MARUTI SUZUKI INDIA LTD
RESEARCH

EQUITY RESEARCH — **January 10, 2008**

RESULTS REVIEW

Share Data

Market Cap	Rs. 262.2 bn
Price	Rs. 907.65
BSE Sensex	20,582.08
Reuters	MRTI. BO
Bloomberg	MSIL IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 1,252 / 713
Shares Outstanding	288.9 mn

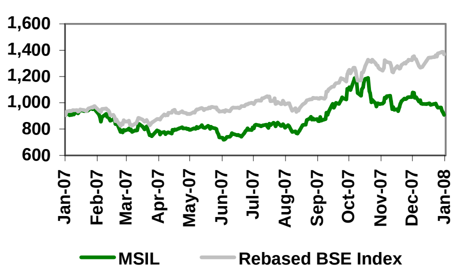
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	67.6	76.3
+/- (%)	22.0%	12.9%
PER (x)	13.4x	11.9x
EV/ Sales (x)	1.4x	1.2x
EV/ EBITDA (x)	10.4x	9.7x

Shareholding Pattern (%)

Promoter	54
FIIs	14
Institutions	26
Public & Others	6

Relative Performance



Maruti Suzuki India Limited — Buy

New launches propelling growth

Maruti Suzuki India Ltd (MSIL), reported a robust growth of 21.3% yoy in volumes for the second quarter of FY08E. The Company introduced five new models in the past one year to beat the slowdown in industry sales and the strategy paid off. The growth was propelled primarily by the success of new products such as Swift-Diesel, Zen Estilo, Wagon R Duo, and SX4. Volumes and realizations were favourably impacted with the launch of new models, 'Swift Diesel' and 'SX4'. Average realizations for the quarter improved 9.6% yoy to Rs. 278,155. However, operating margin, a key measure of profitability, fell to 13.1% from 13.9% in Q2'07 on account of higher advertising and promotion costs and rise in raw material costs. Yet, the figure is comfortably higher than Toyota Motor Corp's margin of 9.4% and Honda Motor Co's margin of 7.7%.

MSIL is planning to launch two new compact cars, concept 'A-Star' and 'Splash' to its product portfolio by 2008. The Company will roll out its fifth world car, currently called concept A-Star, in India, by October next year. With these new launches in the pipeline, the Company is targeting to expand its production capacity to 1 mn units by 2010.

At the CMP of Rs. 907.65, the stock trades at a forward PE of 13.4x FY08E and 11.9x FY09E. Considering the strong performance of MSIL in the second quarter of FY08E, we reiterate our Buy rating on the stock with a revised target price of Rs. 1,050 for FY09E.

Result Highlights

Notwithstanding the continuing slowdown in the Indian auto market, MSIL,

Key Figures (Standalone)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	34,006	39,137	45,297	33.2%	15.7%	65,146	84,434	29.6%
Adj. EBITDA	4,756	5,748	5,978	25.7%	4.0%	9,322	11,726	25.8%
Adj. Net Profit	3,674	4,996	4,665	27.0%	(6.6)%	7,370	9,661	31.1%
Margins(%)								
EBITDA	13.9%	14.6%	13.1%			14.2%	13.8%	
NPM	10.7%	12.7%	10.3%			11.3%	11.4%	
Per Share Data (Rs.)								
Adj. EPS	12.7	17.3	16.2	27.0%	(6.6)%	25.5	33.4	31.1%

Swift, SX4, Wagon-R and Alto lead the league

reported a strong growth of 21.3% in volumes for Q2'08 driven by a strong demand for Swift-Diesel, SX4, Wagon-R Duo, and Alto. With the launch of Swift-Diesel, the Company has successfully entered the unexplored diesel car segment while Wagon-R Duo was launched as India's first alternative fuel car. Exports registered a whopping growth of 85.8% yoy to 15,171 units, however, the growth in the domestic market was 17.8% yoy to 176,154 units.

Unparallel top line performance

Led by an improvement of 9.6% yoy in realization to Rs. 278,155 per vehicle and a robust growth of 21.3% yoy in volumes, net sales showed a substantial improvement of 33.2% to Rs. 45.3 bn. Although the Indian auto industry is witnessing a subdued growth, the Company has not withered with the sluggishness and has been able to maintain the high growth trajectory and secure the leadership position in the car market.

Margins likely to remain under pressure due to rising raw material prices

EBITDA for the quarter surged 25.7% yoy to Rs. 6 bn in comparison to Rs. 4.8 bn for the corresponding period last year. However, operating margin, a key measure of profitability, fell to 13.1% from 13.9% in Q2'07 on account of higher advertising and promotion costs and rise in raw material costs. Raw material cost registered a steep jump of 150 bps yoy to 76.7% of net sales driven by higher prices of steel, aluminium, and tyres during the quarter. Despite the increase in advertisement and promotion cost, due to new vehicle launches, other expenditure declined 70 bps yoy to 8.5% of net sales. With raw material prices heating up globally and more new models in the pipeline, we expect the operating margin to remain under pressure.

Soaring bottom line growth

Net profit registered a strong growth of 27% yoy to Rs. 4.7 bn in comparison to Rs. 3.7 bn. The significant improvement in net profit can be attributable to higher other income during the quarter. Other income increased 54.9% yoy to Rs. 1.9 bn (4.2% of net sales). While depreciation for the quarter remained flat at 1.9% of net sales, interest expense increased 20 bps to Rs. 140 mn. Moreover, the effective tax rate increased 50 bps yoy to 31.8% of profit before tax.

Key Events

- The name of the Company has been changed from Maruti Udyog Limited to Maruti Suzuki Limited with effect from 17th September, 2007.
- Maruti Suzuki has sworn-in a new Managing Director - Mr. Shinzo Nakanishi due to the retirement of Mr. Jagdish Khattar from the office on December 18, 2007. The change in the MD might lead to a delay in the new launches planned ahead.

Key Risks

Key risks to our rating include:

- The exit of Mr. Jagdish Khattar as MD – Maruti Suzuki, might delay the launch of the new vehicles planned in the next fiscal.
- Continued heating up of raw material prices like steel, aluminium, etc. could depress margin.
- Tata's low-priced small car 'Nano', poses a threat to the MSIL's volumes, as the Company predominantly functions in the small car segment.

Outlook

Series of new launches paving MSIL's growth path

MSIL has led the dominant small car market with fuel-efficient models and is now focusing on premium vehicles segment, including SX4 sedan and the Grand Vitara SUV. The Company is incurring a huge capital expenditure of Rs. 100 bn to expand the production capacity by almost one-third, to nearly 1 mn units by 2010, as the Company seeks to hold on to its 50% market share in Asia's second largest automobile market. MSIL is likely to export around 100,000 units of the upcoming concept car A-Star, besides selling 50,000 units in the domestic market.

However, the competition is heating up with all global rivals expanding their product base in the small car segment with the launch of more new models in the next fiscal. The Company will also face a greater threat from Tata's

USD 2,500 small car scheduled to be launched in 2008 and a USD 3,000 car to be launched by Bajaj Auto in a joint venture with Renault.

MSIL with its strong product pipeline and customer satisfaction is likely to have a dominant market share over the next few years. However, with raw material prices heating up globally and increase in advertisement and promotion expenses, it would be difficult for the Company to maintain the margins.

Considering the strong performance of MSIL in the second quarter, we estimate the net sales to grow at a CAGR of 20.1% to Rs. 183.3 bn and Rs. 212.5 bn for FY08E and FY09E, respectively. At the CMP of Rs. 907.65, the stock trades at a forward PE of 13.4x FY08E and 11.9x FY09E earnings estimate. Hence, we reiterate our Buy rating on the stock with a revised target price of Rs. 1,050 for FY09E.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	109,770	120,876	147,217	183,342	212,515	20.1%
Adj. EBITDA	13,896	15,685	19,312	24,385	26,348	16.8%
Adj. Net Profit	8,849	12,191	16,007	19,532	22,050	17.4%
Margins(%)						
EBITDA	12.6%	12.9%	13.1%	13.2%	12.3%	
NPM	8.0%	10.0%	10.8%	10.6%	10.3%	
Per Share Data (Rs.)						
Adj. EPS	30.6	42.2	55.4	67.6	76.3	17.4%
PER (x)	13.7x	20.7x	16.4x	13.4x	11.9x	

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