MARUTI SUZUKI INDIA LTD RESEARCH

EQUITY RESEARCH **July 24, 2008**

RESULTS REVIEW

Share Data

Market Cap	Rs. 178.5 bn
Price	Rs. 617.90
BSE Sensex	14,777.01
Reuters	MRTI.BO
Bloomberg	MSIL IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 1,252 / 530.5
Shares Outstanding	288.9 mn

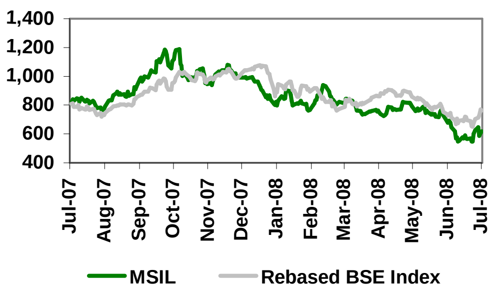
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	66.0	74.5
+/- (%)	2.4%	12.8%
PER (x)	9.4x	8.3x
EV/ Sales (x)	0.8x	0.7x
EV/ EBITDA (x)	7.3x	5.9x

Shareholding Pattern (%)

Promoter	54
FIIs	15
Institutions	24
Public & Others	7

Relative Performance



Maruti Suzuki India Limited — Buy

Valuations suggests a steal

- ***Recent underperformance an opportunity to buy:*** Maruti Suzuki India Ltd's (MSIL) stock price recently hit a 52-week low (Rs. 530.5 on July 8, 2008) and is currently trading at a forward P/E of 9.4x for FY09E, much below the Company's and industry's historical P/E average of 14x and 13x, respectively.
- ***Strong product pipeline:*** Despite a sluggish domestic demand, MSIL reported a healthy growth in domestic volumes (up 12.1% yoy), led by a robust growth in the high-margined A2 and A3 segments. The Company boasts of a strong product range, which includes Swift, Wagon-R, SX4, and the recently launched Dzire. Moreover, the launches of A-Star (Dec'08) and Splash (Apr'09) will help tackle the competition from Hyundai Motors's i10.
- ***Exports—a key driver:*** The share of exports in the Company's volume is on a rise, helping it to offset the sluggish domestic demand. During Q1'09, exports accounted for 6.5% of total sales, as against 5.3% in Q1'08. This share is expected to rise further as the Company plans to export 0.1 mn units of A-Star in addition to supplying units to Nissan under the manufacturing contract.
- ***Capacity expansion underway:*** In order to meet the rising demand (Dzire has a waiting period of 4-5 months) and manufacture new models, MSIL is rapidly expanding the capacity of its Manesar plant. The Company plans to increase its total annual capacity to 1 mn by 2010.

Concerns remain over declining margins due to rising raw material and fuel costs and higher discount offerings. However, the Company is focusing on various cost-reduction initiatives to restrict the fall in the margins.

Key Figures (Standalone)

Quarterly Data	Q1'08	Q4'08	Q1'09	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	39,137	48,174	47,310	20.9%	(1.8)%
Adj. EBITDA	5,748	5,816	4,815	(16.2)%	(17.2)%
Adj. Net Profit	4,996	3,759	4,797	(4.0)%	27.6%
Margins(%)					
EBITDA	14.6%	12.0%	10.1%		
NPM	12.7%	7.8%	10.1%		
Per Share Data (Rs.)					
Adj. EPS	17.3	13.0	16.6	(4.0)%	27.6%

Result Highlights (Standalone)

A reduction in excise duty on small cars from 16% to 12% also contributed to the sales increase

During Q1'09, net sales increased 20.9% yoy to Rs. 47.3 bn, led by higher realisations and a healthy growth in volumes. While average realisations rose 6.5% yoy to Rs. 245,661 per unit, led by the increasing share of the A3 & MUV segments and the price hikes undertaken by the Company, volumes went up 13.5% yoy to 192k units primarily due to higher exports. During the quarter, MSIL witnessed a robust growth of 37.8% yoy in the export volume to 12k units, followed by a healthy growth of 12.1% yoy in domestic sales. Sales in the domestic market grew on the back of a strong demand for models such as Dzire, SX4 and Swift, signalling a significant jump in A2 and A3 segments, despite the high interest rates and rising inflation.

Growth in the A3 segment outperformed the industry and MSIL's share in this segment went up to 26%

Segmental sales volume	Q1'08	Q1'09	YoY%
A1- (Maruti 800)	17,994	16,649	(7.5)%
A2- (Alto, Wagon-R, Zen, Swift)	110,413	125,427	13.6%
A3- (Dzire, SX4, Baleno)	11,056	15,940	44.2%
C - (Omni, Versa)	20,631	20,761	0.6%
MUV- (Grand Vitara, Gypsy)	510	1,316	158.0%
Total Domestic Sales (A)	**160,604**	**180,093**	**12.1%**
Exports (B)	**9,065**	**12,491**	**37.8%**
Total Sales Volume (A+B)	**169,669**	**192,584**	**13.5%**

Higher commodity prices, especially steel, hurt margins

However, adj. EBITDA went down sharply by 16.2% yoy to Rs. 4.8 bn. EBITDA margin declined 4.5 pts to 10.1%, led by higher raw material costs and other expenditures. While raw material costs went up 206 bps yoy to 77.6% due to rising commodity prices (particularly steel), other expenses jumped on the back of higher power & fuel costs, selling & distribution expenses, and royalty payments.

Effective tax rate went down to 22.9%, as against 28.7% in the corresponding period last year

Adj. net profit decreased 4% yoy to Rs. 4.8 bn and net profit margin declined 262 bps yoy to 10.1%. The decline in net profit margin was due to a higher depreciation expense (up 1.4 pts to 3.5% of net sales), resulting from the change in the depreciation policy adopted in Q4'08. However, the fall in the net profit margin was curtailed by a higher other income and a lower effective tax rate.

Key Risks

Key risks to our rating include:

- Any delay in the new launches
- A greater-than-expected increase in the prices of steel and aluminium
- The launch of Tata's Nano

Outlook

Despite the slowdown in the Indian auto industry, MSIL reported a volume growth of 13.5% yoy on the back of higher exports. During the quarter, the Company reported a 37.8% yoy increase in exports, which made up for the sluggishness being witnessed in the domestic market (which witnessed only a 12.1% yoy increase in sales). With the prices of crude touching an all-time high, Western economies are looking at fuel efficient compact cars. Given a strong small cars portfolio (Wagon-R, Swift, and Alto) the Company is strategically placed to grab this opportunity. Moreover, exports are going to increase substantially with the launch of A-Star by the end of 2008, as MSIL plans to export 0.1 mn units of the car in addition to supplying units to Nissan under the manufacturing contract.

A-Star's launch to propel growth

In the domestic market, the Company reported a healthy growth in volumes with its high-margined A2 and A3 segments witnessing strong demand, as seen from the increasing volumes of Swift, SX4, and the newly launched Dzire. Moreover, the launch of A-Star (December 2008) and Splash (April 2009) will help tackle the competition from Hyundai Motors's i10. Further, we expect domestic demand to improve from H2'09E on the back of factors such as the expected revision in government pay scales and an increase in disposable income due to the reduction in income tax.

Nevertheless, margins will remain under pressure due to rising steel prices and higher promotional expenses for new launches. Further, the Company's fuel bill is expected to increase as the Manesar plant is primarily diesel-based. To cut costs, the Company is constantly working towards improving its efficiency by undertaking cost-reduction initiatives such as value analysis and value engineering.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	120,876	147,217	180,754	214,400	256,117	19.0%
Adj. EBITDA	15,685	19,312	23,006	23,361	29,187	12.6%
Adj. Net Profit	12,191	16,007	18,628	19,069	21,514	7.5%
Margins(%)						
EBITDA	12.9%	13.1%	12.7%	10.8%	11.3%	
NPM	10.0%	10.8%	10.3%	8.9%	8.4%	
Per Share Data (Rs.)						
Adj. EPS	42.2	55.4	64.5	66.0	74.5	7.5%
PER (x)	20.7x	14.8x	9.6x	9.4x	8.3x	

Valuation

We have valued MSIL by using a combination of Discounted Cash Flow (DCF) and Peer-Based Multiples techniques. We have assigned subjective weights of 80% to DCF and 20% to Peer-Based Multiple Valuation in order to calculate our fair value estimate for FY09. This valuation model yields a fair value of Rs. 769 per share for FY09E, which is 24.4% more than the current market price. Even at the target price, the Company is trading at a P/E multiple 11.7x, which is significantly lower than the historical average of 14x. Hence, with a target price of Rs. 769 for FY09E, we reiterate our Buy rating on the stock.

Fair Value Per Share

Valuation Method	Value (Rs.)	Weight (%)
Discounted Cash Flow (DCF)	763	80%
Peer Based Multiple	792	20%
Weighted average fair value	769	100%

Source: Indiabulls research

For discounting our estimated cash flows under the DCF method, we have assumed a WACC of 14.6% and a terminal growth of 5%. As a result, we have arrived at a target price of Rs. 763 per share. We have assigned a higher weight to the DCF technique as it discounts firm-specific cash flows. For peer-based valuation, we have used a forward P/E multiple of 12x for FY09E and have arrived at a price of Rs. 792 per share. This 12x multiple is the average of the forward multiples of Tata Motors and Mahindra & Mahindra for FY09E.

Lower multiple despite having higher growth than its peers

Company's Name	P/E FY09E	P/E FY10E
Tata Motors	9.0	8.0
Mahindra & Mahindra	14.9	13.5
Average	12.0	10.75
Maruti Suzuki	9.4	8.3

Source: Indiabulls research

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.