27 September 2010

# Maruti Suzuki India

## Volumes impress, profits may not

**Maruti's medium-term capacity build-up and import reduction plans will likely be marred by short-term pain from emission upgrade costs and currency till the Dec quarter. We expect the stock to perform in line with the market until then and improve once competition peaks in Jan 2011. Hold, with downside risk.**

## Hold

**Target price**
Rs1353.00 (from Rs1230.00)

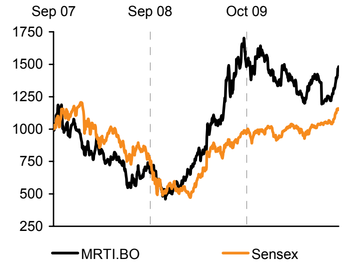
**Price**
Rs1481.75

**Short term (0-60 days)**
n/a

**Market view**
Underweight

### Price performance

| | (1M) | (3M) | (12M) |
|---|---|---|---|
| Price (Rs) | 1233 | 1387 | 1635 |
| Absolute (%) | 20.2 | 6.8 | -9.4 |
| Rel market (%) | 9.8 | -5.5 | -24.1 |
| Rel sector (%) | 10.8 | -4.2 | -13.3 |




**Market capitalisation**
Rs428.23bn (US$9.40bn)

**Average (12M) daily turnover**
Rs1131.05m (US$24.67m)

Sector: BBG AP Autos
RIC: MRTI.BO, MSIL IN
Priced Rs1481.75 at close 24 Sep 2010.
Source: Bloomberg

### Key forecasts

| | FY09A | FY10A | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| Revenue (Rsm) | 207,389 | 296,230 | 351,811 | 409,086 | 469,201 |
| EBITDA (Rsm) | 19,026 | 39,677 | 37,802 | 46,840 | 55,366 |
| Reported net profit (Rsm) | 12,187 | 24,976 | 23,737 | 28,145 | 33,341 |
| Normalised net profit (Rsm)[1] | 13,952 | 25,108 | 23,737 | 28,145 | 33,341 |
| Normalised EPS (Rs) | 48.30 | 86.90 | 82.10 | 97.40 | 115.4 |
| Dividend per share (Rs) | 3.50 | 6.00 | 6.00 | 8.25 | 9.25 |
| Dividend yield (%) | 0.24 | 0.40 | 0.40 | 0.56 | 0.62 |
| Normalised PE (x) | 30.70 | 17.10 | 18.00 | 15.20 | 12.80 |
| EV/EBITDA (x) | 20.40 | 9.26 | 10.00 | 7.96 | 6.40 |
| Price/book value (x) | 4.58 | 3.62 | 3.06 | 2.59 | 2.19 |
| ROIC (%) | 18.40 | 38.00 | 31.60 | 23.90 | 23.30 |

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

### Volume and market share impress but profitability to remain subdued until December

Maruti's ability to overcome capacity constraints and marginally improve sales volumes in July-August surprised us. The strategy to hold onto market share despite its competitors' aggressive rollout since April will be at the cost of profitability. The September quarter will benefit from the recent price hike and marginal scale benefits, but will be impacted by higher material and engine upgrade costs and currency impact on exports/imports. We believe concerns over profitability and competition will peak around January 2011 given yen currency impact (30% of sales) and new launches from Toyota, GM and Hyundai.

### Management has ambitious medium-term plans to fight competition

Maruti has announced an aggressive capex plan and expects to enhance capacity by 18% in early FY13 to meet rising car demand. This new capex together with existing projects will likely result in capacity rising to 1.75m by June 2012 from 1.26m currently. The capacity expansion will be accompanied by new product launches like *R3*, *Kizashi* and *Swift* upgrades aimed at servicing new segments. Further, Maruti plans to reduce dependence on imports by trimming imports at the vendor level to 9%, from 14% currently, over next three to four years.

### Weak short term but bright medium term; Hold maintained

Maruti's share price rose 20% in September, sharply outperforming the Sensex, on the announced capex plan and marginal currency relief. However, we expect the short-term pain to persist until January 2011 given: 1) higher royalty rates on recent product launches, 2) higher yen-denominated import costs; and 3) the fact that the recent 1% rise in vehicle prices is yet to nullify the increase in steel prices. We expect competition to peak around early January 2011 on the back of new launches from Toyota, GM (diesel car) and Hyundai (*Santro* 800cc). We maintain our FY11-12F EPS and introduce our FY13 forecasts with improved visibility on capacity. On rolling forward our DCF-based valuation, our target price rises to Rs1,353, at which the stock would trade at 16.5x FY11F and 13.9x FY12F.

**Researched by**

**RBS Equities (India) Limited**
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**www.rbs.in/broking**

# Market share impresses, but profits may not

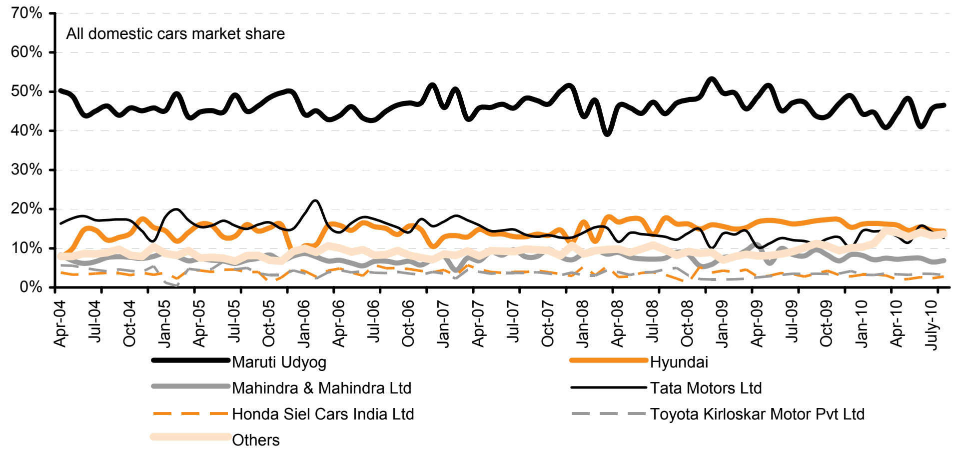
**Maruti has been able to overcome its capacity constraints and sustain market share in recent months despite competition, as per its strategy. We expect this strategy to pay off in the medium term but continue to dampen profitability in the short term. Hold maintained.**

### Impressive volume and market share performance

With a refurbished product portfolio fitted with K-series and CNG engines, Maruti has recorded mom volume growth to reach a new peak in August on the back of strong demand pull. This comes as a surprise, given the capacity constraint of 100,000 units per month.

The company's market share was hit due to new compact car model launches in January-June 2010, but eventually its market share bounced back marginally from a low in June 2010.

**Chart 1 : Market share trend in passenger vehicles (cars and UVs)**




Source: SIAM

### Can competition get desperate with response fading out for their new products?

The initial euphoria on new model launches in the compact car segment – such as Ford's *Figo*, GM's *Beat,* Nissa's Micra and VW's *Polo* – seems to be fading, especially since all models except the *Polo* are available off the shelf (ie. there is no waiting list). However, Maruti's *Swift*, *Dzire* and Eeco continue to enjoy waiting lists. This scenario may force newcomers to take desperate measures and offer price cuts to fill capacity in the coming quarters, which could hurt Maruti's (industry leader) profits.

We expect competition to peak around January 2011, once competition comes out with new launches, such as Toyota's *Etios*, Hyundai's *Santro 800cc*, GM's *Beat* (diesel variant) and Honda's small car. This, we believe, will impact Maruti's market share and in turn, pricing power.

**Table 1 : Breakdown of Maruti's domestic sales volumes**

| Model | Aug 2010 | Yoy growth (%) | Apr-Aug 2010 | Yoy growth (% |
|---|---|---|---|---|
| 800 | 1,919 | -29.8 | 10,505 | -16.9 |
| A-Star | 2,592 | 13 | 14,680 | 8 |
| Alto | 28,430 | 30.2 | 120,569 | 24.3 |
| Wagon R | 12,976 | 13.0 | 58,460 | -1.0 |
| Estilo | 3,838 | 41.6 | 23,175 | 132.7 |
| Swift | 11,508 | 28.9 | 57,800 | 38.3 |
| Ritz | 6,609 | 27 | 25,861 | -1 |
| Dzire | 8,431 | 28.8 | 41,795 | 32.4 |
| SX4 | 2,048 | 60.8 | 7,994 | 50.6 |
| Omni | 7,855 | 19.0 | 36,566 | 1.3 |
| Eeco | 6,302 | na | 24,729 | - |
| Gypsy | 161 | -47.7 | 3,500 | 86.3 |
| Vitara | 5 | -79.2 | 41 | -18.0 |
| **Total domestic** | **92,674** | **32.5** | **425,675** | **27.1** |

Source: CRISIL

**Table 2 : Monthly sales volumes of recently launched cars**

| Model | Aug 2010 | Apr-Aug 2010 |
|---|---|---|
| Ford *Figo* | 6382 | 31,714 |
| VW *Polo* | 3,211 | 9,131 |
| GM *Beat* | 2,461 | 13,696 |
| Nissan *Micra* | 1,182 | 2,110 |

Source: CRISIL

**Profitability may remain subdued until the December quarter**

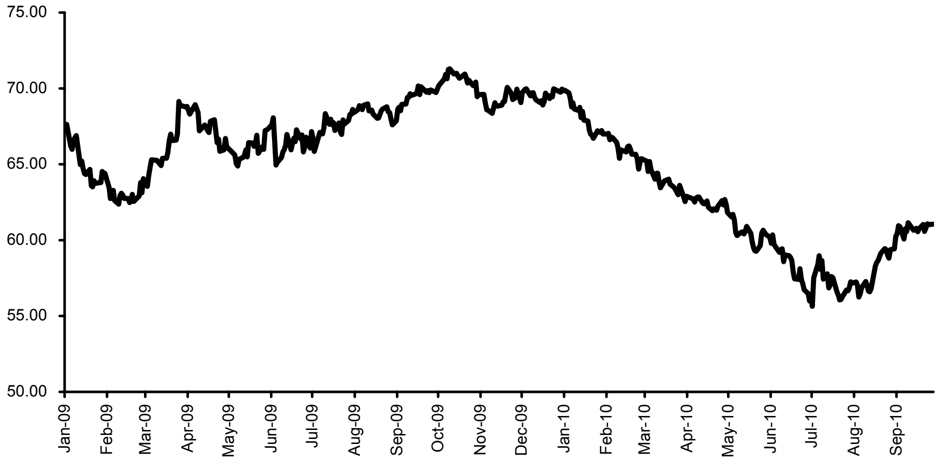
Maruti's sales volumes have improved marginally in the last two months, better than we had expected, resulting in a qoq scale benefit along with pricing action. However, we believe profitability will remain under pressure until the December 2010 quarter given the downside from: higher steel costs; K10 engine costs (for its largest volume product *Alto*); higher royalties for *Alto K10*; and a weak yen impacting imports (28% of net sales).

Maruti's strategy of expanding into new geographies has helped reduce its dependency on European exports (from 80% of export volume at the start of April 2010 to 67% currently). This, coupled with marginal strengthening of the euro from recent lows, should serve Maruti well given the weak demand in Europe's compact car industry.

However, we expect both direct and vendor yen imports to be impacted by December quarter fluctuations in the yen, which, despite recent relief from a peak of 0.56, remains on average 6% higher than in the June quarter. From the March 2011 quarter onwards, we expect EBITDA margins to bounce back to 11.5%, from 10.4% currently, as competition eases.

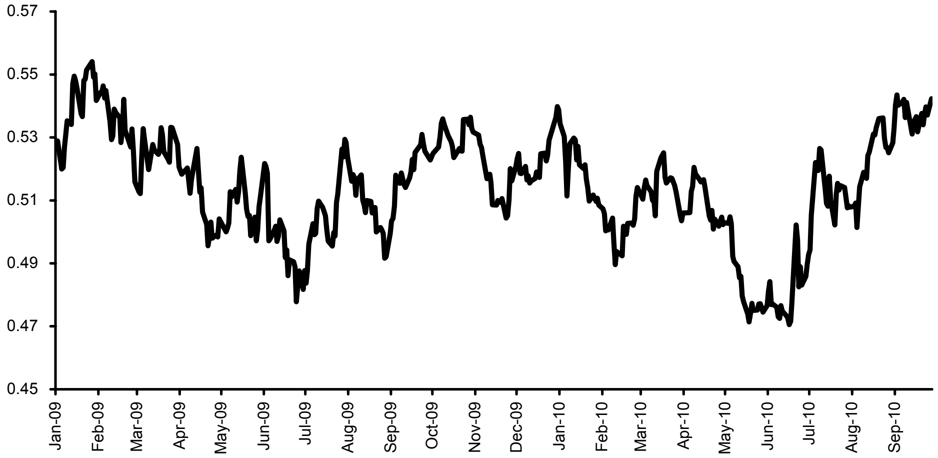
**Marginal relief in euro exports and yen imports from their recent worst. The pain will likely continue until the Dec quarter**

**Chart 2 : Currency – EUR to INR**



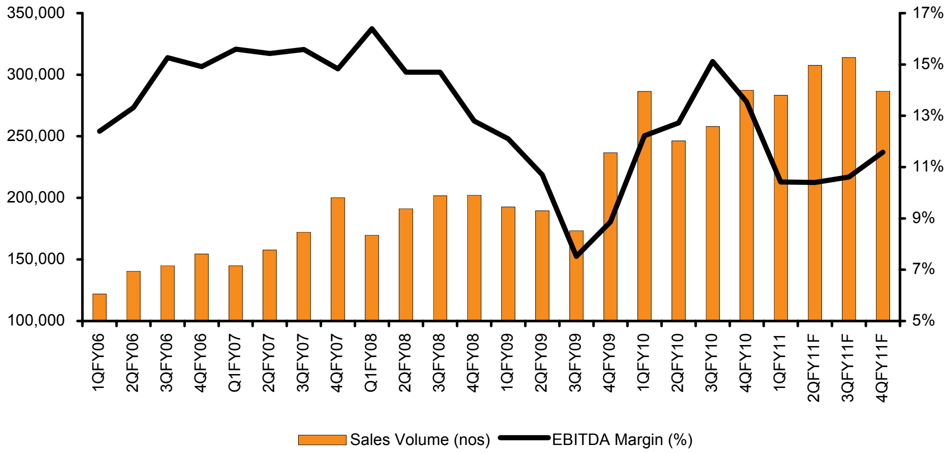

Source: Bloomberg

**Chart 3 : Currency – JPY to INR**




Source: Bloomberg

**Chart 4 : Quarterly EBITDA margin trend**




Source: Company data, RBS

**Ambitious medium-term plans on capacity, localisation and market share**

The Maruti management is ambitious on capacity, localisation and market share for the medium term.

It plans to add an additional assembly line in Manesar by 1QFY13 and increase its total capacity to 1.76m vs 1.26m currently. The capacity expansion from 1.26m to 1.51m is expected to be completed by September 2011.

Management is aiming to reduce the amount of components it imports at the vendor level to 9% of net sales by FY14, from 14% currently. It plans to achieve this by reducing imports at key vendors such as Motherson Sumi and Denso.

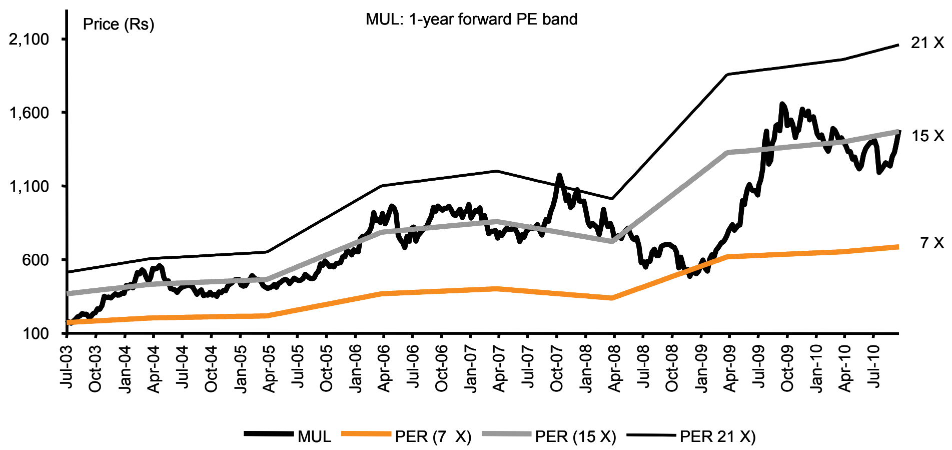
Management wants to push its market share back above 50% in the medium term with the launch of new models such as *R3*, *Kizashi* and the new *Swift*, supported by additional capacity coming on stream in FY13.

**Short-term under pressure; turnaround expected in the January quarter. Hold reiterated**

Maruti posted an impressive 20% return in one month on the back of aggressive capacity expansion plans and currency (yen) improvement. The marginal surprise in volumes and market share maintenance is as per management strategy but comes at the cost of profitability. For FY11, we estimate an aggressive 17% growth in Maruti's sales volume, which we believe will ease to 14% growth in FY12 owing to a higher base effect and rising interest rates (100bp from April 2010 to now, further 75bp expected by March 2011). We expect this to result in demand cooling from March 2011. We introduce our FY13 sales volume growth forecast of 13% leading to EPS growth of 18.5%.

We expect a short-term impact on Maruti's profits caused by the cost of emission upgrade of cars, rising royalty on new cars, and weak pricing power due to rising competition in the compact car segment. These factors will nullify the marginal relief in currency from their worst in August 2010 levels. We reiterate our Hold rating on the stock with a revised target price of Rs1,353/share. The revision in target price is caused by a rollover of our DCF model to incorporate the numbers from the recently released FY10 annual report. At our target price, the stock would trade at 16.5x FY11F EPS and 13.9x FY12F with 5.9% EPS CAGR over FY10-12F.

**Chart 5 : Forward PE band**




Source: Bloomberg, RBS estimates

# Volume and operating assumptions

**Table 3 : Volume and operating matrix assumptions**

| | FY09 | FY10 | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| Domestic sales volume | 722,144 | 870,790 | 1,046,587 | 1,193,409 | 1,349,002 |
| Growth (%) | 1.4% | 20.6% | 20.2% | 14.0% | 13.0% |
| Export sales volume | 70,023 | 147,575 | 145,000 | 165,000 | 186,000 |
| Growth (%) | 32.1% | 110.8% | -1.7% | 13.8% | 12.7% |
| **Total sales volume** | **792,167** | **1,018,365** | **1,191,587** | **1,358,409** | **1,535,002** |
| **Growth (%)** | **3.6%** | **28.6%** | **17.0%** | **14.0%** | **13.0%** |
| | | | | | |
| Gross sales realisation | 296,223 | 318,863 | 328,514 | 332,128 | 667,910 |
| Growth (%) | 5.9% | 7.6% | 3.0% | 1.1% | 101.1% |
| Net sales realisation per vehicle | 261,800 | 290,888 | 295,246 | 301,151 | 305,668 |
| Growth (%) | 9.4% | 11.1% | 1.5% | 2.0% | 1.5% |
| Contribution per vehicle | 56,477 | 70,505 | 68,574 | 71,072 | 72,749 |
| Growth (%) | -6.9% | 24.8% | -2.7% | 3.6% | 2.4% |
| EBITDA per vehicle | 24,017 | 38,962 | 31,724 | 34,482 | 36,069 |
| Growth (%) | -31.1% | 62.2% | -18.6% | 8.7% | 4.6% |
| EBITDA margin (%) | 9.2% | 13.4% | 10.7% | 11.5% | 11.8% |

Source: Company data, RBS forecasts

## Income statement

| Rsm | FY09A | FY10A | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| Revenue | 207389 | 296230 | 351811 | 409086 | 469201 |
| Cost of sales | -162650 | -224430 | -270100 | -312542 | -357531 |
| Operating costs | -25713 | -32123 | -43910 | -49704 | -56304 |
| **EBITDA** | **19026** | **39677** | **37802** | **46840** | **55366** |
| DDA & Impairment (ex gw) | -7065 | -8250 | -9561 | -13250 | -15858 |
| **EBITA** | **11960** | **31427** | **28241** | **33591** | **39508** |
| Goodwill (amort/impaired) | n/a | n/a | n/a | n/a | n/a |
| **EBIT** | **11960** | **31427** | **28241** | **33591** | **39508** |
| Net interest | 6563 | 4630 | 5428 | 6050 | 6800 |
| 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** | **18523** | **36057** | **33669** | **39641** | **46308** |
| Taxation | -4571 | -10949 | -9932 | -11496 | -12966 |
| Minority interests | n/a | n/a | n/a | n/a | n/a |
| Exceptionals (post-tax) | -1765 | -132.0 | 0.00 | 0.00 | 0.00 |
| Other post-tax items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Reported net profit** | **12187** | **24976** | **23737** | **28145** | **33341** |
| Normalised Items Excl. GW | -1765 | -132.0 | 0.00 | 0.00 | 0.00 |
| **Normalised net profit** | **13952** | **25108** | **23737** | **28145** | **33341** |

Source: Company data, RBS forecasts — year to Mar

## Balance sheet

| Rsm | FY09A | FY10A | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| Cash & market secs (1) | 47297 | 68912 | 55635 | 60953 | 79405 |
| Other current assets | 35521 | 36742 | 56835 | 65869 | 75563 |
| Tangible fixed assets | 49321 | 54123 | 74562 | 101312 | 110454 |
| Intang assets (incl gw) | n/a | n/a | n/a | n/a | n/a |
| Oth non-curr assets | 3826 | 3836 | 5037 | 6037 | 7037 |
| **Total assets** | **135965** | **163613** | **192069** | **234172** | **272458** |
| Short term debt (2) | n/a | n/a | n/a | n/a | n/a |
| Trade & oth current liab | 30169 | 29394 | 36316 | 55358 | 63421 |
| Long term debt (3) | 6989 | 8214 | 6949 | 5449 | 5449 |
| Oth non-current liab | 5358 | 7654 | 8738 | 7935 | 7935 |
| **Total liabilities** | **42516** | **45262** | **52003** | **68742** | **76804** |
| Total equity (incl min) | 93449 | 118351 | 140066 | 165430 | 195654 |
| **Total liab & sh equity** | **135965** | **163613** | **192069** | **234172** | **272458** |
| Net debt | -40308 | -60698 | -48686 | -55504 | -73956 |

Source: Company data, RBS forecasts — year ended Mar

## Cash flow statement

| Rsm | FY09A | FY10A | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| EBITDA | 19026 | 39677 | 37802 | 46840 | 55366 |
| Change in working capital | 15790 | -4479 | -7744 | -5268 | -1482 |
| Net interest (pd) / rec | 6563 | 4630 | 5428 | 6050 | 6800 |
| Taxes paid | -4689 | -11230 | -9764 | -11099 | -12966 |
| Other oper cash items | -19618 | 4828 | -4511 | 14076 | -148.7 |
| **Cash flow from ops (1)** | **17072** | **33426** | **21211** | **50599** | **47569** |
| Capex (2) | -16058 | -13052 | -30000 | -40000 | -25000 |
| Disposals/(acquisitions) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other investing cash flow | -675.0 | -10.0 | -1201 | -1000 | -1000 |
| **Cash flow from invest (3)** | **-16733** | **-13062** | **-31201** | **-41000** | **-26000** |
| Incr / (decr) in equity | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Incr / (decr) in debt | -2013 | 1225 | -1265 | -1500 | 0.00 |
| Ordinary dividend paid | -1182 | -2021 | -2022 | -2780 | -3118 |
| Preferred dividends (4) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other financing cash flow | -1743 | 2047 | 0.00 | 0.00 | 0.00 |
| **Cash flow from fin (5)** | **-4938** | **1251** | **-3287** | **-4280** | **-3118** |
| Forex & disc ops (6) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Inc/(decr) cash (1+3+5+6)** | **-4599** | **21615** | **-13277** | **5319** | **18451** |
| Equity FCF (1+2+4) | 1013 | 20374 | -8789 | 10599 | 22569 |

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

## Standard ratios

| Performance | Maruti Suzuki FY09A | FY10A | FY11F | FY12F | FY13F | Mahindra & Mahindra FY11F | FY12F | FY13F | Tata Motors FY11F | FY12F | FY13F |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales growth (%) | 13.3 | 42.8 | 18.8 | 16.3 | 14.7 | 19.3 | 13.1 | 11.3 | 32.0 | 14.2 | 8.98 |
| EBITDA growth (%) | -28.6 | 108.5 | -4.73 | 23.9 | 18.2 | 5.89 | 12.7 | 7.67 | 13.9 | 14.5 | 8.60 |
| EBIT growth (%) | -43.0 | 162.8 | -10.1 | 18.9 | 17.6 | 4.54 | 11.8 | 6.88 | 6.02 | 16.4 | 7.83 |
| Normalised EPS growth (%) | -15.6 | 80.0 | -5.46 | 18.6 | 18.5 | 14.8 | 12.8 | 8.31 | 10.7 | 19.6 | 87.1 |
| EBITDA margin (%) | 9.17 | 13.4 | 10.7 | 11.4 | 11.8 | 14.6 | 14.5 | 14.1 | 10.4 | 10.4 | 10.3 |
| EBIT margin (%) | 5.77 | 10.6 | 8.03 | 8.21 | 8.42 | 12.6 | 12.5 | 12.0 | 6.98 | 7.11 | 7.04 |
| Net profit margin (%) | 6.73 | 8.48 | 6.75 | 6.88 | 7.11 | 10.6 | 10.6 | 10.3 | 3.60 | 3.77 | 6.47 |
| Return on avg assets (%) | 7.42 | 14.7 | 11.3 | 11.3 | 11.4 | 12.9 | 12.0 | 11.5 | 4.89 | 5.36 | 6.26 |
| Return on avg equity (%) | 15.7 | 23.7 | 18.4 | 18.4 | 18.5 | 25.7 | 23.3 | 21.5 | 10.5 | 10.9 | 18.8 |
| ROIC (%) | 18.4 | 38.0 | 31.6 | 23.9 | 23.3 | 23.0 | 20.0 | 17.8 | 7.01 | 7.40 | 7.51 |
| ROIC - WACC (%) | 5.18 | 24.8 | 18.4 | 10.7 | 10.1 | 10.9 | 7.85 | 5.64 | -3.29 | -2.91 | -2.79 |
| | | | | | year to Mar | | | year to Mar | | | year to Mar |

| Valuation | Maruti Suzuki FY09A | FY10A | FY11F | FY12F | FY13F | Mahindra & Mahindra FY11F | FY12F | FY13F | Tata Motors FY11F | FY12F | FY13F |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EV/sales (x) | 1.87 | 1.24 | 1.08 | 0.91 | 0.76 | 1.68 | 1.48 | 1.28 | 1.64 | 1.42 | 1.32 |
| EV/EBITDA (x) | 20.4 | 9.26 | 10.0 | 7.96 | 6.40 | 11.5 | 10.2 | 9.12 | 15.8 | 13.7 | 12.8 |
| EV/EBITDA @ tgt price (x) | 18.4 | 8.33 | 9.06 | 7.16 | 5.73 | 12.1 | 10.7 | 9.55 | 15.6 | 13.6 | 12.7 |
| EV/EBIT (x) | 32.4 | 11.7 | 13.4 | 11.1 | 8.97 | 13.3 | 11.8 | 10.7 | 23.4 | 20.0 | 18.8 |
| EV/invested capital (x) | 7.09 | 6.23 | 4.08 | 3.33 | 2.87 | 3.55 | 2.94 | 2.62 | 2.22 | 2.08 | 2.01 |
| Price/book value (x) | 4.58 | 3.62 | 3.06 | 2.59 | 2.19 | 3.90 | 3.31 | 2.84 | 3.83 | 3.35 | 3.26 |
| Equity FCF yield (%) | 0.24 | 4.76 | -2.05 | 2.48 | 5.27 | 3.21 | 5.24 | 7.25 | 0.42 | 2.47 | 3.33 |
| Normalised PE (x) | 30.7 | 17.1 | 18.0 | 15.2 | 12.8 | 17.4 | 15.4 | 14.2 | 39.3 | 32.9 | 17.6 |
| Norm PE @tgt price (x) | 28.0 | 15.6 | 16.5 | 13.9 | 11.7 | 18.1 | 16.1 | 14.8 | 38.8 | 32.4 | 17.3 |
| Dividend yield (%) | 0.24 | 0.40 | 0.40 | 0.56 | 0.62 | 1.45 | 1.63 | 1.81 | 1.40 | 1.86 | 2.14 |
| | | | | | year to Mar | | | year to Mar | | | year to Mar |

| Per share data | FY09A | FY10A | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| Tot adj dil sh, ave (m) | 289.0 | 289.0 | 289.0 | 289.0 | 289.0 |
| Reported EPS (INR) | 42.2 | 86.4 | 82.1 | 97.4 | 115.4 |
| Normalised EPS (INR) | 48.3 | 86.9 | 82.1 | 97.4 | 115.4 |
| Dividend per share (INR) | 3.50 | 6.00 | 6.00 | 8.25 | 9.25 |
| Equity FCF per share (INR) | 3.51 | 70.5 | -30.4 | 36.7 | 78.1 |
| Book value per sh (INR) | 323.4 | 409.5 | 484.7 | 572.4 | 677.0 |
| | | | | | year to Mar |

| Solvency | FY09A | FY10A | FY11F | FY12F | FY13F |
|---|---|---|---|---|---|
| Net debt to equity (%) | -43.1 | -51.3 | -34.8 | -33.6 | -37.8 |
| Net debt to tot ass (%) | -29.6 | -37.1 | -25.3 | -23.7 | -27.1 |
| Net debt to EBITDA | -2.12 | -1.53 | -1.29 | -1.18 | -1.34 |
| Current ratio (x) | 2.75 | 3.59 | 3.10 | 2.29 | 2.44 |
| Operating CF int cov (x) | -2.32 | -8.64 | -4.71 | -9.20 | -7.90 |
| Dividend cover (x) | 11.8 | 12.4 | 11.7 | 10.1 | 10.7 |
| | | | | | year to Mar |

Priced as follows: MRTI.BO - Rs1481.75; MAHM.BO - Rs690.95; TAMO.BO - Rs1072.90
Source: Company data, RBS forecasts

## Valuation methodology

| Economic Profit Valuation | Rs m | % |
|---|---|---|
| Adjusted Opening Invested Capital | 80038.8 | 24 |
| NPV of Economic Profit During Explicit Period | 32755.0 | 10 |
| NPV of Econ Profit of Remaining Business (1, 2) | 60954.9 | 18 |
| NPV of Econ Profit of Net Inv (Grth Business) (1, 3) | 156576.5 | 47 |
| Enterprise Value | 330325.3 | 100 |
| Plus: Other Assets | 0.0 | 0 |
| Less: Minorities | 0.0 | 0 |
| Less: Net Debt (as at 27 Sep 2010) | -60698.0 | -18 |
| Equity Value | 391023.3 | 118 |
| No. Shares (millions) | 289.0 | |
| **Per Share Equity Value** | **1353.0** | |
| Current Share Price | 1481.8 | |

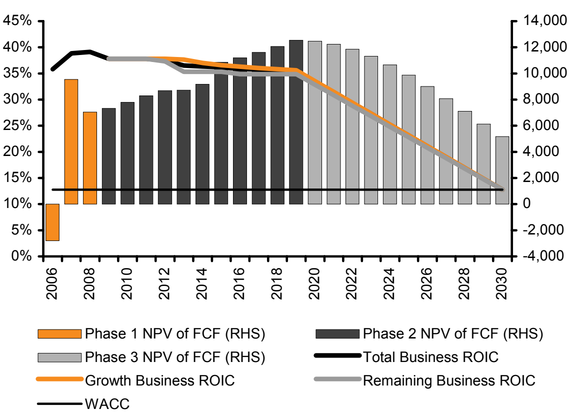
**Sensitivity Table**

| WACC | No of Years in Fade Period 15 | 18 | 20 | 23 | 25 |
|---|---|---|---|---|---|
| **11.2%** | 1,869 | 2,022 | 2,127 | 2,290 | 2,403 |
| **12.2%** | 1,653 | 1,769 | 1,849 | 1,970 | 2,053 |
| **13.2%** | 1,470 | 1,559 | 1,619 | 1,710 | 1,770 |
| **14.2%** | 1,316 | 1,384 | 1,429 | 1,497 | 1,541 |
| **15.2%** | 1,185 | 1,237 | 1,271 | 1,321 | 1,354 |

| Performance Summary | 2011 | 2012 | 2013 | Phase 2 Avg hase 2 Avg (2014 - 2024) |
|---|---|---|---|---|
| Invested Capital Growth (%) | 57.4 | 20.4 | 10.5 | 15.5 |
| Operating Margin (%) | 9.6 | 9.7 | 9.9 | 9.4 |
| Capital Turnover (x) | 6.0 | 4.4 | 4.2 | 3.6 |

| Discounted Cash Flow Valuation | Rs m | % |
|---|---|---|
| Value of Phase 1: Explicit (2011 to 2013) | 16428.0 | 5 |
| Value of Phase 2: Value Driver (2014 to 2024) | 111914.1 | 34 |
| Value of Phase 3: Fade (2025 to 2035) | 114766.0 | 35 |
| Terminal Value | 87187.0 | 26 |
| Enterprise Value | 330295.1 | 100 |
| FCF Grth Rate at end of Phs 1 implied by DCF Valuation | | 8 |
| FCF Grth Rate at end of Phs 1 implied by Current Price | | 9 |

**Returns, WACC and NPV of Free Cash Flow**




Source: Company data, RBS forecasts

## Company description — Hold

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 46%. Maruti's strategy is focused on leveraging its increasing penetration of the Indian car market, where it has a 67% share of the small car & van segment. Suzuki is also developing Maruti as a global base to develop and manufacture small cars. Apart from a volume focus, the company has undertaken intensive cost-reduction and productivity-improvement programmes. As a result of these programmes, Maruti has consistently beaten its profitability and productivity targets. The recent expansion into the sedan market with new launches has helped it expand the addressable market.

## Price relative to country


## Strategic analysis — Average SWOT company score: 3

### Strengths — 4

The company enjoys exceptionally high customer goodwill. It is also one of the lowest-cost car manufacturer in India with the widest range of small car models.

### Weaknesses — 2

The company has relatively weak presence in the mid-size and premium car segments. This may put it at a disadvantage if the market shifts towards premium cars.

### Opportunities — 4

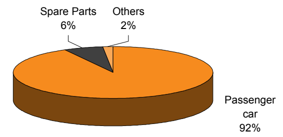
Strong demand in the small and compact car segments in India, where 70m motorcycle owners aspire to own a car. It can also tap related services such as car insurance, financing and old car refurbishing.

### Threats — 2

Increasing competition and pricing pressures in the medium term are the two main threats to the company going forward.

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

## Sales mix, FY10




Source : Company Data

## Market data

**Headquarters**
Plot #1, Nelson Mandela Road, Vasant Kunj, New Delhi-110 070

**Website**
www.marutisuzuki.com

**Shares in issue**
289.0m

**Freefloat**
46%

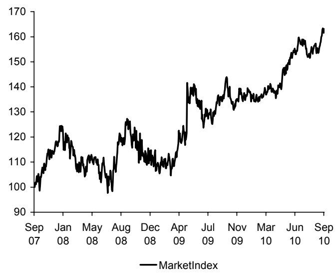
**Majority shareholders**
LIC (11%), HSBC Global (6%), ICICI Pru Life (2%)

## Country view: India

The macro picture for India has been constructive recently, with GDP and industrial production tracking in line with expectations, while portfolio allocators continue to favour the market for its domestic consumption orientation. However, these positives have already been priced in and we believe risks are rising from the increasing double deficit, demanding valuations and tightening liquidity.

*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, it enjoys significant bargaining power.

### Barriers to entry — 2+

High capital investment, technology and the ability to absorb losses in the initial years are key entry barriers. The 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+

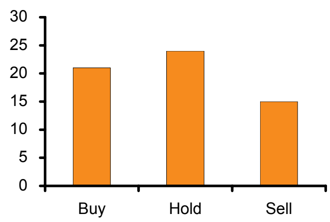
Cars in the premium segment are facing competition from SUVs, whereas in the compact segment, there is no substitute available. But alternative fuel options increase technology challenge for comapnies

### Rivalry — 3-

Almost all of global car majors are present in India, but with the top three accounting for 83% of the market share limits rivalry in domestic market. But export market is highly competitve.

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

## Broker recommendations




Source: Bloomberg

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