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Morgan Stanley India Company Private Limited+

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May 18, 2009

Stock Rating
**Overweight**

Industry View
**In-Line**

# Maruti Suzuki India Limited

## Riding the Macro Recovery; Upgrade to Overweight

### What's Changed

| | |
|---|---|
| Rating | **Equal-weight to Overweight** |
| Price Target | **Rs864.00 to Rs980.00** |

**Play on Demand Recovery:** On the back of an improving outlook for the macro environment and earnings auto financing, we raise our domestic market volume growth estimates for Maruti from 7% in FY10 to 11%. We raise our F2010-11 earnings estimates by 10% and 9%, respectively. Our Rs980 price target is based on the weighted average of our scenario values, and implies 16% upside potential.

**Valuations attractive on relative basis:** Historically, Maruti has traded in line with the index; it currently trades at a 10% discount, with an 18% earnings CAGR over FY2009-11 vs. 7% growth for the index. We believe a premium of 8% to the index, as implied by our price target, is justified. Even on an absolute basis, we believe the stock does not look expensive and trades at 13.5x one year forward earnings, a 4-5% discount to the historical average.

**Pan India presence, strong product pipeline, 56% market share makes Maruti the best-placed auto stock:** Given its pan India presence and strong brand loyalty, Maruti has benefited from strong demand from the semi urban segment, and over the last four months, it has gained 290 bps share in the domestic car category (Exhibit 3). The company has launched the new hatchback, Ritz, with both petrol and diesel options. Given better fuel efficiency and competitive pricing, we expect Ritz to consolidate Maruti's position in the high realization diesel segment.

**Margin expansion:** We forecast EBITDA margins to expand from 9.4% in F2009 to 12.4% in F2010. We estimate EPS of Rs63 in F2010, up 41% YoY.

### Key Ratios and Statistics

**Reuters: MRTI.BO  Bloomberg: MSIL IN**
**India Four-Wheelers: Passenger Cars**

| | |
|---|---|
| Price target | Rs980.00 |
| Upside to price target (%) | 16 |
| Shr price, close (May 15, 2009) | Rs847.55 |
| 52-Week Range | Rs873.00-428.40 |
| Sh out, dil, curr (mn) | 289 |
| Mkt cap, curr (mn) | Rs244,942 |
| EV, curr (mn) | Rs202,048 |
| Avg daily trading value (mn) | Rs157 |

| Fiscal Year ending | 03/08 | 03/09e | 03/10e | 03/11e |
|---|---|---|---|---|
| ModelWare EPS (Rs) | 61.93 | 44.46 | 62.67 | 71.99 |
| Prior ModelWare EPS (Rs) | - | - | 57.01 | 65.98 |
| Revenue, net (Rs mn) | 183,454 | 208,527 | 250,606 | 277,073 |
| EBITDA (Rs mn) | 26,524 | 19,653 | 30,976 | 35,747 |
| ModelWare net inc (Rs mn) | 17,899 | 12,848 | 18,113 | 20,805 |
| P/E | 13.4 | 17.4 | 13.5 | 11.8 |
| P/BV | 2.8 | 2.4 | 2.2 | 1.9 |
| RNOA (%) | 58.3 | 19.7 | 26.4 | 25.1 |
| ROE (%) | 28.2 | 15.2 | 19.0 | 18.7 |
| EV/EBITDA | 7.4 | 9.4 | 6.5 | 5.2 |
| Div yld (%) | 0.6 | 0.5 | 0.7 | 0.8 |
| FCF yld ratio (%) | (1.9) | (3.4) | 0.8 | 5.2 |
| Leverage (EOP) (%) | (50.6) | (40.9) | (38.8) | (44.8) |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
**e =** Morgan Stanley Research estimates

# Financial Summary

## Profit and Loss Statement

| (Rs Mn) | F2008 | F2009 | F2010E | F2011E |
|---|---|---|---|---|
| Volumes | 764,848 | 792,167 | 932,338 | 1,018,587 |
| Sales | 209,493 | 230,853 | 263,915 | 291,879 |
| Other Operating Income | 4,851 | 4,942 | 5,216 | 5,530 |
| Less Excise Duty | 30,890 | 27,269 | 18,525 | 20,335 |
| **Net Operating Income** | **183,454** | **208,527** | **250,606** | **277,073** |
| **COGS** | **156,930** | **188,874** | **219,630** | **241,327** |
| Raw Material Costs | 127,227 | 153,496 | 176,190 | 193,611 |
| Stores and Spares | 9,241 | 8,931 | 10,765 | 11,913 |
| Employee Costs | 3,562 | 4,711 | 5,483 | 6,393 |
| Manufacturing & Admin | 11,298 | 14,346 | 17,568 | 18,765 |
| Selling Expenses | 5,602 | 7,390 | 9,624 | 10,645 |
| **Operating Profit** | **26,524** | **19,653** | **30,976** | **35,747** |
| Interest and Other Income | 4,784 | 5,445 | 4,368 | 4,568 |
| Depreciation | 5,682 | 7,065 | 8,705 | 9,865 |
| Interest Expense | 596 | 510 | 540 | 480 |
| PBT | 25,030 | 17,522 | 26,098 | 29,970 |
| Tax | 7,722 | 4,762 | 8,090 | 9,291 |
| Core PAT | 17,308 | 12,761 | 18,008 | 20,679 |
| Contn from subsidiaries | 591 | 88 | 105 | 126 |
| **Reported Consolidated PAT** | **17,899** | **12,848** | **18,113** | **20,805** |
| Prior Period/Extraordinaries | - | (571) | - | - |
| Consolidated Adjusted PAT | 17,899 | 12,277 | 18,113 | 20,805 |
| Reported Standalone PAT | 17,308 | 12,189 | 18,008 | 20,679 |

## Balance Sheet

| Rs Mn | F2008 | F2009E | F2010E | F2011E |
|---|---|---|---|---|
| **Net Block** | **32,965** | **47,000** | **57,394** | **59,630** |
| CWIP | 7,363 | 4,698 | 5,653 | 6,258 |
| Core Investments | 3,742 | 3,742 | 3,742 | 3,742 |
| Marketable Securities | 48,656 | 44,754 | 48,974 | 61,916 |
| Inventories | 10,380 | 13,023 | 14,791 | 16,367 |
| Receivables | 6,555 | 8,224 | 9,913 | 10,970 |
| Cash & Bank | 3,240 | 3,240 | 3,240 | 3,240 |
| Other Current Assets | 10,734 | 12,416 | 14,965 | 16,560 |
| **Total Current Assets** | **30,909** | **36,904** | **42,909** | **47,137** |
| Curr Liabilities and Provns | 28,187 | 31,127 | 36,618 | 40,191 |
| Net Working Capital | 2,722 | 5,777 | 6,291 | 6,947 |
| **Total Assets** | **95,448** | **105,970** | **122,054** | **138,492** |
| Share Capital | 1,445 | 1,445 | 1,445 | 1,445 |
| Reserves & Surplus | 83,300 | 93,822 | 109,906 | 128,344 |
| **Share Holders Funds** | **84,745** | **95,267** | **111,351** | **129,789** |
| Deferred Tax | 1701 | 1701 | 1701 | 1701 |
| Secured Loans | 1 | - | - | - |
| Unsecured Loans | 9,001 | 9,002 | 9,002 | 7,002 |
| **Total Debt** | **9,002** | **9,002** | **9,002** | **7,002** |
| **Total Liabilities** | **95,448** | **105,970** | **122,054** | **138,492** |

## Cash Flow Statement

| (Rs Mn) | F2008 | F2009E | F2010E | F2011E |
|---|---|---|---|---|
| **Cash Flow from Operations** | | | | |
| Consolidated Adjusted PAT | 17,899 | 12,277 | 18,113 | 20,805 |
| Depreciation | 5,682 | 7,065 | 8,705 | 9,865 |
| Deferred Tax | 26 | 0 | 0 | 0 |
| **Sub total** | **23,607** | **19,342** | **26,818** | **30,670** |
| Decr in Net Working Capital | (384) | (3,055) | (852) | (825) |
| **Total** | **23,223** | **16,287** | **25,966** | **29,845** |
| **Cash Flow from Investment Activities** | | | | |
| Incr/(decr) of Fixed Assets | 16,906 | 18,435 | 20,055 | 12,705 |
| Incr/(decr) of Investments | 7,486 | - | - | - |
| **Total** | **24,392** | **18,435** | **20,055** | **12,705** |
| **Cash Flow from Financing Activities** | | | | |
| Incr/(Decr) of Equities | 5,179 | (0) | 0 | (0) |
| Incr/(Decr) of Debt | 2,694 | - | - | (2,000) |
| Dividends | 1,693 | 1,183 | 1,691 | 1,860 |
| **Total** | **6,180** | **(1,183)** | **(1,691)** | **(3,860)** |
| **Net change in cash** | **5,011** | **(3,331)** | **4,220** | **13,281** |
| Cash and Eqv at Begn of Year | 46,885 | 51,896 | 48,565 | 52,785 |
| Cash and Eqv at End of Year | 51,896 | 48,565 | 52,785 | 66,066 |

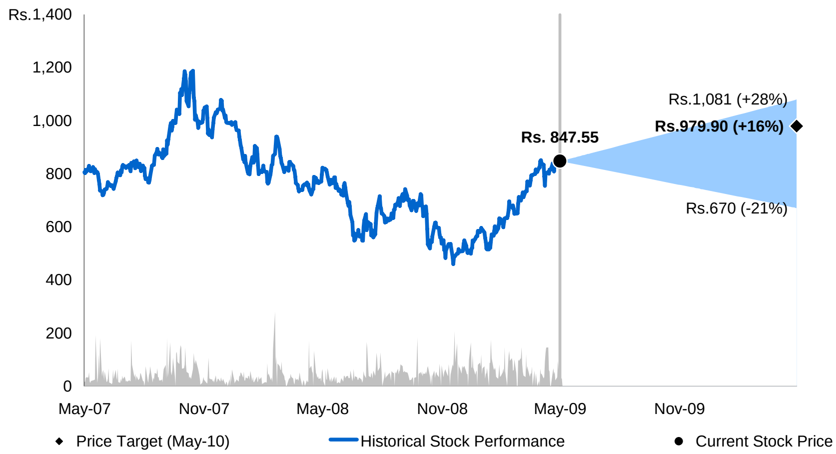
## Ratio Analysis

| March End | F2008 | F2009E | F2010E | F2011E |
|---|---|---|---|---|
| **Per Share** | | | | |
| EPS | 62 | 44 | 63 | 72 |
| Book Value | 293 | 330 | 385 | 449 |
| EPS Growth | 13% | -28% | 41% | 15% |
| DPS | 5.0 | 3.5 | 6.0 | 7.0 |
| **Valuations** | | | | |
| P/E | 13.4 | 17.5 | 13.5 | 11.8 |
| P/BV | 2.8 | 2.4 | 2.2 | 1.9 |
| EV/EBITDA | 7.4 | 9.4 | 6.5 | 5.2 |
| P/Sales | 1.3 | 1.1 | 1.0 | 0.9 |
| **Cash /Market cap** | **22%** | **21%** | **21%** | **27%** |
| **Turnover** | | | | |
| Inventory (days) | 21.0 | 23.5 | 24.2 | 24.6 |
| Avg. Collection Period (days) | 14.0 | 12.9 | 13.2 | 13.8 |
| Avg. Payment Period (days) | 64.0 | 61.7 | 61.6 | 63.5 |
| Total Assets | 2.2 | 2.1 | 2.2 | 2.1 |
| **Returns** | | | | |
| EBIDTA Margin | 14% | 9% | 12% | 13% |
| ROCE | 21% | 13% | 16% | 16% |
| ROE | 23% | 14% | 17% | 17% |
| ROA | 21% | 13% | 16% | 16% |
| NPM | 14% | 14% | 14% | 7% |
| Dividend Yield | 1% | 0% | 1% | 1% |
| **Capitalisation & Coverage** | | | | |
| Total Debt/Equity | 0.1 | 0.1 | 0.1 | 0.1 |

E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

# Risk-Reward Snapshot: Maruti Suzuki India (MRTI.BO, Rs848, OW, PT Rs980)

## Best in Class, Poised to Benefit from Improving Macro




| Price Target Rs980 | | Probability based – 40% bull case, 50% base case, 10% bear case |
|---|---|---|
| **Bull Case Rs1,081** | 16x Bull Case F2010e EPS | **Domestic Demand Grows at 12% + Exports of 132k in F2010:** Margins expand to 13.2%, closer to FY08 margins of 14.5%: Sharp raw material fall and improved realizations results in 90 bps margin expansion over our base case. This leads to our bull-case fair value of Rs1,081 per share. We assign a probability of 40% to this scenario. |
| **Base Case Rs961** | 15x Base Case F2010e EPS | **Domestic Demand Grows at 11% + Exports of 130K in F2010:** Easing finance, stabilizing macro environment and pay commission boost result in domestic sales growth of 11% in F2010 vs 1% in F2009. Given lower emission and scrappage incentives, exports sales momentum of the last quarter is maintained and we estimate export volumes at 130K units in F2010. Benefit of lower raw material prices come fully in F2010 and margins recover on the back of this by 300 bps in F10 to 12.4%. This leads to our base- case fair value of Rs961 per share. We assign a probability of 50% to this scenario. |
| **Bear Case Rs670** | 12x Bear Case F2010e EPS | **Domestic Demand Grows at 5% + Exports of 107K in F2010:** The last quarter uptick is more of a one-time bounce back in demand, which slows in the coming months. Domestic volumes grow by 5% in F2010, lower then GDP growth. Export growth slows as A Star fails to click in the competitive European small car market. Exports grow by 53% YoY (107k) in F10. A fall-off in demand plus high operating leverage forces the company to offer aggressive discounts and commissions to push sales. Margin recovery, therefore, remains muted in F2010 and deteriorates by 30 bps over the base case. This leads to our bear-case fair value of Rs670 per share. We assign a probability of 10% to this scenario. |

Source: FactSet, Morgan Stanley Research

### Investment Thesis

- On the back of improving macro outlook and easier auto financing, we raise our domestic market volume growth estimates from 7% in FY10 to 11%.
- We raise our earnings estimates by 10% and 9% in FY10 and FY11. Our price target of Rs980 is based on the weighted average of our scenario values, and implies 16% upside potential from the current price.
- Maruti, with its strong balance sheet, and 56% market share in F09, is the best placed to benefit from growth in car sales in India.

### Key Value Drivers

- While intense competitive pricing and Yen appreciation is a concern, we expect a fall in raw material prices to offset the impact on the overall operating margin.

### Potential Catalysts

- Increased volume momentum from second pay commission payment expected in FY10.
- Capacity expansion of diesel plant to enable more sales of high realization diesel segment cars.
- Structural shift of improving demand in semi urban regions benefits Maruti over competition.

### Key Risks

- Currency hits: Sharp Yen appreciation and export slowdown.
- Ritz cannibalizes into Swift volumes.
- Raw material prices move up.

# Investment Case

Among our auto coverage, we believe Maruti is best placed to benefit from an improving macro environment, given its 56% share of the car & MPV market, a strong product pipeline and net cash to market cap of 21% in F2009. Over the last two months, the stock has underperformed the market and now trades at 13.5x our FY10E earnings. Our price target of Rs980 is based on the weighted average of our scenario values, and implies 16% upside potential from current levels. At our price target, Maruti would trade at 15.6x F2010e EPS.

The changes in our forecasts come primarily from revisions to our volume assumptions (Exhibit 9).

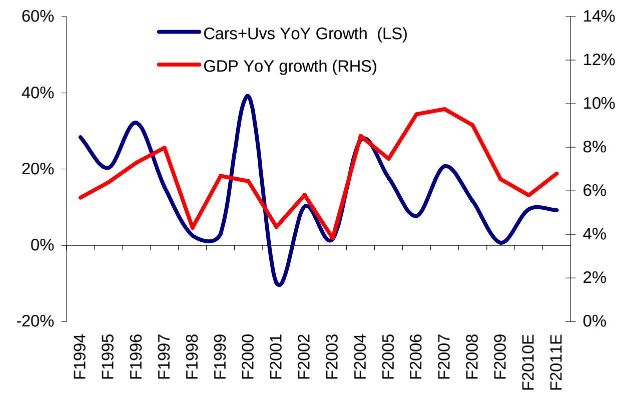
**We raise our domestic car sales volumes on the back of an improved economic outlook:** Cars sales are strongly correlated with GDP growth and our economist, Chetan Ahya, now expects F2010 GDP growth of 5.8% versus 4.4% earlier. Over the last quarter, Maruti's volumes have grown 17% YoY and a further 15% in April, which is typically one of the slowest months of the year. Going forward, we expect volumes to grow 18% in FY10 and 9% in FY11.

**Auto financing environment improves with more clarity on repossession norms:** Maruti has benefited significantly from tie-ups with public sector banks and as financing from private sector banks slowed, Maruti's sales were increasingly being financed by public sector banks (Exhibit 4). Financing by private sector banks has dropped, as vehicle repossessions stemming from default payments were constrained by various legal issues. Under the new government, we expect RBI's draft guidelines on repossession norms to be finalized and given improving liquidity, we expect more participation from private banks in auto financing.

**Second Package from Pay Commission Sales Boost Demand:** Though the impressive volume growth in the last quarter has come across segments (cities/rural), we believe government employee purchases helped boost sales from December 2008 to March 2009. The government-appointed Sixth Pay Commission announced its recommendations on the magnitude of increase in salary and pension (compensation) for 2.9 million central government employees. Of the total payout of about Rs218 billion, 40% was disbursed in the last quarter of F2009 and the remaining 60% will be given out in F2010. The second pay commission boost should result in increasing spend on consumer discretionary, and auto sales should be one of the beneficiaries.

Exhibit 1

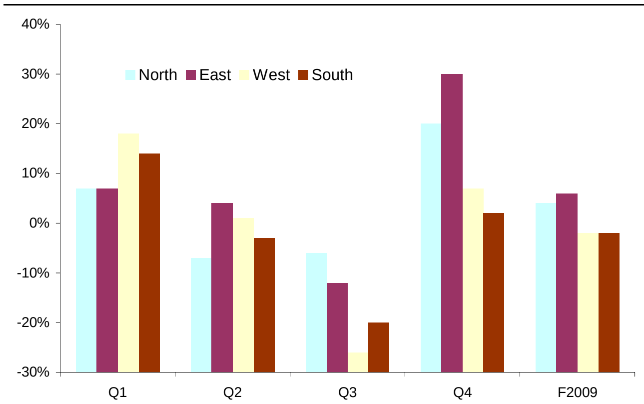
**Revising Volume Estimates on the Back of Improved Macro Outlook**




Source: Company data, Morgan Stanley Research
E= Morgan Stanley Research estimates

Exhibit 2

**Benefiting from a Pan India Presence –Q4 Growth Came From North and East India**




Source: Company data, Morgan Stanley Research

Exhibit 3

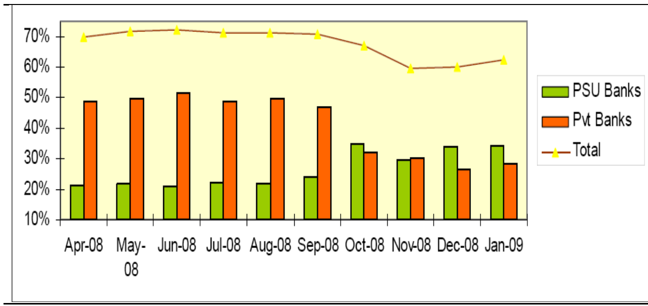
**Domestic Market Share across OEMs**

| Market Share | CYTD08 | CYTD09 | Change |
|---|---|---|---|
| Cars + MPVs | | | |
| Maruti | 52% | 55% | 2.9% |
| Tata Motors | 13% | 14% | 0.9% |
| Hyundai | 19% | 18% | -1.1% |
| Honda | 5% | 4% | -0.4% |
| Ford | 2% | 2% | -0.1% |
| General Motors | 3% | 3% | -0.5% |
| Others* | 6% | 4% | -1.8% |

Source: SIAM, Morgan Stanley Research

Exhibit 4

**Any Improvement in Private Banks Auto Lending Will Further Aid Volume Growth**




Source: Company data, Morgan Stanley Research

Exhibit 5

**Pay Commission Boosts Demand**

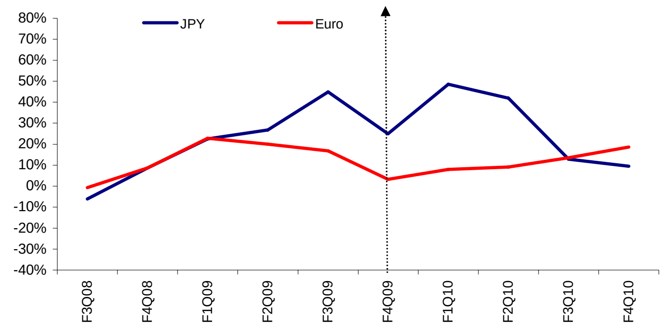
| Central Pay Commission | Date of Implementation | Financial Impact (Rs Bn) | Passenger cars YoY* |
|---|---|---|---|
| Third | March 1973 | 1.44 | 1.8% |
| Fourth | May 1987 | 12.82 | 27.1% |
| Fifth | January 1997 | 170.00 | -2.3% |
| Sixth | November 2008 | 218.00 | NA |

Source: Government Documents, SIAM, Morgan Stanley Research
*Growth Based on 1 year before and after the recommendations get implemented

**Incorporating our currency estimates - Euro Exports and Yen Imports – Not a full hedge but Yen expected to appreciate less than Euro**: Maruti imports auto grade steel and components from Japan and these yen-denominated imports form about 10% of sales. Furthermore, Maruti's vendors also import raw materials from Japan (costs in yen). Adding royalty payments to Suzuki, we expect 13% of the company's sales in F2010 to be direct yen denominated outflow and a further 10% of net sales to be indirect via vendor exposure to the yen. The yen appreciated by 26% in F2009 and our currency economist expects it to appreciate by 9% in F2010. In our view, the hit on Yen will be mitigated by the gains from Euro appreciation via exports receivables. We expect exports to form 15% of net sales and our currency team expects the Euro to appreciate by 19% in FY10 vs 9% appreciation for Yen. Overall imports and exports are not a full natural hedge as exports are 15% of sales and imports (including vendor imports) and 23% of net sales but higher Euro appreciation vs the Yen will work in the favor of Maruti. On our revised yen assumptions and falling commodity price expectations, we expect raw material costs as a percentage of net sales to fall from 78% in F2009 to 75% in F2010 (Exhibit 7).

Exhibit 6

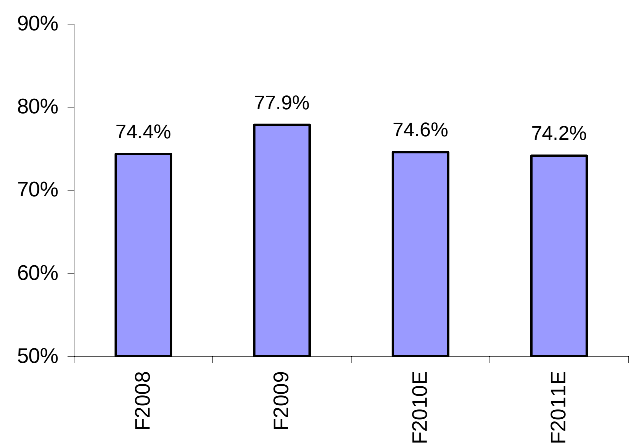
**Not a Full Hedge as Yen to appreciate slower than Euro**




Source: Fact Set, Morgan Stanley Research estimates

Exhibit 7

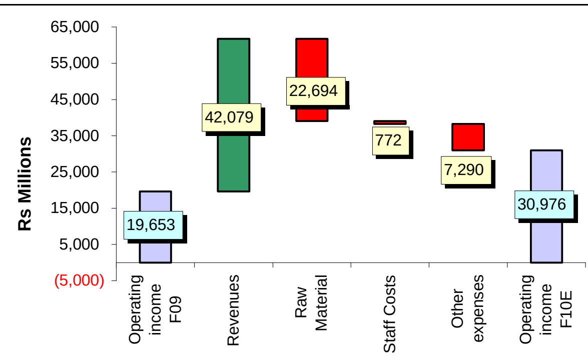
**Raw Material Costs as % of Sales to Decline Gradually in F2010**




Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates

Exhibit 8

**Operating Income Walkthrough**




Source: Morgan Stanley Research

**Competitive Update:** Competition is heating up in the hatchback segment, though given Maruti's strong product pipeline and pan India reach, we expect Maruti to remain the dominant player in the India car space.

**Launch of Ritz:** MSIL launched its new premium Hatchback model "Ritz" on May 15. Known globally as the Suzuki Splash, it will be the sixth offering by MSIL in the A2 category where it already commands 58% market share. With highway mileage of 17-18 per km for Petrol and 19-21 per km for diesel, we believe the vehicle will be highly competitive in this segment. In the medium term, it may cannabalise into Swift volumes, while in the long term it should help Maruti consolidate its position in the high realization diesel car segment. We have factored in 50K units of Ritz in our F10 numbers, as we believe initial volumes for this model should be very high given the lack of good models with similar fuel efficiency in this category.

**Hyundai: I Series doing well; May launch diesel version.** On the back of the success of *i10*, Hyundai has been consistently gaining share in the domestic market. It gained 180 bps of share in the overall domestic car market and 260 bps of share in the domestic A2 category during F2009. The company has come out with a new car, *i20* (in Maruti's Swift category) and is getting a good response. According to media reports, Hyundai is also planning to come out with a diesel version of i10 and i20 by year end and this will compete directly with the Maruti Swift and Ritz.

**Honda Jazz: Pricing will be the key*:*** Honda Siel Cars (HSCI) is entering the high volume hatchback category with its small car Jazz. Known globally as the *Civic Hatchback*, it is the only compact model within Honda's global portfolio. The car will have a new 1.2 litre engine developed exclusively for the Indian market and is expected to be launched around June. The car will compete in the high end hatchback segment.

**Tata *Nano*:** Tata Motors will launch 100K units of *Nano* in F2010 and 250K units in F2011. We believe that due to limited volumes in the short run, this *Nano* will have very little impact on Maruti's share in lower end models such as Alto and 800. However, when Sanad capacity is fully operational by F2011, *Nano* should gain share among both two wheelers and low end A2 segment cars (M800).

Exhibit 9

### What's Changed for Maruti?

| | Old | | New | | Change | |
|---|---|---|---|---|---|---|
| | **F2010E** | **F2011E** | **F2010E** | **F2011E** | **F2010E** | **F2011E** |
| Volumes | 884,724 | 959,113 | 932,338 | 1,018,587 | 5% | 6% |
| Domestic | 769,553 | 828,888 | 802,918 | 872,215 | 4% | 5% |
| Exports | 115,171 | 130,225 | 129,421 | 146,373 | 12% | 12% |
| Revenue | 238,073 | 261,177 | 250,606 | 277,073 | 5% | 6% |
| EBITDA | 28,603 | 33,230 | 30,976 | 35,747 | 8% | 8% |
| Margin | 12.0% | 12.7% | 12.4% | 12.9% | 0.3% | 0.2% |
| PAT | 16,476 | 19,069 | 18,113 | 20,805 | 10% | 9% |
| EPS | 57 | 66 | 63 | 72 | 10% | 9% |
| **Growth** | | | | | | |
| *Volumes* | *12%* | *8%* | *18%* | *9%* | | |
| *Domestic* | *7%* | *8%* | *11%* | *9%* | | |
| Exports | 64% | 13% | 85% | 13% | | |
| Revenue | 14% | 10% | 41% | 11% | | |

Source: Morgan Stanley Research E = estimates

## Valuation

We derive our base case fair value for Maruti from our residual income model. We assume a cost of equity of 11.4% (based on a beta of 0.9, on a 10-year bond yield of 6% applied to a 6% market risk premium), income growth over F2013-19 of 10% and a terminal growth rate of 6%.

**Price Target methodology:** We base our price target on probability-weighted average prices from our scenarios and arrive at a price target of Rs980. At our price target, Maruti would trade at 15.6x our F2010 EPS estimate. We base our scenario analysis on volume growth and margin outcomes.

**Base Case Rs961: Domestic Demand Grows at 11% + Exports of 130K in F2010:** Easing finance, stabilizing environment and pay commission boost result in domestic sales growth of 11% in F2010 vs 1% in F2009. Given lower emission and scrappage incentives, exports sales momentum in the last quarter is maintained, and we estimate export volumes at 130K units in F2010. Benefits from lower raw material prices come fully in F2010 and margins recover on the back of this by 300 bps in F10 to 12.4%. This leads to our base-case fair value of Rs961 per share. We assign a probability of 50% to this scenario.

**Bear Case Rs670: Domestic Demand Grows at 5% + Exports of 107K in F2010:** The last quarter uptick is more of a one-time bounce-back in demand, which slows in the coming months. Domestic volumes grow by 5% in F2010. Export growth slows as A Star fails to click in the competitive European small car market. Exports grow by 53% YoY (107k) in F10. A fall-off in demand plus high operating leverage forces the company to offer aggressive discounts and commissions to push sales. Margin recovery, therefore, remains muted in F2010 and deteriorates by 30 bps over the base case. This leads to our bear-case fair value of Rs670 per share. We assign a probability of 10% to this scenario (versus 20% previously).

**Bull Case Rs1,081: Margins Expand to 13.2%, closer to FY08 margins of 14.5%:** Margins Expand to 13.2%, closer to FY08 margins of 14.5%.Sharp raw material fall and improved realizations results in 90 bps margin expansion over our base case. This leads to our bull-case fair value of Rs1,081 per share. We assign a probability of 40% to this scenario (versus 30% previously).

Exhibit 10

### Base Case Residual Income Model

| **Model Assumptions** | |
|---|---|
| Risk free rate | 6% |
| Long Term Beta | 0.9 |
| Risk premium | 6% |
| Cost of equity | 11.4% |
| Terminal Growth Rate | 6% |
| ***RI Model Snaphot*** | |
| Beginning Equity Capital (A) | 95,267 |
| PV of Forecast Period (B) | 19,163 |
| PV of Continuing Value ( C) | 40,266 |
| PV For Terminal Value (Rs bn) | 92,453 |
| Total | 247,149 |
| **Intrinsic value (one year forward)** | **961** |

Source: Morgan Stanley Research

Exhibit 11

### Probability based Price Target (INR)

| Scenario | Valuation | Probability |
|---|---|---|
| Base Case | 961 | 50% |
| Bear Case | 670 | 10% |
| Bull Case | 1,081 | 40% |
| | **Price Target** | **980** |

Source: Company data, Morgan Stanley Research
* RI based Valuation Model

Exhibit 12

### Our Scenario Assumptions

| | | Overall Volumes | | Operating Margins | |
|---|---|---|---|---|---|
| **Scenario** | **Price** | **F2010** | **F2011** | **F2010** | **F2011** |
| Bear Case | 670 | 9% | 3% | 12.1% | 12.4% |
| Base Case | 961 | 18% | 9% | 12.4% | 12.9% |
| Bull Case | 1,081 | 19% | 8% | 13.2% | 13.9% |

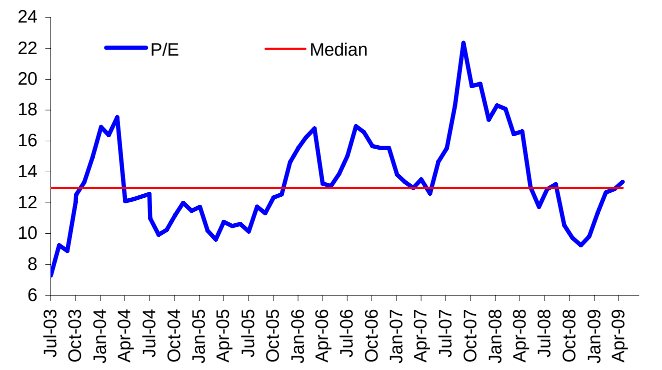
Source: Company data, Morgan Stanley Research

**Key downside risks to our price target include:**

- **Currency hits**: Sharp Yen appreciation and exports slowdown.
- **New model** launches fail to revive market share
- **Competitive pricing** which erodes margins.

Exhibit 13

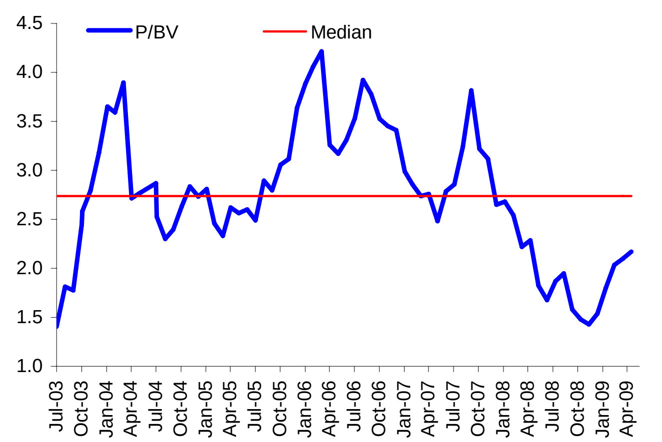
**FY 1 P/E – In Line with historical valuations**




Source: Morgan Stanley Research

Exhibit 14

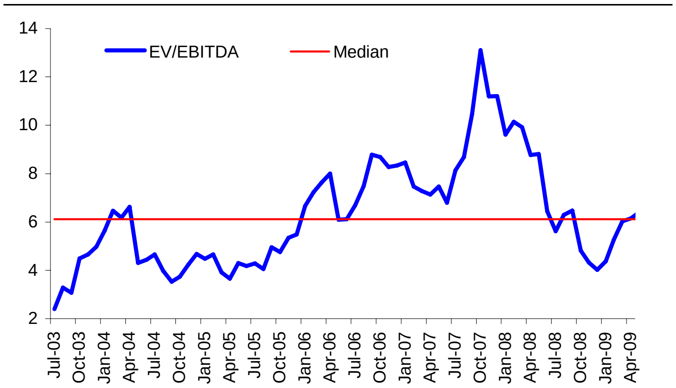
**FY 1 P/B**




Source: Company data, Morgan Stanley Research

Exhibit 15

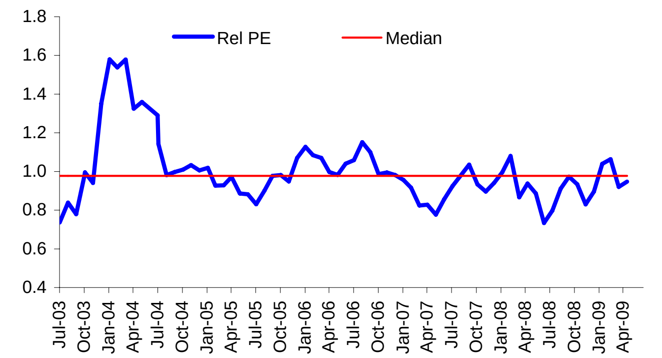
**FY 1 EV/EBITDA**




Source: Company data, Morgan Stanley Research

Exhibit 16

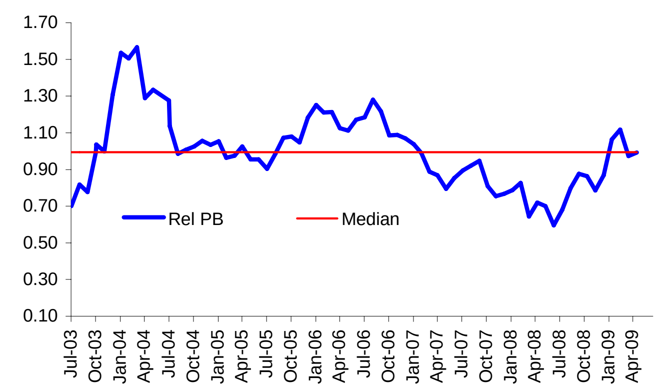
**FY 1 P/E Relative to Sensex: Given Higher Earnings Growth, MSIL Is More Attractive Compared to Index**




Source: Company data, Morgan Stanley Research

Exhibit 17

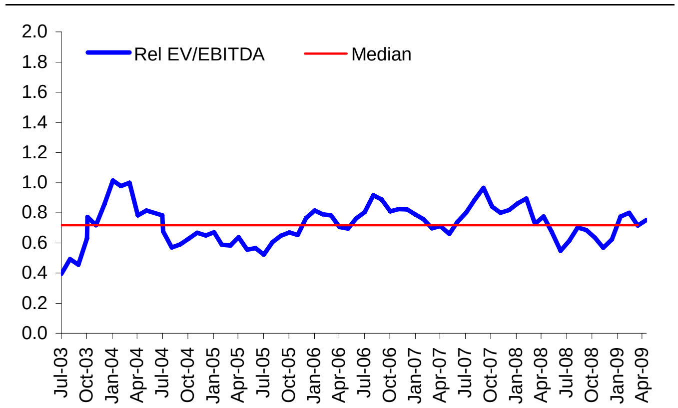
**FY 1 P/B Relative to Sensex**




Source: Company data, Morgan Stanley Research

Exhibit 18

**FY 1 EV/EBITDA Relative to Sensex**




Source: Company data, Morgan Stanley Research

Exhibit 19

**MSIL vs. Global Auto Peers- Valuation Comps -**

| Company | Price (local currency) | Price Target (in local currency) | Market Cap($Mn) | MS Rating | P/E C09 | P/E C10 | P/B C09 | P/B C10 | EV/EBITDA C09 | EV/EBITDA C10 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | **Europe** | | | | | | | |
| Daimler | 25 | 17 | 35,389 | OW | NM | NM | 0.9 | 1.0 | 62.9 | 13.6 |
| BMW | 25 | 12 | 21,709 | UW | NM | NM | 0.9 | 1.0 | 6.3 | 5.4 |
| Renault | 24 | 31 | 8,367 | OW | NM | NM | 0.4 | 0.4 | NM | 6.8 |
| PSA Peugeot-Citroen | 17 | 15 | 5,316 | OW | NM | NM | 0.3 | 0.4 | 6.0 | 5.3 |
| FIAT | 7 | 6 | 12,497 | OW | NM | NM | 0.8 | 0.8 | 6.1 | 5.8 |
| **European Average** | | | **17,017** | | | | **0.6** | **0.7** | **17.2** | **7.1** |
| | | | **Japan** | | | | | | | |
| Honda Motor | 2,765 | 3,200 | 52,730 | OW | NM | 19.0 | 1.1 | 1.1 | 23.2 | 10.9 |
| Toyota Motor | 3,590 | 4,200 | 119,983 | OW | NM | 18.9 | 1.1 | 1.1 | 26.3 | 12.1 |
| Nissan Motor | 520 | 600 | 22,510 | OW | NM | 19.2 | 0.7 | 0.7 | 25.1 | 10.4 |
| Isuzu Motors | 169 | 185 | 3,026 | OW | NM | 18.4 | 0.9 | 0.8 | 11.1 | 7.2 |
| Fuji Heavy Industries | 363 | 400 | 2,743 | EW | NM | 14.7 | 0.6 | 0.6 | 10.7 | 4.2 |
| Mitsubishi Motors | 145 | 55 | 8,436 | UW | NM | 123.4 | 3.5 | 3.3 | 11.4 | 7.7 |
| Hino Motors | 283 | 300 | 1,706 | EW | NM | 86.2 | 0.8 | 0.7 | 10.3 | 5.8 |
| Suzuki Motor | 2,000 | 1,700 | 9,475 | UW | 44.98 | 26.0 | 1.3 | 1.2 | 7.4 | 6.2 |
| Mazda Motor | 232 | 280 | 3,435 | OW | NM | 13.7 | 0.8 | 0.8 | 10.3 | 3.5 |
| **Japan Average** | | | **24,894** | | **45.0** | **37.7** | **1.2** | **1.2** | **15.1** | **7.6** |
| | | | **China** | | | | | | | |
| Dongfeng Motor Group | 6 | 6 | 6,970 | OW | 10.77 | 9.7 | 1.9 | 1.6 | 5.8 | 4.8 |
| Denway Motors | 3 | 4 | 3,361 | EW | 11.46 | 10.3 | 1.6 | 1.5 | 8.4 | 7.0 |
| Sinotruk (Hong Kong) Limited | 7 | 4 | 1,957 | UW | 15.25 | 14.0 | 1.1 | 1.0 | 8.9 | 7.6 |
| Great Wall Motor Company Limited | 5 | 3 | 649 | EW | 9.01 | 9.7 | 0.6 | 0.6 | 2.9 | 2.1 |
| Brilliance China Automotive | 1 | 0 | 308 | UW | NM | NM | 0.4 | 0.4 | (0.6) | 3.3 |
| **Chinese Average** | | | **2,649** | | **11.6** | **10.9** | **1.1** | **1.0** | **5.1** | **5.0** |
| | | | **S. Korea** | | | | | | | |
| Hyundai Motor Co. | 63,500 | 80,000 | 10,549 | OW | 12.27 | 8.3 | 0.7 | 0.6 | 4.1 | 3.2 |
| Kia Motors | 12,500 | 9,100 | 3,462 | EW | 13.22 | 12.5 | 0.8 | 0.8 | 6.0 | 5.3 |
| **Korean Average** | | | **7,005** | | **12.7** | **10.4** | **0.8** | **0.7** | **5.0** | **4.2** |
| | | | **India** | | | | | | | |
| Maruti Suzuki India Limited | 848 | 980 | 4,968 | OW | 13.5 | 11.8 | 2.20 | 1.9 | 6.5 | 5.2 |

Prices as of May 15th 2009
Source: Morgan Stanley Research

### Company Description

Maruti Suzuki India Ltd a 54%-owned subsidiary of Suzuki, Japan, has been the largest car manufacturer in India for over two decades and has a dominant 55% share in the compact car market.

### India Four-Wheelers: Passenger Cars

### Industry View: In-Line

### MSCI Country: India

MSCI Asia/Pac All Country Ex Jp Weight: 6.9%

| | |
|---|---|
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|---|---|---|---|---|---|
| Stock Rating Category | Count | % of Total | Count | % of Total IBC | % of Rating Category |
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| **Equal-weight/Hold** | **1005** | **45%** | **272** | **46%** | **27%** |
| **Not-Rated/Hold** | **33** | **1%** | **8** | **1%** | **24%** |
| **Underweight/Sell** | **517** | **23%** | **108** | **18%** | **21%** |
| **Total** | **2,223** | | **593** | | |

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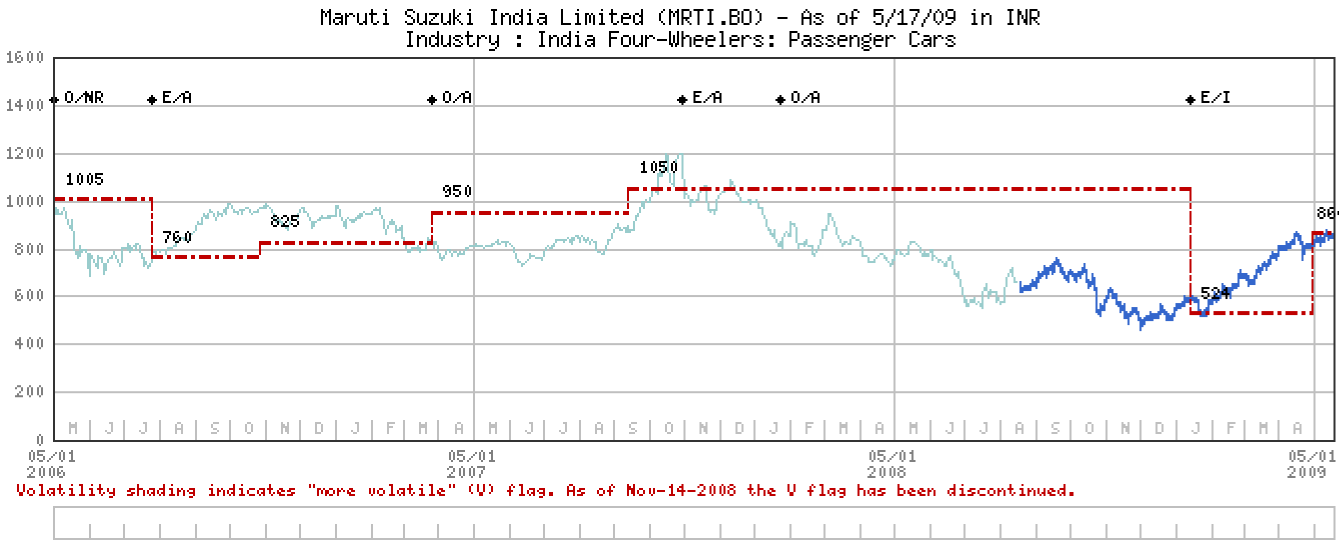
.

### Stock Price, Price Target and Rating History (See Rating Definitions)




Stock Rating History: 5/1/06 : O/NR; 7/26/06 : E/A; 3/26/07 : O/A; 10/30/07 : E/A; 1/23/08 : O/A; 1/14/09 : E/I

Price Target History: 4/27/06 : 1005; 7/26/06 : 760; 10/27/06 : 825; 3/26/07 : 950; 9/13/07 : 1050; 1/14/09 : 524; 4/29/09 : 864

Source: Morgan Stanley Research  Date Format : MM/DD/YY  Price Target -·  No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)  Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O)  Equal-weight (E)  Underweight (U)  Not-Rated (NR)  More Volatile (V)  No Rating Available (NA)
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## Industry Coverage:India Four-Wheelers: Passenger Cars

| Company (Ticker) | Rating (as of) | Price (05/15/2009) |
|---|---|---|
| **Binay Singh** | | |
| Maruti Suzuki India Limited (MRTI.BO) | O (05/18/2009) | Rs847.55 |

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