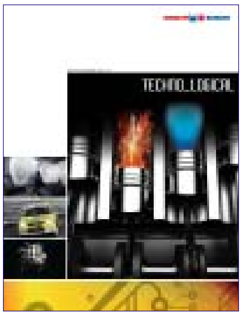
Maruti Suzuki

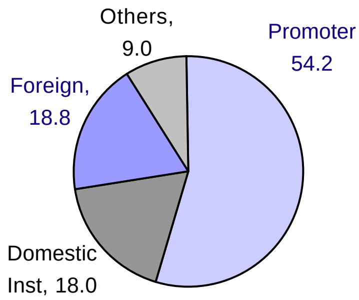
CMP: INR1,086 — Buy



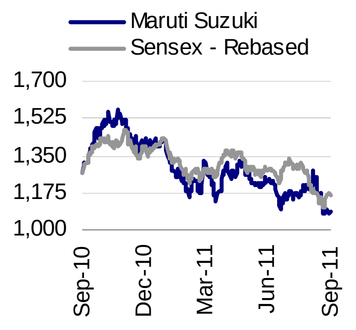
Bloomberg	MSIL IN
Diluted Equity Shares (m)	289.0
52-Week Range (INR)	1,600/1,048
1,6,12 Rel.Perf.(%)	-6/-8/-6
M.Cap. (INR b)	313.9
M.Cap. (USD b)	6.8

Y/E March	2011	2012E	2013E
Income (INR b)	369.2	385.8	452.8
EBITDA (INR b)	35.8	35.9	44.5
Adj. PAT (INR b)	23.1	22.0	25.9
Cons.EPS (INR)	82.4	79.1	93.8
EPS Gr.(%)	-9.2	-4.0	18.6
BV/Share (INR)	479.8	545.4	622.1
P/E (x)	13.3	13.8	11.6
P/BV (x)	2.3	2.0	1.8
EV/EBITDA (x)	6.8	7.1	5.5
EV/Sales (x)	0.7	0.7	0.6
RoE (%)	16.5	13.9	14.4
RoCE (%)	22.1	18.5	19.2

Shareholding pattern % (Jun-11)



Stock performance (1 year)



Prepares for strong demand after near-term headwinds

Focus on alternative fuels, to boost sales network, cut costs

- **Long-term outlook positive with 15% volume CAGR over FY11-16; Capacity addition reflects MSIL's preparedness for strong demand.**
- **Focus on alternative fuels to counter rising petrol prices, enhance sales & service network.**
- **Targets vendor localizations to cut forex exposure and save costs.**
- **Downgrading estimates by 7.5% for FY12 and FY13; Maintain Buy.**

Long-term outlook positive with 15% volume CAGR (FY11-16E)…: Despite short-term headwinds, Maruti Suzuki (MSIL) expects strong demand with volumes to double over the next five years to 4.5m-5m units and CAGR of 10-12% through the rest of the decade. MSIL believes Suzuki Motor Corporation's design philosophy of aggressive and sporty cars, K-series technology and the popularity of the diesel car will enable MSIL to maintain leadership.

… reflecting MSIL's preparedness in capacity addition: Based on its positive volume outlook, MSIL is expanding capacity at Manesar. A second line of 0.25m units has started operations in September 2011 and a third line of 0.25m units will start by September 2012, taking total capacity to 1.9m units. Due to a possible increase in small-car exports and the need to cut risks of production disruption, MSIL plans to set up a 1m-unit capacity plant in Gujarat. It has broad-based exports to dilute the impact of a slowdown in the EU exports.

MSIL to focus on alternative fuels to counter rising petrol prices: Sales have risen of vehicles powered by alternative fuels due to rising petrol prices. The proportion of diesel (volumes) increased from 60% to 80% among available models (~20% of total volumes). MSIL will increase its diesel-engine capacity (in the SPV Suzuki Powertrain) from 0.25m to 0.29m units by September 2011. It is focusing on promoting CNG cars based on its superior i-GPI CNG technology.

Strengthening sales and service network: MSIL's focus is on widening its sales and service network, its key strength. In FY11 it added 191 sales outlets, totaling 993 outlets in 668 cities. It increased service outlets by 206 to 2,946 outlets in 1,395 cities. Over the past four years rural sales contribution increased, contributing ~20% to domestic sales. About 40% of MSIL's sales outlets are in the rural format, with scaled-down investment, enabling viability on lower volumes.

Aims at localization of imported parts to cut forex exposure, costs: To cut exposure to the yen, MSIL increased focus on localization of imported components. MSIL has a three-year roadmap beginning FY13 to cut vendor imports 600-700bp from 14-15% of revenue. MSIL is considering opportunities from FTAs and other arrangements for source substitution of imported technologically complex items.

Downgrading estimates by 7.5%; Maintain Buy: We are downgrading consolidated EPS 7.5% for FY12 and FY13 to INR79.1 and INR93.8 respectively, as we lower FY12 volume estimates to 1.27m units (flat) and estimate EBITDA margin decline of 20bp to 9.3%. The stock trades at 11.6x FY13E consolidated EPS and 7.7x FY13E consolidated EPS. Maintain **Buy** with a target price of INR1,418 (~10x FY13E consolidated EPS).

Jinesh Gandhi (Jinesh@MotilalOswal.com) + 91 22 3982 5416
Mansi Varma (Mansi.Varma@MotilalOswal.com) + 91 22 3982 5418

Long-term outlook positive with 15% volume CAGR over FY11-16…

SMC's design philosophy of aggressive and sporty cars, K-series technology and the popularity of the diesel car will enable MSIL to maintain leadership

Short-term headwinds notwithstanding, Maruti Suzuki (MSIL) expects industry demand to be strong, with volumes doubling over the next five years to 4.5m-5m units and CAGR of 10-12% through the rest of the decade. However, MSIL anticipates growth to be non-linear, impacted by macro-factors. It believes Suzuki Motor Corporation's (SMC) design philosophy of aggressive and sporty cars, K-series technology and the popularity of the diesel car will enable MSIL to maintain leadership. To supplement this, MSIL is developing R&D capability with SMC to offer a pipeline of new models.

Product portfolio refreshment continues

Model	Key features	Launch
New Model Launch		
Kizashi	2.4l sports, luxury sedan	Feb-11
Model refreshes		
Wagon R	K-series engine	Apr-10
Alto K10	K-series engine	Aug-10
Alto	CNG version	Aug-10
Wagon R	CNG version	Aug-10
Eeco	CNG version	Aug-10
Estilo	CNG version	Aug-10
SX4	CNG version	Aug-10
SX4	Diesel version	Feb-11

Source: Company/MOSL

Suzuki Kizashi

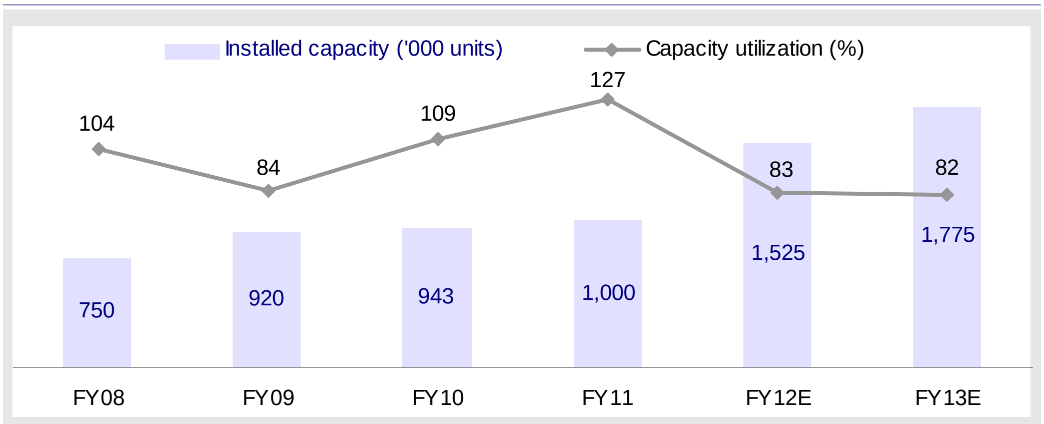
In FY11 MSIL's domestic volumes grew 30.1%, outperforming industry growth of 29%, and it increased its passenger vehicle market share by 30bp to 44.9%. Growth was broad-based, driven by strong sales in rural and semi-urban markets. Sales in the top 10 cities, which were previously sluggish, grew well. MSIL launched model refreshes with alternative fuel and engine options, which were well received in the market.

…reflecting in MSIL's preparedness by adding significant capacity…

MSIL's is expanding capacity at Manesar by adding two assembly lines of 0.25m units each (by Sep-11 and Sep-12) taking total capacity to 1.9m units

Based on its positive volume outlook, MSIL is expanding capacity at Manesar with the second line of 0.25m units commencing operations by September 2011 and third line of 0.25m units by September 2012, taking total capacity to 1.9m units. Given a strong possibility of increasing small-car exports and the need to cut the risk of production disruptions, MSIL plans to set up a 1m unit plant in Gujarat. However, plans are still on the drawing board.

Trend in effective capacity



Source: Company/MOSL

...learning from FY11 capacity constraints

MSIL increased production to 1.27m units on an installed base of 1m units in FY11, with exit capacity of 1.4m units

In FY11 robust passenger car demand took automobile OEMs by surprise. It posed a challenge of production capacity for MSIL and its vendors. MSIL increased production to 1.27m units on an installed base of 1m units by increasing manufacturing capability through better facility utilization, higher plant-model flexibility, in-house automation initiatives and ultra-modern flexi-lines. It simultaneously worked with its vendors, enabling them to increase output to match its requirements. March 2011 production was at an annualized rate of 1.4m units. In FY10 and FY11 MSIL commissioned phase three of the machining and casting facility for K-series engines, taking manufacturing capacity for these engines to over 0.78m.

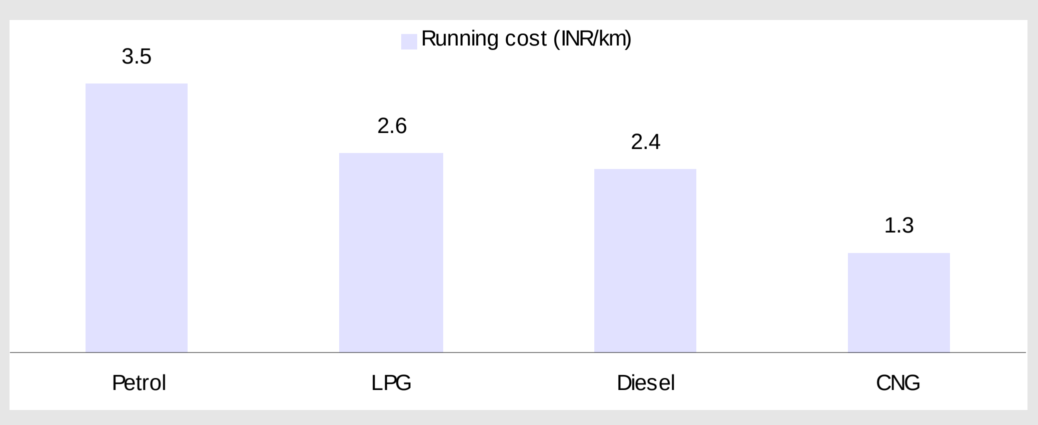
Focus on alternative fuels to counter rising petrol prices

MSIL is expanding diesel capacity to meet increasing demand for diesel cars and is promoting CNG cars based on its superior i-GPI CNG technology

Sales have risen of vehicles powered by alternative fuels due to rising petrol prices. The diesel proportion of volumes increased from 60% to over 80% among available models (~20% of total volumes). Considering capacity constraints for diesel engines, MSIL will increase its diesel-engine capacity (in the SPV - Suzuki Powertrain) from 0.25m to 0.29m units by September 2011. It is focusing on promoting CNG cars. Its i-GPI CNG technology delivers higher fuel efficiency than conventional CNG cars. Besides, the loss of power, compared with gasoline engine cars is negligible in the case of i-GPI, a shortcoming of conventional CNG technology. MSIL believes that once CNG availability improves in India, it could become a popular option due to its low cost and environment friendliness. MSIL also launched an LPG version of WagonR with SET (Smart Efficient Technology) and a diesel version of the SX4 with a super-turbo diesel engine.

CNG - Low running cost & environment friendly

CNG offers ~65% and 45% savings in running costs compared with petrol and diesel respectively



Source: Company/MOSL

New export markets to dilute impact of EU slowdown

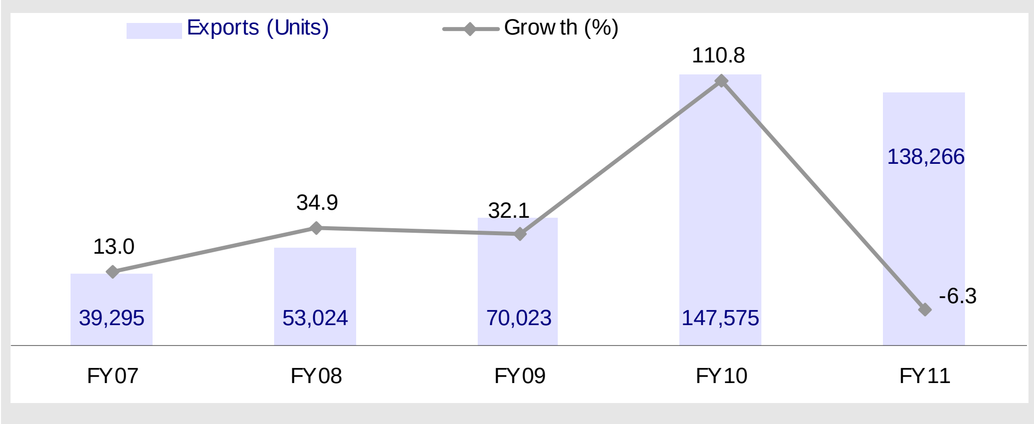
The impact of the EU slowdown was diluted by non-EU exports, whose share increased to ~55% in FY11 from ~20% in FY10

MSIL is focused on broad-basing its exports to dilute the impact of a slowdown in the EU. Algeria, Chile, the Netherlands, Indonesia and Sri Lanka were the top export markets in FY11, but MSIL also explored new markets like Hungary, Malaysia, Laos and Lebanon. The exports team worked closely with export distributors to implement sales enablers and shared best practices from the domestic market. This helped to increase export volumes in many markets.

In FY11 exports de-grew 6.3% to 138,266 units due to a decline in European exports. The impact was diluted by non-EU exports, whose share increased to ~55% in FY11 from ~20% in FY10. In FY11 MSIL crossed 0.8m units of cumulative exports and cumulative export of A-Star crossed 0.2m in 24 months of exports. In FY11 MSIL exported the Alto K10, which was well received.

Contribution of exports to total volumes fell to ~11% in FY11 from 14.5% in FY10

Export volumes declined by ~6% in FY11



Source: Company/MOSL

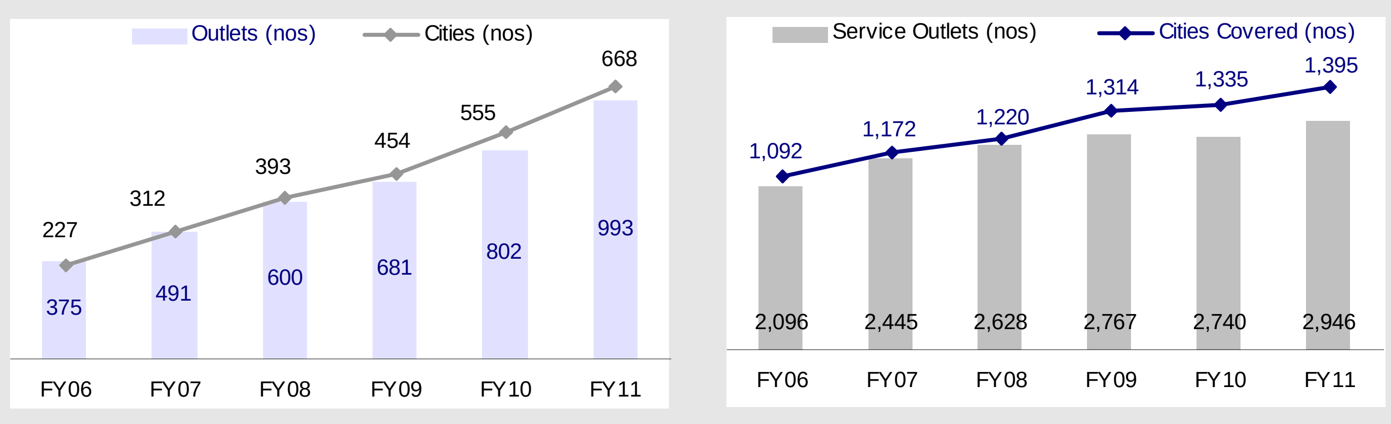
Strengthening of sales and service network to increase reach…

About 40% of MSIL's sales outlets are in the rural format, with scaled-down investment, which enables viability on lower volumes

MSIL's focus is on widening its sales and service network, its key strength. In FY11, it added 191 sales outlets, totaling 993 outlets in 668 cities. It also increased its service outlets by 206 to 2,946 outlets in 1,395 cities. Over the past four years its rural sales contribution increased, contributing ~20% to its domestic sales. About 40% of MSIL's sales outlets are in the rural format, with scaled-down investment, which enables viability on lower volumes.

MSIL's network services ~1.2m vehicles a month. With an increasing service load, MSIL turned its focus to imparting training and initiated tie-ups with 28 ITIs (Industrial Training Institutes) to increase technical staff at workshops.

Fortifying its key competitive advantage of sales and service network



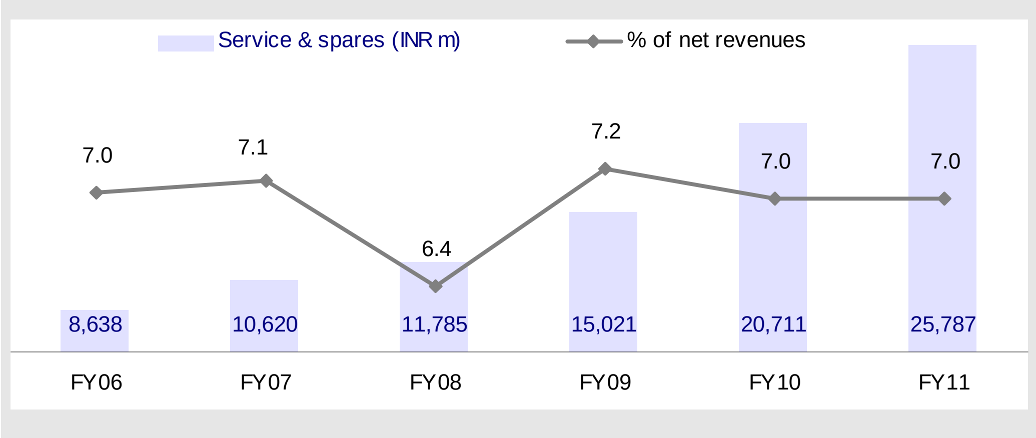
Source: Company/MOSL

...and realize potential of spares and servicing revenues

In FY11, service, spares and accessories business grew ~25% to INR25.8b (~7% of net revenue)

In FY11 MSIL's service, spares and accessories business grew ~25% to INR25.8b (~7% of net revenue). MSIL promoted the use of genuine parts among customers to enhance vehicle safety and performance. The company worked on standardization of parts infrastructure at sales and service outlets to ensure better availability and faster vehicle service. Dealer parts inventories were reduced, releasing working capital for the vehicle sales business. MSIL is also expanding its accessories in line with a changing consumer lifestyle and market trends.

Service, spares revenues CAGR ~30% over the past three years



Source: Company/MOSL

Targeting vendor localizations to cut forex exposure, costs

MSIL has a three-year roadmap beginning FY13 to reduce vendor imports by 600-700bp from 14-15% of revenue

To reduce its exposure to the yen, MSIL increased its focus on localization of components imported by vendors. This will help to cut input costs. MSIL has a three-year roadmap beginning FY13 to reduce vendor imports by 600-700bp from 14-15% of revenue. Besides, MSIL is considering opportunities from FTAs and other such arrangements for source substitution of technologically complex items, which are being imported.

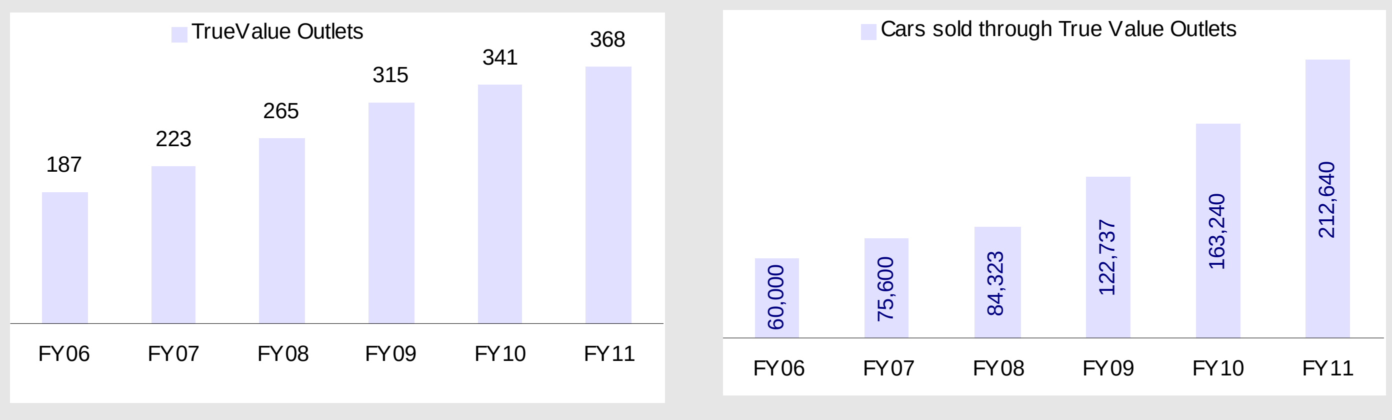
In FY09 MSIL began to design and develop dies for critical sheet-metal parts and engine components. The development of in-house dies for body parts helped MSIL to save 25-40% costs (compared with imported dies). This initiative helped MSIL to fulfill 30% of its requirements for sheet metal dies for new models and 100% of its requirement of engine parts like cylinder heads.

Maruti True Value: Pre-owned car business scales up well

Maruti True Value enables customer retention by facilitating re-purchase of new cars and enhances dealers' profitability

MSIL's pre-owned car business sold 212,640 cars in FY11, posting 30% growth. It enables customer retention by facilitating re-purchase of new cars and enhances dealers' profitability through the sale of certified pre-owned cars under the brand Maruti True Value. With shortening car ownership cycles the residual value of a car is becoming an important determinant of cost of ownership.

Maruti True Value business scales up



Source: Company/MOSL

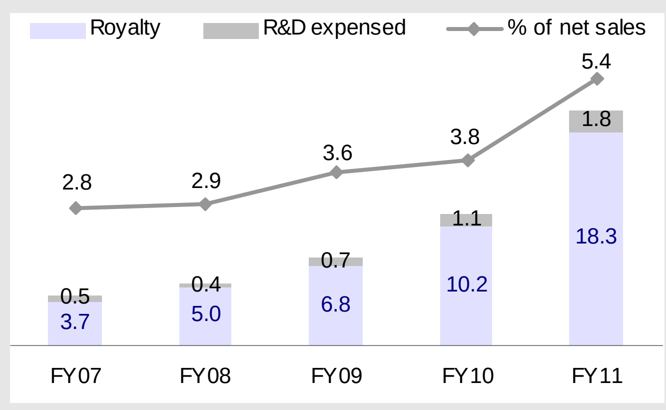
R&D engineers in Japan and India are working together and MSIL expects their research to give it a competitive edge

Local R&D to offer competitive advantage

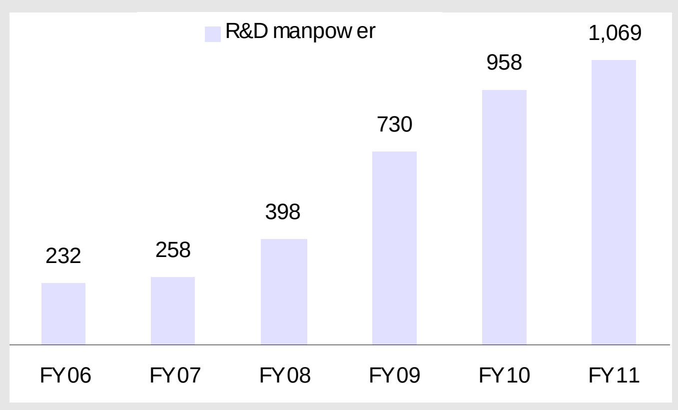
MSIL believes an understanding of a consumer's stated and unstated needs in every segment is a differentiator of growth and it is evolving technologies accordingly. It aims to use this approach to retain its "value for money" edge. An example of this approach is the new K-series engine, which is lighter, more fuel efficient and cleaner. Due to the growth potential in India, MSIL is setting up an R&D center at Rohtak that will serve India.

In collaboration with its parent, MSIL is working on making vehicles lighter. R&D engineers in Japan and India are working together and MSIL expects their research to give it a competitive edge. While its R&D team can carry out minor changes and co-design new models with the parent, MSIL wants to indigenously develop full-body capability and plans to increase its R&D team from 1,069 to over 1,300 people in FY12.

Technology cost increases as royalty increases (INR b)



R&D team to increase to 1,300 by FY12



Source: Company/MOSL

Scalability of tier-2 & 3 vendors and trained man-power pose key challenges to meet growth potential

Scale-up of vendors, human resources key to realize growth potential

A significant value-add in a car comes from the components industry. A large section of the component industry, particularly second- and third-tier suppliers, has to improve scalability, robustness in manufacturing, quality systems, management bandwidth and R&D and may need to raise capital at reasonable costs.

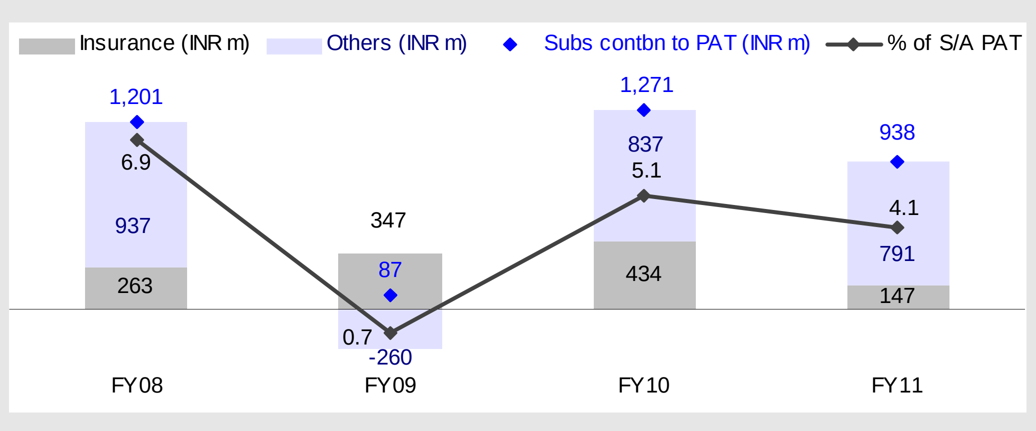
Another major challenge is in the area of human resources. MSIL believes this will be the key to achieving its potential and so is training its people, both in-house and at dealers and vendors, in systems and processes, in quality and customer relations.

Subsidiary performance hit by cancellation of insurance agency licenses

Insurance agency PAT declined 66% to INR147m as IRDA cancelled MSIL's agency licenses in July 2010

The contribution of subsidiaries, associates and JVs to PAT declined ~26% to INR938m, impacted by disruption in operations of the insurance agency subsidiaries due to regulatory action. Insurance agency PAT declined 66% to INR147m as IRDA cancelled MSIL's agency licenses in July 2010 on the premise of inflating claims and profiteering at the expense of insurance companies. MSIL is restructuring its insurance business to align it with regulatory requirements.

Significant decline in insurance agency subsidiaries' PAT



Source: Company/MOSL

Downgrading estimates to factor in volume deceleration

We are downgrading our FY12 volume estimates to 1.27m units (flat volumes), with 1% domestic volume growth, a 10% decline in export volumes, and EBITDA margin decline of 20bp to 9.3%. As a result, our consolidated EPS is downgraded 7.5% for FY12 and FY13 to INR79.1 and INR93.8 respectively.

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Revised forecast (INR m)

	FY12E			FY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Domestic volumes	1,144,066	1,212,031	-5.6	1,315,676	1,393,835	-5.6
Export volumes	124,439	124,439	0.0	143,105	143,105	0.0
Total volumes (Units)	1,268,506	1,336,470	-5.1	1,458,782	1,536,941	-5.1
Net sales	377,029	394,168	-4.3	443,273	462,393	-4.1
EBITDA (%)	9.3	9.5	-20	9.8	10.0	-22
Net profit	21,984	23,803	-7.6	25,880	28,105	-7.8
EPS (INR)	76.1	82.4	-7.6	90.0	97.2	-7.9
Consol EPS (INR)	79.1	85.4	-7.4	93.8	101.5	-7.6

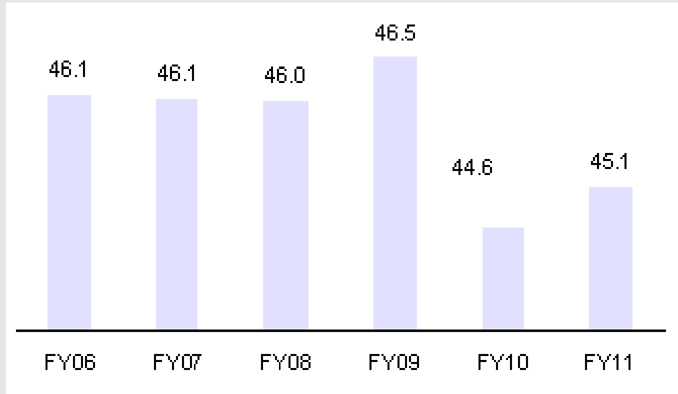
Source: Company/MOSL

Valuation and view

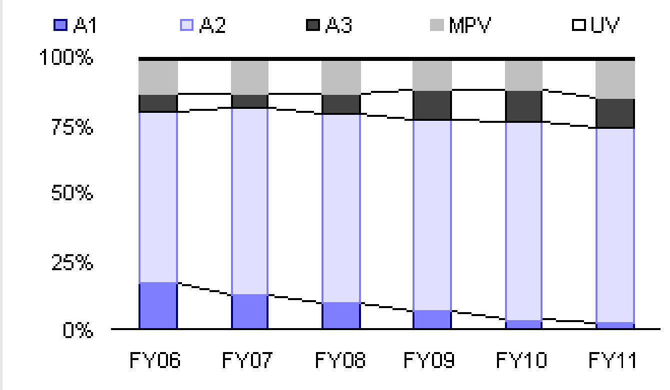
Maruti has underperformed the Sensex by 4% over the past 12 months as both demand and profitability were under pressure. We see limited downside to its margins from the current level, barring significant adverse forex movement. With easing of capacity constraints, we expect Maruti to recover and defend its market share despite competitive pressure. We estimate gradual improvement in EBITDA margins from 9.3% in FY12 to 9.8% in FY13, driven by moderating RM costs, higher operating leverage, a reduction in imports and forex stability. The stock trades at 13.8x FY12E and 11.6x FY13E consolidated EPS and 9.3x FY12E and 7.7x FY13E CEPS. Maintain **Buy** with a target price of INR1,418 (~10x FY13E CEPS).

Operational highlights – key charts

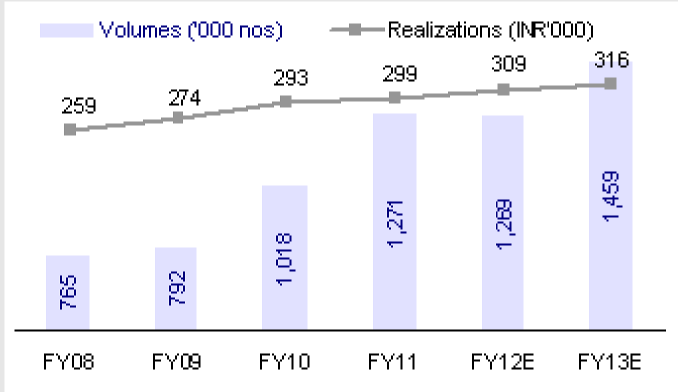
MSIL's domestic market share has been stable



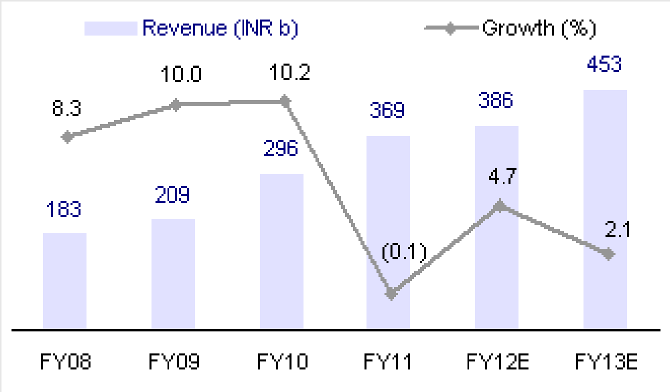
Product mix improving in favor of MPV, A2 and A3 segment…



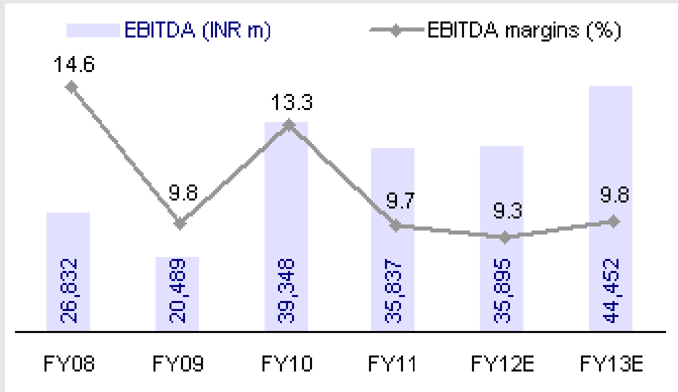
…drive realizations improvement…



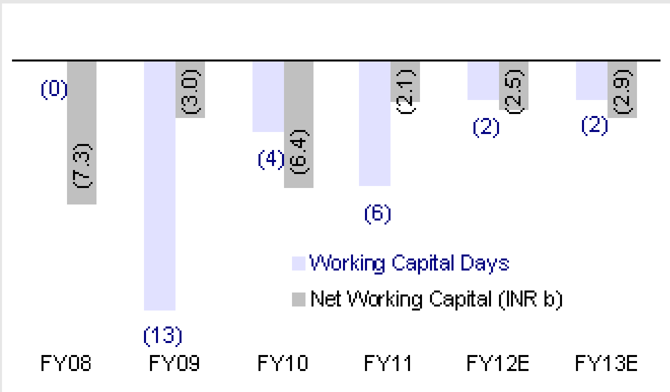
…and revenues as well



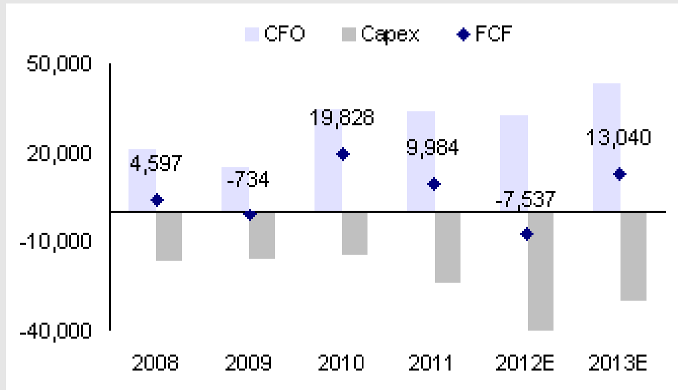
Adverse forex and higher royalty impact margins



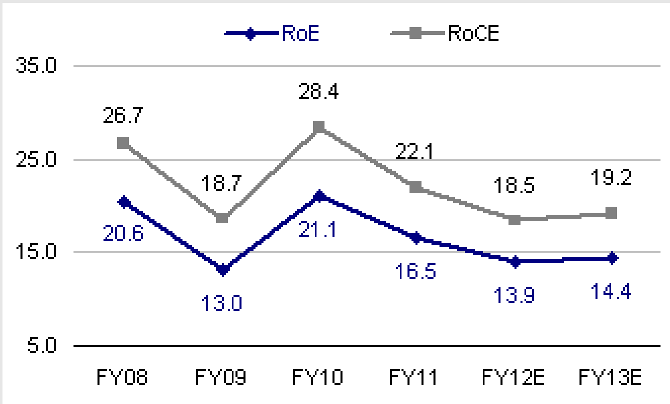
Improvement in working capital



Significant capex restricts FCF generation (INR m)…



…and impacts capital efficiency (%)



Source: Company/MOSL

Financials and Valuation

Income Statement (INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
Total Income	**183,454**	**209,074**	**296,231**	**369,199**	**385,795**	**452,778**
Total Cost	156,623	188,586	256,883	333,363	349,900	408,326
EBITDA	**26,832**	**20,489**	**39,348**	**35,837**	**35,895**	**44,452**
% of Net Sales	14.6	9.8	13.3	9.7	9.3	9.8
Depreciation	5,682	7,065	8,250	10,135	11,827	15,108
EBIT	**21,150**	**13,424**	**31,098**	**25,702**	**24,068**	**29,343**
Def Revenue Exp. / Others	-198	-223	-296	-257	0	0
Interest & Finance Charges	596	510	335	244	128	104
Other Income	**3,974**	**5,386**	**4,998**	**5,665**	**5,869**	**5,972**
Non-recurring Expense	-305	1,765	132	292	0	0
PBT	**25,030**	**16,758**	**35,925**	**31,088**	**29,809**	**35,211**
Tax	7,722	4,571	10,949	8,202	7,825	9,331
Effective Rate (%)	30.9	27.3	30.5	26.4	26.3	26.5
PAT	**17,308**	**12,187**	**24,976**	**22,886**	**21,984**	**25,880**
Adj. PAT	**17,100**	**13,334**	**25,068**	**23,101**	**21,984**	**25,880**
Change (%)	9.1	-22.0	88.0	-7.8	-4.8	17.7

Balance Sheet (INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
Share Capital	1,445	1,445	1,445	1,445	1,445	1,445
Reserves	82,709	92,004	116,906	137,230	156,171	178,331
Net Worth	**84,154**	**93,449**	**118,351**	**138,675**	**157,616**	**179,776**
Loans	9,002	6,989	8,214	3,093	2,593	2,593
Deferred Tax Liability	1,701	1,551	1,370	1,644	1,644	1,644
Capital Employed	**94,857**	**101,989**	**127,935**	**143,412**	**161,853**	**184,013**
Gross Fixed Assets	72,853	87,206	104,067	117,377	157,663	191,663
Less: Depreciation	39,888	46,498	53,820	62,083	73,910	89,018
Net Fixed Assets	**32,965**	**40,708**	**50,247**	**55,294**	**83,753**	**102,645**
Capital WIP	7,363	8,613	3,876	14,286	14,000	10,000
Investments	51,807	31,733	71,766	51,067	51,067	51,067
Curr.Assets, Loans	**30,979**	**55,100**	**37,724**	**63,563**	**58,867**	**73,222**
Inventory	10,380	9,023	12,088	14,150	16,912	19,848
Sundry Debtors	6,555	9,378	8,099	8,933	12,684	14,886
Cash & Bank Balances	3,305	19,390	982	25,085	13,877	23,093
Loans & Advances	10,408	16,328	15,707	13,722	13,722	13,722
Others	331	981	848	1,673	1,673	1,673
Current Liab. & Prov.	**28,257**	**34,165**	**35,678**	**40,798**	**45,835**	**52,921**
Sundry Creditors	24,562	30,358	29,365	35,540	37,754	43,260
Provisions	3,695	3,807	6,313	5,258	8,081	9,661
Net Current Assets	**2,722**	**20,935**	**2,046**	**22,765**	**13,032**	**20,301**
Appl. of Funds	**94,857**	**101,989**	**127,935**	**143,412**	**161,853**	**184,013**

E: MOSL Estimates

Financials and Valuation

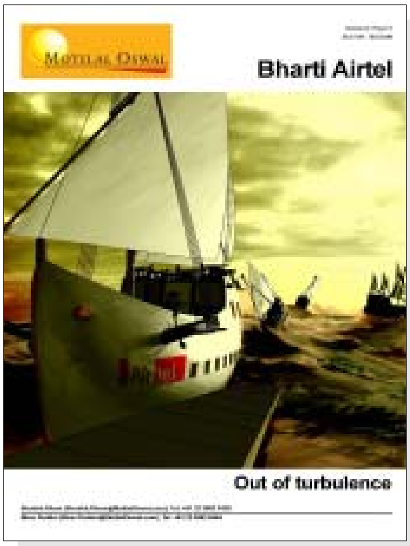
Ratios

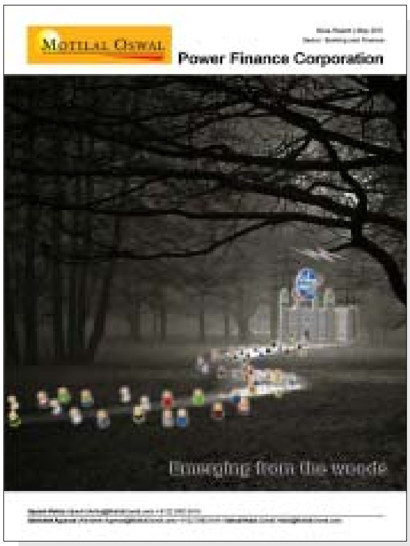
Y/E March	2008	2009	2010	2011	2012E	2013E
Basic (INR)						
Adjusted EPS	**59.2**	**46.1**	**86.7**	**79.9**	**76.1**	**89.6**
EPS Growth (%)	9.1	-22.0	88.0	(7.8)	(4.8)	17.7
Consol EPS	**61.9**	**42.5**	**90.8**	**82.4**	**79.1**	**93.8**
Cash EPS	78.8	70.6	115.3	115.0	117.0	141.8
Book Value per Share	291.2	323.4	409.5	479.8	545.4	622.1
DPS	5.0	3.5	6.0	7.5	9.0	11.0
Payout (Incl. Div. Tax) %	9.8	9.7	8.1	11.0	11.8	12.3
Valuation (x)						
Consol. P/E				13.3	13.8	11.6
Cash P/E				9.5	9.3	7.7
EV/EBITDA				6.8	7.1	5.5
EV/Sales				0.7	0.7	0.6
Price to Book Value				2.3	2.0	1.8
Dividend Yield (%)				0.7	0.8	1.0
Profitability Ratios (%)						
RoE	20.6	13.0	21.1	16.5	13.9	14.4
RoCE	26.7	18.7	28.4	22.1	18.5	19.2
Leverage Ratio						
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0	0.0

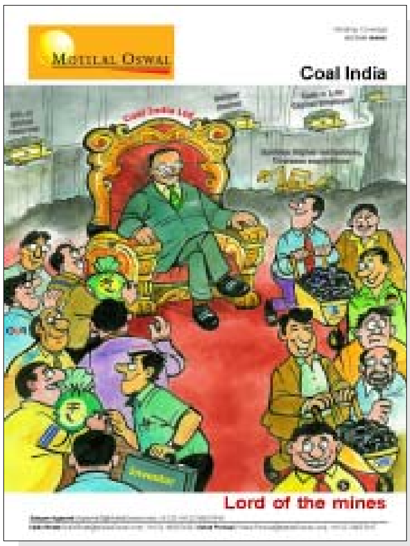
Cash Flow Statement (INR Million)

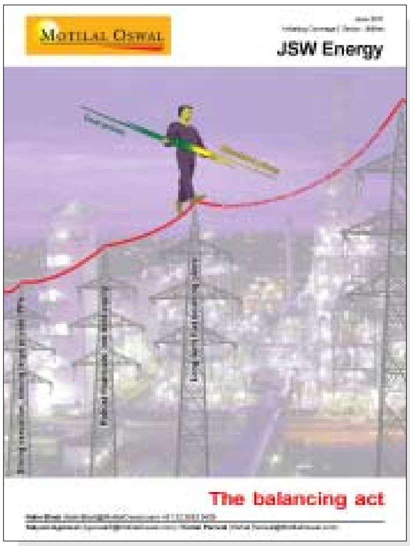
Y/E March	2008	2009	2010	2011	2012E	2013E
OP/(Loss) before Tax	21,264	10,391	31,020	26,437	24,068	29,343
Int./Dividends Received	3,158	3,469	4,103	3,595	5,869	5,972
Depreciation & Amort.	5,682	7,065	8,250	10,135	11,827	15,108
Direct Taxes Paid	-8,647	-4,524	-10,279	-10,240	-7,825	-9,331
(Inc)/Dec in Wkg. Capital	-71	-999	1,327	4,171	-1,475	1,947
CF from Oper.Activity	**21,386**	**15,402**	**34,421**	**34,098**	**32,463**	**43,040**
CF after EO Items	**21,386**	**15,402**	**34,421**	**34,098**	**32,463**	**43,040**
(Inc)/Dec in FA+CWIP	-16,789	-16,136	-14,593	-24,114	-40,000	-30,000
(Pur)/Sale of Invest.	-16,843	22,181	-38,787	21,253	0	0
CF from Inv. Activity	**-33,632**	**6,045**	**-53,380**	**-2,861**	**-40,000**	**-30,000**
Change in Networth	0	0	0	0	-443	-541
Inc/(Dec) in Debt	3,365	-3,339	1,881	-5,123	-500	0
Interest Paid	-743	-579	-319	-278	-128	-104
Dividends Paid	-1,299	-1,444	-1,011	-1,733	-2,601	-3,179
CF from Fin. Activity	**1,323**	**-5,362**	**551**	**-7,134**	**-3,671**	**-3,824**
Inc/(Dec) in Cash	**-10,923**	**16,085**	**-18,408**	**24,103**	**-11,208**	**9,216**
Add: Beginning Balance	14,228	3,305	19,390	982	25,085	13,877
Closing Balance	**3,305**	**19,390**	**982**	**25,085**	**13,877**	**23,093**

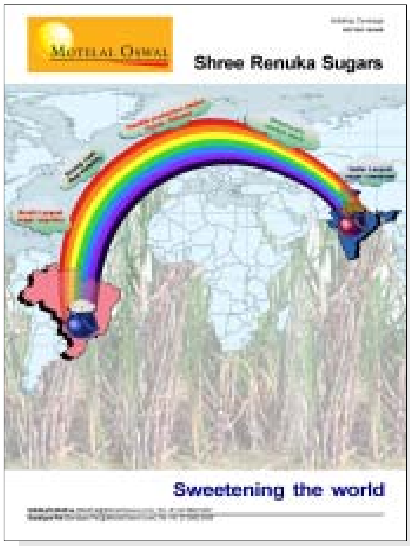
Motilal Oswal Company Gallery

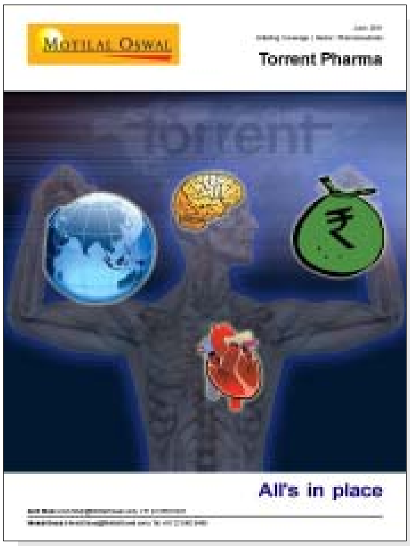












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MOTILAL OSWAL

Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com