

Manesar plant to resume production on Aug 21

Quick Note

Manesar plant to resume production from August 21 under heavy security cover

In a press conference today, Maruti announced that it will resume production at its Manesar plant from August 21 under heavy security cover. With this resumption, the shutdown will have lasted for around 1 month – broadly in-line with what we were building into our numbers. As per an investigation conducted by the company, they will fire 500 regular workers who were involved in the misconduct on 18 July. Further, the company will no longer employ contract workers on the production line; however, MSIL will keep 20% of the total workforce on short-term agreements. According to today's announcement, current contract workers (1,869 employees) will be given an opportunity to join the company as regular (ie, permanent/non-contract) workers provided they meet the company requirements.

Production will get ramped up gradually

As per the company, about 300 workers will resume production from August 21; the company will aim to manufacture 150 cars daily initially as compared to full capacity of around 1,600 cars daily. Production will increase gradually as the company hires more workers, in our view. If everything goes smoothly, we believe the company may take another month to achieve full production. In our view, the company may be able to largely make up for lower production later on during the year. Hence, our estimates are unchanged at this stage.

Do not expect significant stock reaction; maintain Neutral

We believe expectations around the resumption of production have been built in to the share price from last week. Therefore, we do not expect any significant stock reaction on this announcement. Maintain Neutral.

Other key points

- Total workforce at Manesar was around 3,400 workers; of which 1,869 workers were on a contract basis; the remainder were regular employees.
- Police have arrested around 154 employees thus far, including 12 union leaders who are suspected to have been involved in misconduct at the plant on 18 July, 2012. Investigation is ongoing and police may make more arrests.
- Haryana state government has provided extensive security arrangements to the company: 1) Rapid Action Force of 500 police personnel headed by a senior police officer near the Manesar area of which 200 personnel will be inside the Manesar plant area; 2) 40 personal security officers (PSOs) have been provided for the safety of managers, supervisors and where necessary the workers; and 3) security arrangements have been made at the residences of the employees that management believes may be at risk for possible threats.

August 16, 2012

Rating Remains	Neutral
Target price Remains	INR 1201
Closing price August 16, 2012	INR 1173

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

- In addition to security arrangements provided by the Haryana government, MSIL has created a special force of 100 security guards, including ex-servicemen, at its Manesar Plant to enhance security.

Appendix A-1

Analyst Certification

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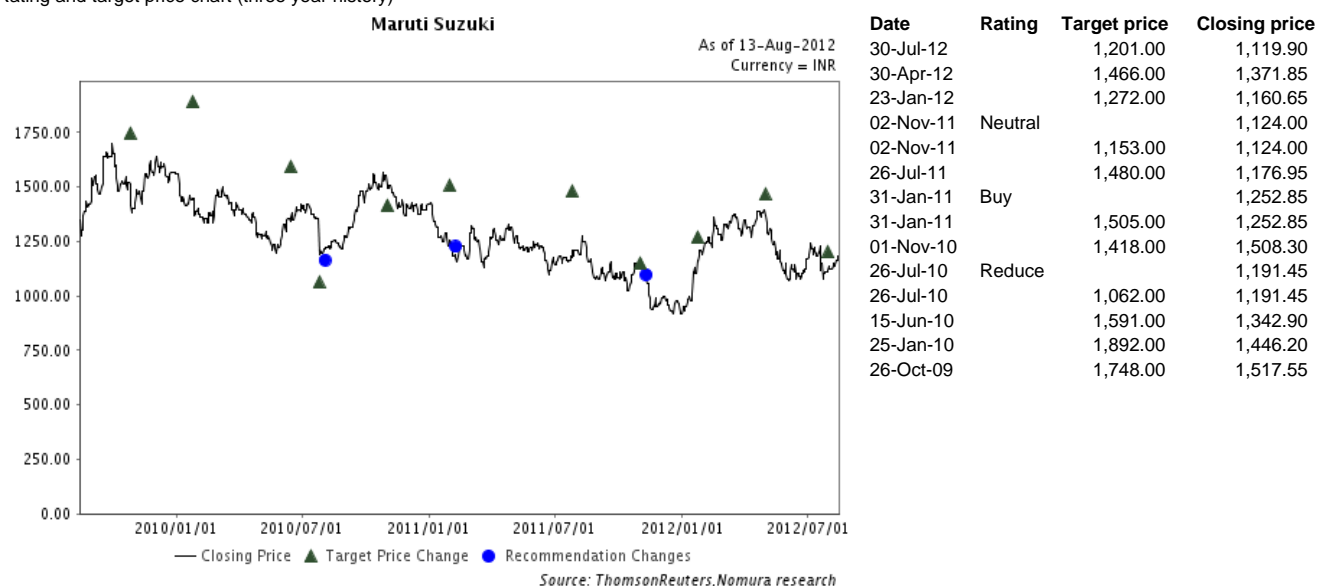
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Maruti Suzuki	MSIL IN	INR 1173	16-Aug-2012	Neutral	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Maruti Suzuki	Buy	02-Nov-2011

Maruti Suzuki (MSIL IN) INR 1173 (16-Aug-2012) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value MSIL at INR 1,201/share using a sum-of-the-parts methodology. We value the standalone business at INR 1,146/share based on 14x FY14F EPS of INR82. We value the subsidiaries and associates at INR55/sh based on 10x FY14F EPS.

Risks that may impede the achievement of the target price DOWNSIDE RISKS. Slower-than-expected industry growth: We have built in 15% growth in domestic volumes for MSIL in FY14F (after 11% growth in FY13F); in-line with our expectations of 15% industry volume growth. In case industry growth remains weak, there could be downside risks to our estimates. Longer than expected lockout of Manesar facility: We have assumed a production loss of 1 month due to lockout at Manesar facility. If the lockout lasts longer or production ramp-up is much slower after resuming production, there could be downside risks to our estimates. As per our calculations, every 1 month of production loss would impact FY13F net profit by INR 1bn. **UPSIDE RISKS.** Stronger-than-expected GDP growth: Our domestic volume growth estimates are based on our GDP growth assumption of 5.8% in FY13F and 6.6% in FY14F. If the government is able to push reforms which leads to stronger-than-expected GDP there would be upside risks to our estimates. Yen depreciation against the INR: If the JPY depreciates from current levels, there could be upside risks to our estimates. Every 10% depreciation of JPY could lead to around 1.5% higher EBITDA margins and 27% higher PAT, as per our calculations. Decline in raw material costs: We have assumed stable raw material prices. There would be upside risks to our estimates if there is a significant decline in commodity prices.

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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