Emkay

Private Client Research

Results Update

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Maruti Udyog Ltd.

(Rs. 742.00, FY09E - P/E 12.0 x, BUY with a Target Price of Rs. 985)

Key Financials

Particulars (Rs. Mn)	Q4FY08	Q4FY07	%YoY	FY08	FY07	%Yo
Net sales	47838.8	44297.6	8.0	179362.0	146538.9	22.4
Other Income	2860.6	2063.8	38.6	8875.5	5984.1	48.3
Total Income	50699.4	46361.4	9.4	188237.5	152523.0	23.4
Total Expenditure	43073.1	38801.3	11.0	156929.1	126634.8	23.9
EBDITA	4765.7	5496.3	-13.3	22432.9	19904.1	12.7
EBDITA (%)	10.0	12.4	-19.7	12.5	13.6	-7.9
Interest	161.3	155.6	3.7	596.2	376.3	58.4
Depreciation	3111.2	718.2	333.2	5681.7	2713.6	109.4
PBT	4353.8	6686.3	-34.9	25030.5	22798.3	9.8
Provision for tax	1377.0	2200.7	-37.4	7722.3	7178.5	7.6
PAT	2976.8	4485.6	-33.6	17308.2	15619.8	10.8
Equity Capital	1444.6	1444.6	0.0	1444.6	1444.6	0.0
EPS (Rs)	10.3	15.5	-33.7	59.9	54.1	10.8

Source: Company

Net Sales grew by 22% YoY

MUL's sales grew by 22% YoY on the back of 13.3% volume growth and 7.8% net realization growth

Maruti Udyog Ltd (MUL) reported net sales growth of 22% YoY for the full year ended March 2008 to Rs 179362 mn on the back of strong overall sales volume growth of 13.3% YoY to 764,842 vehicles and net realization growth of 7.8% YoY to Rs 2,73,903 per vehicle.

MUL registered 13.4% YoY growth in A2 segment and 66.1% YoY in A3 segment.

Overall exports registered growth of 35% YoY during the year

MUL reported 13.3% YoY growth in overall sales volumes during the year ended March 2008 outperforming overall industry growth of around 11.8%. This was largely a result of improved product mix. However, Q4FY08 sales, which came in higher by a mere 1%, dragged down the performance a bit. MUL registered 13.4% YoY growth in A2 segments during the year on the back of good demand for Swift (petrol + diesel) apart from other models like Alto and Zen Estilio. 'SX4', the company's latest offering in the C segment and the one which enabled it to plug a big gap in its product portfolio, continued to rake in good numbers. The company registered impressive 66.1% YoY growth in A3 segment with the success of SX4 sedan. Also, the company has strengthened its product portfolio further in the A3 segment by launching the sedan version of swift (DZire) by replacing Maruti Esteem. The company witnessed overwhelming response for 'DZire' and able to sell 5,658 units of DZire in the first month of launch itself. Also, The C segment which comprises of Omni and Versa reported a growth of 8% YoY during the year. Omni and Versa are finding good demand in Tier II and Tier III cities. But we expect them to find tough competition from Tata's recently launched Winger and Magic. Launch of a brand new 'Vitara' also seems to have helped its MUV sales, where growth stood at 21.7% YoY during the year and 25% during the last quarter. While trying to tap newer markets, the overall exports grew by 34.9% YoY during the year. The company has got good response for its 'Zen Estilio' from countries like Indonesia and Srilanka.

Due to better product mix during the year with greater share of MUVs and SX4 sedan, Net realization grew by 7.8% YoY to Rs 2,73,903. As far as market share is concerned, it was more or less maintained at around 58% in the passenger car segment.

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EBITDA margins subdued

MUL's EBDITA margins subdued to 12.5%

MUL's EBITDA for FY08 grew by 12.7% YoY to Rs 22432.9 mn in absolute terms. EBITDA margins for FY08 declined by 110 basis points to 12.5%. For Q4FY08, EBIDTA declined by 13.3% YoY to Rs 4765.7 mn in absolute terms. EBITDA margins for Q4FY08 declined by 240 basis points to 10%. Maruti's raw material cost, which accounted for 76.1% of sales in FY08 compared to 75.4% in FY07 moved up by 70 bps mainly on account of higher invoice discount and commodity prices. The company managed to mitigate effects of higher raw material costs by partially passing it on to the customers and partially saving in Other Expenditure. However, going ahead as growth seems to be slowing down and raw material suppliers' contracts due for revision, we believe Maruti's Margins would come under pressure. Management is already negotiating with the steel companies the steel prices, which are expected to go up by 30-40% in the next contract. Maruti usually enters into six-month contracts with the suppliers.

Also, Other Expenditure spiked 27.5% YoY and accounted for over 9.4% of sales in FY08 compared to 9.0% in FY07. Other Expenditure increased mainly because of Royalty YoY increasing by 35% to Rs 4952 mn in FY08 as Royalty payable on realisation per vehicle has increased by ~9%. Models under Royalty also increased from 68% last year to 75% in FY08. Further, a 51% spurt in Power & Fuel cost to Rs 1473 mn added to other expenditure. Product mix shift to the Manesar plant resulted in fuel cost increasing by 30% from August 2007 as the Manesar plant runs on diesel. For a plant running on diesel, the fuel cost is higher compared to a plant running on gas. Management has indicated to gradually shift from diesel-based power consumption to gas at its Manesar plant. Also thing to be noted is Maruti has made provision for foreign currency derivatives as per ICAI guidelines to the extent of Rs 50.5 cr, which is categorised under Manufacturing Expenses. This includes Rs 29 cr forward cover for Euro against the Rupee for sales to Europe that is expected to start in Q4FY09. The balance (Rs21.5cr) is forward cover for hedging Dollar dominated foreign currency loan taken for the Manesar plant. All these are mark-to-market losses and are reversal in nature. Covers are taken to reduce exposure from fluctuations in foreign currency rates.

We believe it will not be an easy task for the company to improve its operating margins substantially from hereon as it has already high degree of localization for its new models from start.

Particulars (Rs. Mn)	Q4FY08	Q4FY07	%YoY	FY08	FY07	%YoY
Raw Material	36414.5	33666.2	8.2	136467.8	110493.5	23.5
% of Net Sales	76.1	76.0	0.2	76.1	75.4	0.9
Staff Cost	880.2	806.6	9.1	3561.6	2884.2	23.5
% of Net Sales	1.8	1.8	1.0	2.0	2.0	0.9
Other Expenses	5778.4	4328.5	33.5	16899.7	13257.1	27.5
% of Net Sales	12.1	9.8	23.6	9.4	9.0	4.1
Total Expenses	**43073.1**	**38801.3**	**11.0**	**156929.1**	**126634.8**	**23.9**

Source: Company, Emkay Private Client Research

Change in depreciation policy affects bottom line

MUL's Net Profit grew by 11% YoY for FY08 but declined by 33.6% YoY due to change in depreciation policy

The company also changed its depreciation policy, reasoning that the shortened product lifecycle calls for a more aggressive depreciation policy. As a consequence, it reviewed the estimated useful life of some of its assets. It revised the estimated useful life of certain plant and machineries from 13 years to 8 -11 years, that of dies and jigs from five years to four years and that of electronic data processing equipment from six years to three years. This resulted in an additional provisioning of Rs 212.3 crore for depreciation for FY08 during the last quarter. Consequently, the reported net

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profit declined by 33.6% YoY to Rs 2976.8 mn. However, if we exclude all the one-time items and the effect of the higher depreciation, the profit would be in the region of Rs 4774 mn. MUL's net profit for FY08 grew by 11% YoY to Rs 17308.2 mn and it reported EPS of Rs 59.9 for the full year.

Business Outlook and Valuation –

Our outlook on passenger vehicle segment continues to remain positive. With stronger macro economic indicators like GDP growth rate ranging between 7-8% annually, with rising income levels, more product choices being made available to customers by Car manufacturers is expected to lead to a healthy domestic offtake of cars wherein growth rates are likely to be around 13-15% CAGR for the next 3-4 years. But in the short to medium term we expect car manufacturers would face the hit of rising interest rates and it would impact the sales volume in the short to medium term.

We believe rising consumerism, Favorable demographics, widespread dealer network and successful new launches will strengthen MUL position furthering domestic market

MUL is the largest passenger car manufacturer in India and it has a sales network of 307 state-of-the-art showrooms across 189 cities with over 6000 trained personnel. The company enjoys a market share of 58.5% in small and compact car segment and overall 52.6% market share in passenger cars during the period. The company has aggressive plans to launch new models over the coming quarters. MUL showcased 3 new cars viz. A-star, Splash and Kizashi which it plans to launch in coming quarters. Also, the company has strengthened its product portfolio further in the A3 segment by launching the sedan version of swift by replacing Maruti Esteem. Moreover, It has successfully entered into growing diesel segment with the launch of Swift (Diesel). Also, Despite its rising raw material costs, MUL has been able to maintain its margins at commendable levels due to increasing efficiencies and a better product mix. Though many global giants are planning to have a share in the pie of the growing small car segment in India, we believe MUL will be able to retain if not increase its overall market share because of its highly loyal customer base, low maintenance costs, aggressive model launches and wide-spread national sales and service network. MUL has also said that it would increase the capacity of its new Manesar plant to 300,000 units. MUL has set a target of incremental exports of 100,000 units from this new plant.

Financial Estimates

Particulars	Mar 09E	Mar 10E
Net Sales (Rs Mn)	220224.6	278503.2
EBITDA (Rs Mn)	27638.2	35509.2
EBITDA (%)	12.5	12.7
PAT (Rs Mn)	17807.1	22092.6
EPS (Rs) FV - Rs 5	61.6	76.5
P/E (x) at Rs 742	12.0	9.7

*Source: Emkay Private Client Research, * Earlier Estimates, ** Revised Estimates*

We believe the company will be able to retain its leadership in passenger cars market if not increase with its strong leadership position in compact car segment which accounts for 70% of overall car market size. Indian market is expected to remain centered around compact cars due to poor roads, heavy traffic, high petrol prices and affordability issues for at least next three years. Factors like rising consumerism, favorable demographics, affordable financing, excise duty cuts coupled with wide-spread dealer network, superior customer rating and aggressive marketing with continuous new product launches will strengthen Maruti's position further in domestic car market.

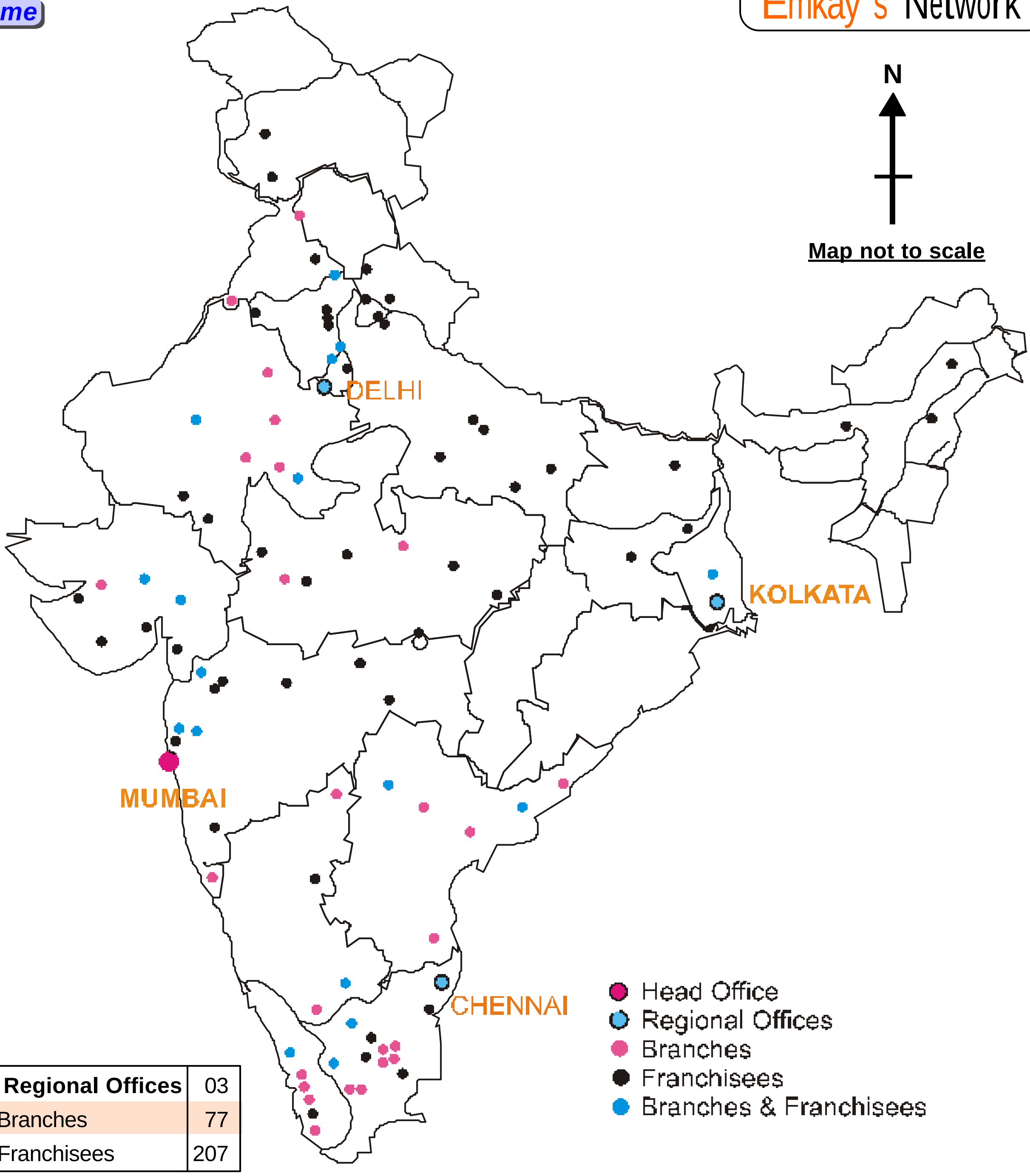
We recommend BUY with target price of Rs 985

At present stock looks attractive at 12x FY09E & 9.7x FY10E earnings, 6.2x EV/EBDITA FY09E & 4.8x EV/EBDITA FY10E and 0.9x FY09E MCAP/Sales & 0.7x FY10E MCAP/Sales. We recommend 'BUY' with target price of Rs 985.

Home

Home

Emkay's Network



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Total Branches	77
Total Franchisees	207

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