Edelweiss research*

Table 3: New model introductions in next 18 months

| Company | Model | Segment | Expected launch | Remarks |
|---|---|---|---|---|
| General Motors | *Aveo UVA* | Premium compact | Jan-07 | Aveo sedan launched in Feb 2006; hatchback version pushed back to rework specifications to take advantage of the lower excise applicable to compact cars with less than 1.2L petrol engine and 1.5L diesel engine |
| | *Spark* | Compact | Apr-07 | Upgrade of erstwhile Daewoo Matiz; having a successful run in China |
| Tata Motors | *New Indica* | Compact | Apr-07 | Updated Indica platform |
| | *Grande Punto* | Premium compact | Oct-07 | Under the new industrial joint venture between Fiat and Tata Motors; the Ranjangaon facility is expected to be operational by Oct 2007 |
| Hyundai | *Getz diesel* | Premium compact | Q1FY08 | The petrol version has been moderately well accepted but diesel version could address the fuel efficiency concerns |
| | - | New compact car | Q3FY08 | Expected to run parallelly to the Santro; to be launched after commissioning of the expansion project |
| Volkswagen | - | Premium compact/Sedan | - | Actively looking at entering India and scouting for a manufacturing location; already present through Skoda and Audi |
| Skoda | *Fabia* | Premium compact | - | - |
| Renault | *Logan* | Entry sedan | Apr-07 | Modestly priced entry level sedan to be manufactured by JV between Mahindra and Renault; to provide an upgrade to premium compact buyers |
| Honda | *Jazz/Fit* | Premium compact | - | |
| Toyota | - | Compact/Premium compact | - | |

*Source: Edelweiss research*

* Margin surprise from input costs in first half, but further improvement challenging

Given its scale of operations, Maruti has been in a position to extract significant cost efficiencies from all aspects of its operation—employee productivity, material procurement, vendor prices, and other factory costs. However, going forward, we believe improving margin will become increasingly challenging, particularly with the introduction of new models, outsourced diesel engine, commissioning of the new assembly plant, pricing pressure resulting from increased competition in the entry and premium compact segments, and rising share of exports in the sales mix.

We believe the margin improvement performance that Maruti has achieved in the past two quarters has peaked, leaving little scope for further margin improvement in the medium term. Operating margins in Q3FY06 and Q4FY06 were already at around 15%, compared to 14-14.5% achieved in Q1FY07 and Q2FY07. Also, Maruti's operating margin is already running at a historical peak. Although we expect cost reduction to continue through value engineering, improvement in employee productivity, vendor rationalization, and higher localisation, most of these benefits are likely to be largely offset by cost hikes on other fronts, particularly,

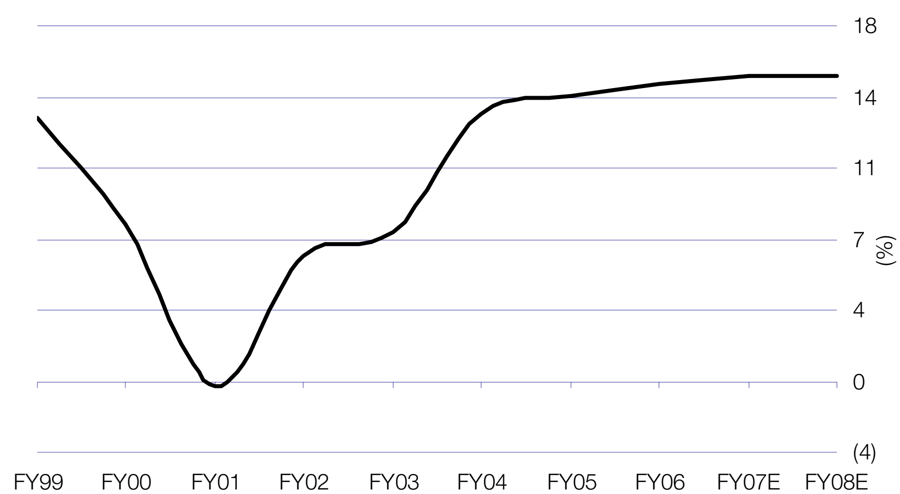
- new model launches (with lower contribution and higher selling costs)
- introduction of diesel engine on the *Swift* (outsourced from an associate company)
- additional fixed manufacturing overheads (from the commissioning of the new assembly plant)
- increasing competition. With the launch of several competing products, pricing power will be severely limited and constrain Maruti's hand in maintaining margins.

Table 4: Maruti Udyog - Capex to sales

| (INR mn) | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| Capital expenditure | 1,356 | 4,669 | 1,568 | 15,000 | 12,000 |
| Net sales | 90,812 | 109,108 | 120,034 | 139,374 | 163,249 |
| Capex/net sales (%) | 1.5 | 4.3 | 1.3 | 10.8 | 7.4 |

*Source: Edelweiss research*

Chart 1: Maruti Udyog - Operating margins




*Source: Edelweiss research*

We believe that the likelihood of further margin expansion by Maruti is highly dependent on its achieving industry-beating sales growth and/or taking significant price hikes. Either of the scenarios is unlikely to play out in FY07-08E.

### Earnings upgrade driven by higher-than-expected volumes and margin improvement in H1FY07

We have revised upwards our earnings estimates for Maruti by 10.6% and 7.4% for FY07 and FY08, respectively. The revised EPS estimates stand at INR 51.4 and INR 57.8 for FY07 and FY08, respectively. The revision has been triggered by higher-than-previously estimated volume growth as well as better-than-expected margins. We had estimated a volume growth of 6% for Maruti in FY07 based on our expectations of a cyclical slowdown in the industry. However, given the impact of excise duty reduction, launch of the *WagonR Duo* (based on LPG), and continued strength in the economy (and therefore, disposable incomes), volume growth has been significantly higher than our expectations in H1FY07. As a result, we are revising our estimates upwards to 15% for FY07. For FY08, we had estimated Maruti's volume growth at 11.5% based on the launch of diesel *Swift* and revival of the replacement/upgrade cycle. We have upgraded our estimates to 14.5% based on the huge success of the *WagonR Duo* and the expected launch of a replacement for *Zen*.

We have also revised our estimates for EBITDA margins upwards by 20bps for FY07 to 15.1%, largely on account of the higher-than-expected improvement achieved in the first two quarters, primarily through material cost savings. For FY08, we have revised our EBITDA margin estimate by 10bps to 15.0% on anticipated increase in costs related to the new assembly plant, new model introductions, and introduction of diesel engine on *Swift*.

Earnings estimates have also been marginally affected by higher depreciation charges in FY08 due to the announced scale up in capex plans to increase capacity of the two plants to cater to the export requirement.

## Risks and Concerns

* **Industry risk: Cyclicality**

  The automobile industry is inherently cyclical and dependent upon macro-economic variables, such as income growth, interest rates, and fuel prices. While we expect the current benign environment to continue in the medium term, any adverse developments could affect our volume estimates.

  On the other hand, a change in the government's fiscal policy such as the extension of lower excise duty to all car models could boost demand for models which are currently not covered by the benefit.

* **Input cost pressures**

  The current firm trend in commodity prices, particularly steel, aluminium, nickel, and copper, will continue to challenge automakers to contain costs. While Maruti has extracted significant cost savings through value engineering and squeezing suppliers, the approach is likely to yield diminishing returns going forward, especially with the launch of a slew of new models, which will initially have higher import content as well as lower contribution margins, over the next five years.

* **Increasing competition**

  Given the large market size of the Indian passenger car industry and the expected strong growth, existing and new industry players are redoubling their efforts to increase market share. Although Maruti has held the leading position so far, based on its stronghold in the small car segment, going forward the competition is likely to intensify as customers look to upgrade to bigger cars (premium compacts and sedans), where Maruti's presence is limited, and competitors introduce several new models.

* **New model introduction**

  While continuous new model introduction is critical for maintaining market share in the passenger car industry, new models put pressure on margins with higher initial selling costs and lower contributing margins, and may not match the volumes generated by the models they replace.

## Valuations

* **Robust earnings growth, but already in the price**

At INR 911, Maruti is quoting at a fairly rich valuation of 17.7x FY07E and 15.8x FY08E our revised EPS estimates. Our earnings revision has been triggered by stronger than expected domestic volumes, better export visibility, and higher than estimated margins. As a result, we are also upgrading our recommendation to 'ACCUMULATE' from previous 'REDUCE'. However, in view of Maruti's domestic volume growth lagging that of the industry, and sustained pressure on its margins, as well as the huge capex being undertaken, we are not recommending a 'BUY'.

At the current price, Maruti is trading at the higher end of its historical valuation bands.

Chart 2: Maruti Udyog - One-year rolling forward P/E


*Source: Edelweiss research*

Chart 3: Maruti Udyog - One-year rolling forward EV/EBITDA


*Source: Edelweiss research*

| Financial snapshot | | | | | | (INR mn) |
|---|---|---|---|---|---|---|
| Year to March | Q2FY07 | Q2FY06 | *Y-o-Y%* | Q1FY07 | *Q-o-Q%* | FY06A |
| Volumes | | | | | | |
| Units sold (nos) | 157,683 | 140,543 | *12.2* | 144,948 | *8.8* | 561,822 |
| Domestic | 149,518 | 128,663 | *16.2* | 137,104 | *9.1* | 527,038 |
| Exports | 8,165 | 11,880 | *(31.3)* | 7,844 | *4.1* | 34,784 |
| Realisation (INR) | 215,660 | 215,296 | *0.2* | 215,627 | *0.0* | 213,652 |
| Revenues (gross) | 40,021 | 37,036 | *8.1* | 36,783 | *8.8* | 147,043 |
| Less: excise | 6,015 | 6,778 | *(11.2)* | 5,528 | *8.8* | 27,009 |
| Income from services | 186 | 141 | *32.0* | 0 | | 488 |
| Revenues (net) | 34,006 | 30,258 | *12.4* | 31,255 | *8.8* | 120,034 |
| Other operating income | | 595.5 | *(100.0)* | | | |
| Total revenues | 34,192 | 30,399 | *12.5* | 31,255 | *9.4* | 120,522 |
| Dec/(inc) in stock | (377) | 1,324 | | (217) | | (2,233) |
| Raw material | 25,947 | 22,335 | *8.1* | 23,813 | *8.4* | 94,403 |
| Staff costs | 714 | 576 | *23.8* | 626 | *14.0* | 2,287 |
| Other expenses | 3,152 | 2,666 | *18.2* | 2,468 | *27.7* | 9,799 |
| Total expenditure | 29,436 | 26,901 | *9.4* | 26,689 | *10.3* | 104,256 |
| EBITDA | 4,756 | 3,498 | *36.0* | 4,566 | *4.2* | 16,266 |
| Other income | 1,217 | 1,091 | *11.6* | 1,433 | *(15.1)* | 4,292 |
| Interest | 31 | 61 | *(49.8)* | 33 | *(5.2)* | 204 |
| Depreciation | 596 | 665 | *(10.4)* | 641 | *(7.0)* | 2,854 |
| PBT | 5,346 | 3,863 | *38.4* | 5,326 | *0.4* | 17,500 |
| Tax | 1,672 | 1,236 | *35.3* | 1,630 | *2.6* | 5,609 |
| Net profit | 3,674 | 2,627 | *39.9* | 3,696 | *(0.6)* | 11,891 |
| Adjusted net profit | 3,674 | 2,627 | *39.9* | 3,696 | *(0.6)* | 11,891 |
| Equity capital (FV INR 5) | 1,445 | 1,445 | | 1,445 | | 1,445 |
| No. of shares (mn) | 289 | 289 | | 289 | | 289 |
| EPS (INR) | 12.7 | 9.1 | *39.9* | 12.8 | *(0.5)* | 41.1 |
| PE (x) | | | | | | 22.8 |
| EV/EBITDA (x) | | | | | | 14.57 |
| Market cap / Revenues (x) | | | | | | 2.2 |
| | | | | | | |
| As % of net revenues | | | | | | |
| Raw material | 74.8 | 77.8 | *(3.0)* | 75.5 | *(0.7)* | 76.5 |
| Staff costs | 2.1 | 1.9 | *0.2* | 2.0 | *0.1* | 1.9 |
| Other expenses | 9.2 | 8.8 | *0.4* | 7.9 | *1.3* | 8.1 |
| EBITDA | 13.9 | 11.5 | *2.4* | 14.6 | *(0.7)* | 13.5 |
| Net profit | 10.7 | 8.6 | *2.1* | 11.8 | *(1.1)* | 9.9 |
| Tax rate | 31.3 | 32.0 | *(0.7)* | 30.6 | *0.7* | 32.1 |

# Financial Statements

Income statement (INR mn)

| Year to March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| Total volume (nos) | 472,202 | 536,287 | 561,822 | 646,272 | 740,020 |
| *% Growth* | *30.3* | *13.6* | *4.8* | *15.0* | *14.5* |
| Income from operations | 92,017 | 110,943 | 122,151 | 141,774 | 165,973 |
| Materials costs | 66,363 | 80,315 | 86,769 | 99,549 | 116,197 |
| Cost of spares, dies and moulds | 4,028 | 5,083 | 5,468 | 6,232 | 7,167 |
| Staff costs | 1,779 | 1,960 | 2,287 | 2,699 | 3,238 |
| S G & A expenses | 7,823 | 8,264 | 9,799 | 11,979 | 14,516 |
| Less:Expense capitalized | 128 | 224 | 67 | 67 | 67 |
| Total operating expenses | 79,865 | 95,398 | 104,256 | 120,392 | 141,051 |
| EBITDA | 12,152 | 15,545 | 17,895 | 21,382 | 24,922 |
| Non-operational other income | 2,849 | 2,595 | 2,663 | 3,433 | 3,293 |
| PBDIT | 15,001 | 18,140 | 20,558 | 24,815 | 28,215 |
| Amortisation of deferred expenses | 724 | 163 | - | - | - |
| Interest | 434 | 360 | 204 | 115 | 115 |
| Depreciation and amortisation | 4,949 | 4,568 | 2,854 | 3,450 | 4,502 |
| Profit before tax | 8,894 | 13,049 | 17,500 | 21,250 | 23,598 |
| Employee separation cost | 1,196 | - | - | - | - |
| Provision for tax | 2,277 | 4,513 | 5,609 | 6,388 | 6,879 |
| Profits after tax | 5,421 | 8,536 | 11,891 | 14,863 | 16,718 |
| Shares outstanding | 289 | 289 | 289 | 289 | 289 |
| Dividend per share | 1.7 | 2.3 | 4.0 | 5.1 | 5.8 |
| Dividend payout (%) | 9.0 | 7.7 | 9.7 | 10.0 | 10.0 |

Common size metrics- as % of net revenues

| Year to March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| Operating expenses | 86.8 | 86.0 | 85.3 | 84.9 | 85.0 |
| Depreciation | 5.4 | 4.1 | 2.3 | 2.4 | 2.7 |
| Interest expenditure | 0.5 | 0.3 | 0.2 | 0.1 | 0.1 |
| EBITDA margins | 13.2 | 14.0 | 14.7 | 15.1 | 15.0 |
| Net profit margins | 5.9 | 7.7 | 9.7 | 10.5 | 10.1 |

Growth metrics (%)

| Year to March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| Revenues | 27.6 | 20.6 | 10.1 | 16.1 | 17.1 |
| EBITDA | 129.9 | 27.9 | 15.1 | 19.5 | 16.6 |
| PBT | 172.9 | 69.5 | 34.1 | 21.4 | 11.0 |
| Net profit | 270.3 | 57.5 | 39.3 | 25.0 | 12.5 |
| EPS | 270.3 | 57.5 | 39.3 | 25.0 | 12.5 |

Balance sheet (INR mn)

| As on 31st March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| Equity capital | 1,445 | 1,445 | 1,445 | 1,445 | 1,445 |
| Reserves & surplus | 34,467 | 42,343 | 53,081 | 66,457 | 81,504 |
| Shareholders funds | 35,912 | 43,788 | 54,526 | 67,902 | 82,949 |
| Secured loans | 3,119 | 3,076 | 717 | 717 | 717 |
| Borrowings | 3,119 | 3,076 | 717 | 717 | 717 |
| Deferred tax (net) | 1,833 | 1,100 | 779 | 779 | 779 |
| Deferred tax liability | 3,088 | 2,354 | 1,990 | 1,990 | 1,990 |
| Deferred tax assests | 1,255 | 1,254 | 1,211 | 1,211 | 1,211 |
| Sources of funds | 40,864 | 47,964 | 56,022 | 69,398 | 84,445 |
| Gross block | 45,667 | 50,531 | 49,546 | 65,466 | 77,466 |
| Depreciation | 27,359 | 31,794 | 32,594 | 36,044 | 40,547 |
| Net block | 18,308 | 18,737 | 16,952 | 29,422 | 36,919 |
| Capital work in progress | 749 | 421 | 920 | 0 | 0 |
| Investments | 16,773 | 15,166 | 20,512 | 29,437 | 38,483 |
| Inventories | 4,398 | 6,666 | 8,812 | 8,401 | 9,840 |
| Sudry debtors | 6,894 | 5,995 | 6,548 | 7,637 | 8,945 |
| Cash and bank balances | 2,402 | 10,294 | 14,016 | 8,506 | 6,639 |
| Loans and advances | 5,744 | 6,082 | 7,662 | 7,762 | 7,862 |
| Other current assets | 751 | 683 | 458 | 508 | 558 |
| Total current assets | 20,189 | 29,720 | 37,496 | 32,814 | 33,844 |
| Sundry creditors and others | 12,114 | 12,188 | 15,058 | 16,617 | 18,663 |
| Provisions | 3,204 | 3,892 | 4,800 | 5,658 | 6,138 |
| Total current liab. & provisions | 15,318 | 16,080 | 19,858 | 22,274 | 24,802 |
| Net current assets | 4,871 | 13,640 | 17,638 | 10,540 | 9,042 |
| Others | 163 | 0 | 0 | 0 | 0 |
| Uses of funds | 40,864 | 47,964 | 56,022 | 69,398 | 84,445 |
| Book value per share (BV) (INR) | 124 | 152 | 189 | 235 | 287 |

Cash flow statement (INR mn)

| Year to March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| PBIT | 72,030 | 109,770 | 150,414 | 179,314 | 204,192 |
| Less: Actual tax paid | 25,150 | 51,980 | 59,298 | 65,875 | 70,793 |
| Less: Tax shield on interest | 1,284 | 1,232 | 654 | 356 | 344 |
| Add: Tax on int. & investment income | 8,427 | 8,879 | 8,536 | 10,644 | 9,879 |
| NOPLAT | 54,023 | 65,438 | 98,998 | 123,726 | 142,935 |
| Add: Depreciation | 49,490 | 45,680 | 28,540 | 34,504 | 45,024 |
| Gross cash flow | 103,513 | 111,118 | 127,538 | 158,230 | 187,958 |
| Less: Capital expenditure | 13,560 | 46,690 | 15,680 | 150,000 | 120,000 |
| Less: Working capital investment | (11,280) | 7,820 | 16,143 | 2,897 | 17,007 |
| Less: Increase in other assets | 1,420 | 2,700 | 13,550 | 1,500 | 1,500 |
| Add: Increase in other lia./provisions | (3,070) | 1,750 | 28,640 | 18,575 | 14,810 |
| Free cash flow | 96,743 | 55,658 | 110,805 | 22,408 | 64,260 |

Ratios

| Year to March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| ROE (%) | 15.1 | 19.5 | 21.8 | 21.9 | 20.2 |
| ROCE (%) | 22.8 | 28.0 | 31.6 | 30.8 | 28.1 |
| Inventory days | 18 | 22 | 27 | 22 | 22 |
| Debtors days | 28 | 20 | 20 | 20 | 20 |
| Fixed assets t/o (x) | 5.0 | 5.9 | 7.2 | 4.8 | 4.5 |
| Debt/Equity | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |

Valuation parameters

| Year to March | FY04 | FY05 | FY06 | FY07E | FY08E |
|---|---|---|---|---|---|
| EPS (INR) | 18.8 | 29.5 | 41.1 | 51.4 | 57.8 |
| *Y-o-Y growth (%)* | *270.3* | *57.5* | *39.3* | *25.0* | *12.5* |
| CEPS (INR) | 35.9 | 45.3 | 51.0 | 63.4 | 73.4 |
| PE (x) | 50.0 | 30.9 | 22.2 | 17.7 | 15.8 |
| Price/BV (x) | 7.5 | 6.0 | 4.8 | 3.9 | 3.2 |
| EV/Sales (x) | 2.7 | 2.2 | 2.0 | 1.7 | 1.5 |
| EV/EBITDA (x) | 20.4 | 15.5 | 13.5 | 11.3 | 9.7 |

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|---|---|
| Naresh Kothari – 2286 4246 | Head, Institutional Equities |
| Vikas Khemani – 2286 4206 | Co-Head, Institutional Equities |

| INDIA RESEARCH | | | SECTOR |
|---|---|---|---|
| Shriram Iyer | - | 2286 4256 | Head – Research |
| Gautam Roy | - | 2286 4305 | Airlines, Textile |
| Ashutosh Goel | - | 2286 4287 | Automobiles, Auto Components |
| Vishal Goyal, CFA | - | 2286 4370 | Banking & Finance |
| Revathi Myneni | - | 2286 4413 | Cement |
| Sumeet Budhraja | - | 2286 4430 | FMCG |
| Harish Sharma | - | 2286 4307 | Infrastructure, Auto Components, Mid Caps |
| Priyanko Panja | - | 2286 4300 | Infrastructure, Engineering, Telecom |
| Hitesh Zaveri | - | 2286 4424 | Information Technology |
| Pritesh Vinay | - | 2286 4429 | Metals, Mining |
| Priyank Singhal | - | 2286 4302 | Media, Retail |
| Prakash Kapadia | - | 2286 4432 | Mid Caps |
| Niraj Mansingka | - | 2286 4304 | Oil & Gas, Petrochemicals |
| Nimish Mehta | - | 2286 4295 | Pharmaceuticals, Agrochemicals |
| Swati Khemani | - | 2286 4266 | Textile |
| Manika Premsingh | - | 4019 4847 | Economist |
| Sachin Arora | - | 2286 4512 | Alternative & Quantitative |
| Sunil Jain | - | 2286 4308 | Alternative & Quantitative |
| Yogesh Radke | - | 2286 4328 | Alternative & Quantitative |

| INSTITUTIONAL SALES | | |
|---|---|---|
| Nischal Maheshwari | - | 2286 4205 |
| Rajesh Makharia | - | 2286 4202 |
| Shabnam Kapur | - | 2286 4394 |
| Amish Choksi | - | 2286 4201 |
| Deepak Rao | - | 2286 4204 |
| Balakumar V | - | (044) 4263 8283 |
| Monil Bhala | - | 2286 4363 |
| Ashish Agrawal | - | 2286 4301 |
| Nikhil Garg | - | 2286 4282 |
| Neha Shahra | - | 2286 4276 |
| Priya Ramchandran | - | 2286 4389 |
| Anubhav Kanodia | - | 2286 4361 |
| Tushar Mahajan | - | 2286 4439 |
| Harsh Biyani | - | 2286 4419 |
| Nirmal Ajmera | - | 2286 4258 |
| Ankit Doshi | - | 2286 4671 |
| Ravi Pilani | - | 4009 4533 |
| Dipesh Shah | - | 2286 4434 |

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RATING INTERPRETATION

| | | | |
|---|---|---|---|
| Buy | Expected to appreciate more than 20% over a 12-month period | Reduce | Expected to depreciate up to 10% over a 12-month period |
| Accumulate | Expected to appreciate up to 20% over a 12-month period | Sell | Expected to depreciate more than 10% over a 12-month period |
| Trading Buy | Expected to appreciate more than 10% over a 45-day period | Trading Sell | Expected to depreciate more than 10% over a 45-day period |