Emkay Research

Passenger Car Sector

Competition - How big is the threat?

- Capacity additions - raising concerns
- Pricing - sanity is likely to prevail
- Initial phase of motorization - to sustain demand
- India - on its way to become an export hub

Reco	Company	CMP (Rs)	TP (Rs)
BUY	Maruti Suzuki India Ltd.	742	1000

May 2008

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INDUSTRY

COMPANIES

Synopsis

Over the next three years, the Indian automobile industry is likely to see its capacity almost double from approximately 1.7 m to 3.2 m. With significant capacity additions being announced by incumbent as well as new players in India, there are concerns being raised about its potential impact on the profitability of the industry. We believe that the concerns over rising competition in the passenger car segment are overdone from the medium term perspective. While we do not dispute the possibility of increased competition in the future, we do not believe in significant profitability pressures on account of the same, other things being constant. In our view, the competition will primarily be product based rather than price based.

While the capacity expansion plans announced by the MNCs in India appear to be significant, the same is the part of a larger strategy of incremental capacity addition in emerging markets. Infact, we view the recent capacity addition announcements as a pre-cursor to India becoming a hub for small cars. It should be noted that while Maruti and Hyundai have already made India their hub for new offerings, GM, Ford, Toyota and Renault have indicated their intentions of the same.

We do not expect an aggressive pricing scenario in the medium term as all the companies are in a major expansion mode with proposed investments significantly outstripping the investment made till date. Also, the current profitability does not provide significant scope for price reductions. As a result, it would become necessary for the players to strike a balance between profitability and volume growth, especially when the existing profitability does not provide much scope for aggressive pricing.

Rising young/working population, low penetration levels and increasing per capita income, promise sustained growth potential for the Indian passenger vehicle industry. We believe that the concept of a personal car becoming a part of one's lifestyle has started gaining acceptance.

We have a positive view on the passenger car industry. We believe that the biggest threat to the industry is the spiraling raw material prices and inflationary pressure from the profitability and demand perspective respectively.

Synopsis

Significant capacity addition – raising concerns for the incumbent players

With global players announcing aggressive capacity expansion plans in India, there are concerns about rising competition in the domestic market and its potential impact on the passenger vehicle segment. It should be noted that these are planned capacities. Actual production would depend on the demand scenario. The capacity addition will also cater to export markets.

Incremental capacity additions shifting from developed to emerging economies

As per General Motors, the global auto industry size is expected to grow from 70.6 m to 79 m by 2010. ***Of the incremental 8.4 m sales units during 2007-10, the Asia Pacific region is likely to contribute 6.2 m units and Latin American region to contribute 0.8 m units.*** With major capacities being concentrated in the developed economies (80% of the total 70mn capacity) and emerging economies being the future demand drivers, the expansion plans in emerging countries are justified.

Capacity addition in emerging markets a necessity to sustain growth momentum

The capacity additions announced by various players is the part of a larger strategy to focus on the fast growing emerging markets. With sluggish growth in the developed markets, global majors have shifted focus on the fast growing emerging economies. Given the low penetration levels, rising per capita incomes and the aspirational nature of passenger cars, emerging economies promise a strong growth potential. *Moreover, the protectionist policies adopted by Indian government require significant investment in setting up domestic capacities.* The five year plans of GM and Citroen vindicate our stance.

Pricing – Is the industry headed the motorcycle way? We do not think so

Increasing competition on account of new entrants as well as enhanced capacities poses risk of an aggressive pricing scenario. As observed in the case of the two wheeler segment, a price war is detrimental to the long term health of the industry. Our interaction with OEMs indicate that such a pricing scenario is not a feasible option in the medium term.

Passenger car market is still fragmented vis-à-vis two wheelers

An interesting point to observe is that the price war in the motorcycle segment emerged when the industry became a virtual duopoly (top two players accounted for 80% of the market) and the second largest player acquired respectable market share vis-à-vis the leader in the industry. As compared to the above, the passenger car market is oligopolistic in nature. Also, the industry leader enjoys a market share (more than 50%) which is three times that of the second largest player in the industry.

Unlike two wheeler players, existing profitability does not provide significant scope…

Unlike the two wheeler manufacturers, the profitability of the four wheelers is significantly lower, leaving limited scope for a further drop in margins. Moreover, every passenger car manufacturer in India has outlined significant capex plans. It should be noted that both Hero Honda and Bajaj Auto enjoyed EBIDTA margin in excess of 15% in FY07. As compared to this, the average EBIDTA margins of passenger vehicle manufacturers are less than 11%. Also, Bajaj Auto and Hero Honda enjoyed a ROCE in excess of 120%. As compared to this, the ROCE of the top three car manufacturers, is significantly lower (Maruti – 69%, Tata Motors – 32% and Hyundai – 9%)

…Especially considering the huge capital expenditure plan laid down

All the incumbent players have lined up huge capex plans during the next three years. In fact, the capex plans announced are significantly higher than existing investments. *We believe that adequate cash flows from operations will be critical for the companies to fund their capex plans.* This also indicates that the strategy of each player will consist of a fine balance between volume and profitability growth.

India on its way to become an export hub

We believe that there are four pre-requisites to classify India as a hub for small cars. We believe that India already complies with two of the requirements. India is the third largest producer of small cars in the world and small cars account for a significant 70% share of the domestic market. We believe that India is headed to comply with the other conditions viz exports of small car to have significant share in the global small car output and India to become a hub for technology and R&D in small cars.

Industry - Capacity additions

With significant capacity additions being announced by incumbent as well as new players in India, there are concerns being raised about its potential impact on the profitability of the industry. We believe that the concerns over rising competition in the passenger car segment are overdone from the medium term perspective. While we do not dispute the possibility of increased competition in the future, we do not believe in significant profitability pressures on account of the same, other things being constant. *In our view, the competition will primarily be product based rather than price based.* Also, the capacity expansion plans announced by the MNCs in India appear to be significant, the same is the part of a larger strategy of incremental capacity addition in emerging markets.

We have a positive view on the passenger car industry. We believe that the biggest threat to the industry is the spiraling raw material prices and inflationary pressure from the profitability and demand perspective respectively.

We have structured the report in three sections. The first part focuses on the capacity addition, the second part on competition and pricing and the last part on the demand.

Significant capacity addition – raising concerns for the incumbent players

The capacity addition is to cater not only to India but also the export markets

With global players announcing aggressive capacity expansion plans (see table below) in India, there are concerns about the rising competition in the domestic market and its potential impact on the passenger vehicle segment. *While there have been aggressive announcements of capacity additions, we would like to point out that these are the planned capacities. The actual production will take place based on the demand scenario.*

Also, the capacity expansion is to cater not only to India but also the export markets. Having said that, at the current juncture, except for Hyundai (targeted exports of 212,000 units in FY10) and Maruti (200,000 units of exports by 2010), other players have not announced their export volume target. We believe that once the capacity expansions fructify, other players will also indicate their export plans.

Particulars	2007	2010
Fiat*	50,000	100,000
Ford	100,000	200,000
General Motors	85,000	225,000
Honda	50,000	240,000
Hyundai Motor	300,000	600,000
M&M Renault	30,000	100,000
Maruti Suzuki	750,000	1,100,000
Tata Motors*#	285,000	390,000
Toyota	30,000	75,000
Volkswagen	0	110,000
Others	40,000	80,000
Total Capacity	**1,720,000**	**3,220,000**

** excludes the capacity developed at Rangangaon # Excludes the capacity planned for NANO*

Source: Companies, Media reports, Emkay research

Incremental capacity additions shifting from developed nations to emerging economies

Of the incremental 8.4 m sales unit during 2007-10, Asia Pacific region is likely to contribute 6.2 mn and Latin American region to contribute 0.8 m units.

An analysis of the global automotive industry indicates that, of the approximately 71 m capacity, around 80% is located in the matured markets. Going forward, the key growth driver for the global automobile players will be the emerging economies. As per General Motors, the global auto industry size is expected to grow from 70.6 m to 79 m by 2010. ***Of the incremental 8.4 m sales units during 2007-10, the Asia pacific region is likely to contribute 6.2 m units and Latin American region to contribute 0.8 m units.*** This itself, indicates the growing importance of the emerging economies. However, the existing capacities are likely to fall short of future demand. *This coupled with the protectionist policies (in India, import of vehicle attracts 100% duty), would require global players to set up local capacities.*

2010 Industry Outlook (units mn)	2007	2010E	CAGR (%)
North America	19.6	20.0	1.0
Europe	23.0	24.0	2.2
Latin America/Africa/ME	7.2	8.0	5.4
Asia Pacific	*20.8*	*27.0*	*13.9*
Total	**70.6**	**79.0**	**5.8**

Source: General Motors, Emkay research

A significant part of new capacity addition announcement is in emerging economies

An interesting point to note is that most of the new capacity addition announced by the global players is in the emerging countries. This, we believe, is in order to be competitive (protectionist policies against imports, cheap labor, fiscal incentives). The fact that tier 1 vendors like Delphi, Visteon, etc have significantly increased their sourcing from India and other emerging nations, has provided the global OEMs an assurance for supply of components.

Capacity addition during 2007-10	Honda	Nissan	Toyota
Japan (%)	31.7	0.0	0.0
North America (%)	31.7	0.0	12.5
Latin America (%)	4.8	40.0	0.0
Europe (%)	0.0	0.0	0.0
Turkey/Russia/Others (%)	3.2	20.0	25.0
Asia (ex Japan) (%)	*28.6*	*40.0*	*62.5*
Total capacity addition	**100.0**	**100.0**	**100.0**
Capacity addition % existing capacity	*15.7*	*6.9*	*8.5*
Capacity addition in India % total capacity addition	*17.5*	*40.0*	*9.4*

Source: Companies, Emkay research

Similarly, General Motors, Ford and Renault have outlined incremental expansion plans in the emerging economies.

Capacity addition in emerging markets a necessity to sustain growth momentum

Growth plans of global players lay significant emphasis on growth in emerging markets

The capacity additions announced by various players is the part of a larger strategy to focus on the emerging markets. This is on account of the fact that the growth in developed markets has been stagnating and incremental growth is likely to come from emerging economies (as indicated earlier).

To give an example, the 2007-12 growth plans of General Motors lays significant emphasis on raising volume contribution from emerging economies, where the penetration levels are significantly low, per capita income is on the rise and passenger vehicles are an aspirational product.

GM Sales targets (units 000s)	2,007	2012E	CAGR(%)
Matured markets	44,000	46,000	1.1
Emerging markets	27,000	39,000	9.6
Total	**71,000**	**85,000**	**4.6**

PSA Peugeot Citroen (units 000s)	2,006	2012E	CAGR (%)
Matured markets	2,965	3,270	2.0
Emerging markets	401	800	14.8
Total	**3,366**	**4,070**	**3.9**

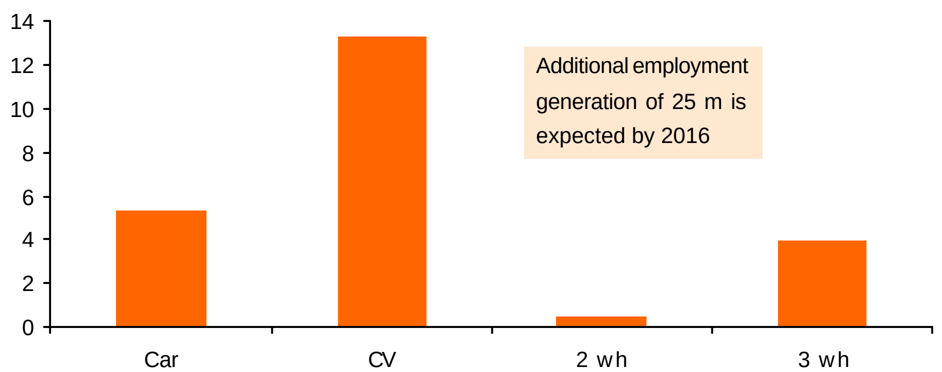
Source: Companies, Emkay research

Protectionist policies of the government require local investment.

The Indian government follows protectionist policies (vehicle imports attract 100% duty) considering the employment generating nature of the automobile industry. It is estimated that the automobile industry is likely to generate additional employment of 25 m by 2016.

While the direct employment generation is likely to be limited, the automobile industry plays an important role in generating semi-skilled and unskilled indirect jobs (such as vehicle financing, insurance, repairs and maintenance, drivers, etc) in rural and semi urban areas.

Direct and Indirect Employment units (per vehicle)



Source: AMP 2016, Emkay research

India on its way to become a hub for small cars

Over the long term, we believe that there are four pre-requisites for a country to emerge as a small car hub.

- The country's total small car production should rank amongst the top in the world.
- Small cars should have a high share of the domestic market.
- Exports of small cars should account for a significant share of the global small car market.
- The country should be home to the development and use of new technologies and manufacturing processes that would sustain this leadership over time.

India is third largest producer of small cars after Japan and Brazil.

Despite the fact that the number of cars produced in India are insignificant compared to the US, Japan, China and other European countries, **India is the third largest producer of small cars after Japan and Brazil.** Also, compact cars account for over 70% of the domestic market. Thus, India satisfies the first two conditions for being a small car hub. We believe that India is headed to comply with the other two criteria over the long term. It is expected that India and China would account for 34% and 11% of the global output of small cars respectively. While global OEMs are expanding their capacity in India, the entire capacity is not meant for the domestic market. It seems that the trend of making India a production hub for world wide production is gaining increasing acceptance. Over the last 6 to 9 months, almost all the global players have announced their intentions to make India a hub for specific products as indicated below.

Details of production hubs

Company	Product	Remarks
Hyundai	i10, i20	At the new facility in Chennai, which has a capacity of 300,000 units
Honda	Small car	At the new factory in Rajasthan, which will have a capacity of 150,000 units
Ford	Small car	At the new factory in Chennai, which will have a capapcity of 1000,000 units
Maruti	A - Star	At new factory in Manesar, which has a capacity of 300,000 units
Toyota	Small car	Company in the process of finalising its plans as a part of strategy to manufacture 600000 units by 2015
General Motors	Small car	New small car priced below 'Spark' aims to grow its exports three to four times from current US$ 300 mn

Source: Companies, Industry, Emkay research

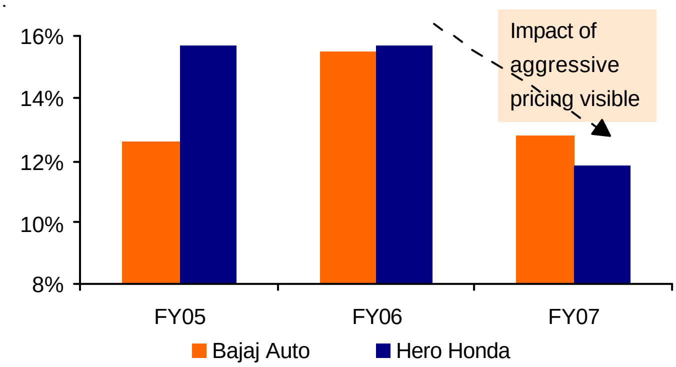
Pricing – Is the industry headed the motorcycle way?

With rising competition on account of new entrants and additional capacities, there always exists a risk of an aggressive pricing scenario, which is detrimental to the industry. We understand that such a strategy is not likely to arise in the passenger vehicle industry in the medium term. We believe that there are adequate reasons for the same.

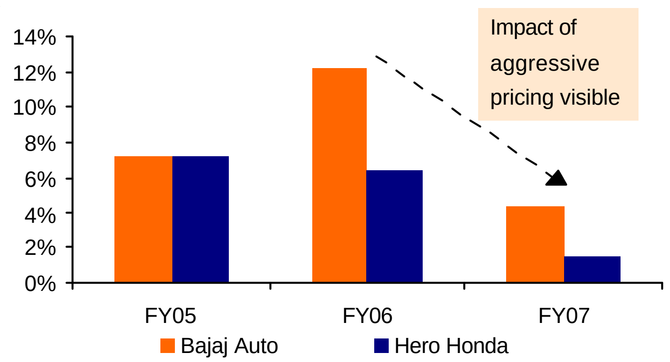
Taking cue from the two wheeler experience

Our interactions with the OEMs indicate that they are unlikely to adopt an aggressive pricing strategy- the status of the motorcycle industry being a case in point. For the motorcycle OEMs, while volumes compensated for the decline in prices for a short while, the continuance of the strategy adversely affected their profitability.

EBIDTA margins comparison



Free Cash Flow % Sales

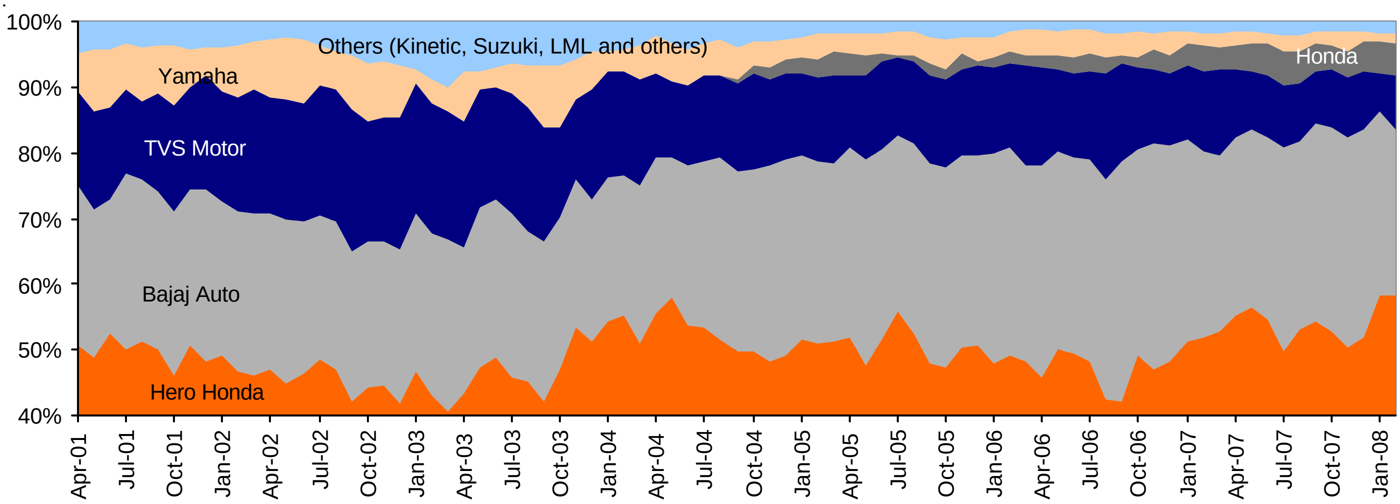


Source: Companies, Emkay research

Passenger car market is still fragmented vis-à-vis two wheelers

An interesting point to observe is that the price war in the motorcycle segment emerged when the industry became a virtual duopoly (top two players accounted for 80% of the market) and the second largest player acquired respectable market share vis-à-vis the leader in the industry (see graph below). In the motorcycle segment, the price war between the two industry leaders commenced from 2QFY07 when the combined market share of Bajaj Auto and Hero Honda stood at 80%.

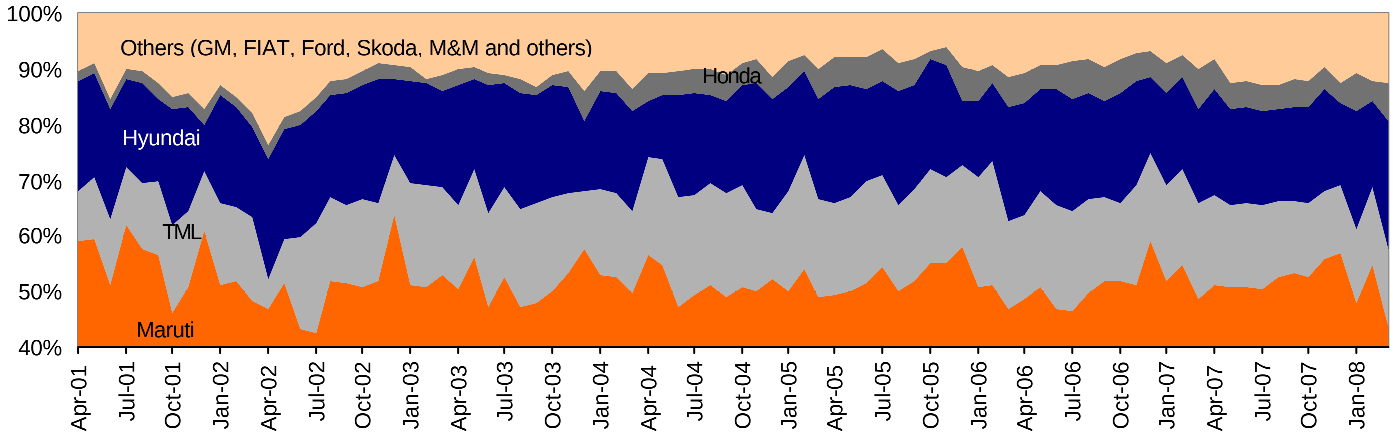
Monthly market share trends - Motorcycles



Source: SIAM, Emkay research

As compared to the above, the passenger car market is oligopolistic in nature (see graph below). While the leader continues to hold around 50% market share, there exists a fierce competition amongst other incumbent players.

Monthly market share trends - Passenger cars



Source: SIAM, Emkay research

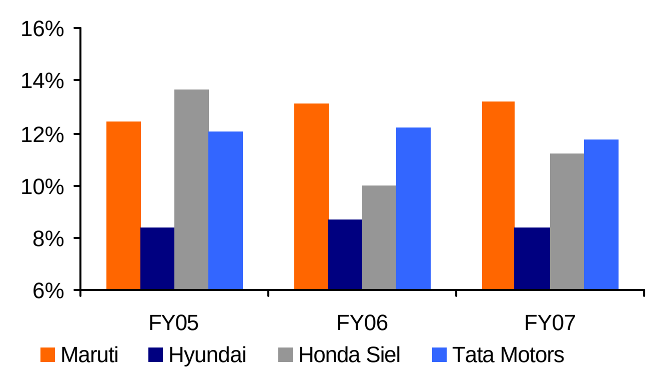
Infact, the industry leader has been able to hold on to its market share, which is three times the second largest player in the domestic industry..

Unlike two wheeler players, existing profitability does not provide significant scope…

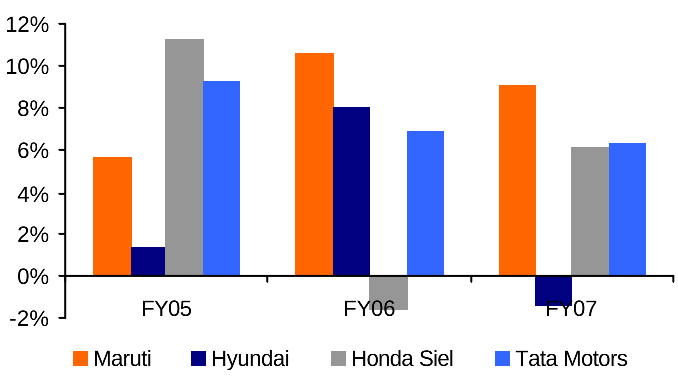
Unlike the two wheeler manufacturers, the profitability of the four wheelers are significantly lower, leaving limited room for further margin drop. Moreover, every automobile player in India has outlined significant capex plans.

Hero Honda and Bajaj Auto enjoyed EBIDTA margins in excess of 15% in FY06-07 (when the price war started). As compared to this, the passenger vehicle manufacturers have EBIDTA margins of around 11%. Similarly, both Bajaj Auto and Hero Honda enjoyed ROCE in excess of 120% As compared to this, amongst the top three industry players in the passenger vehicle segment, (Maruti, Hyundai and Tata Motors), only Maruti has a ROCE of 69%. The other two players have ROCE which is significantly lower than the market leader (Tata Motors-32%, Hyundai–9%).

EBIDTA margins comparison

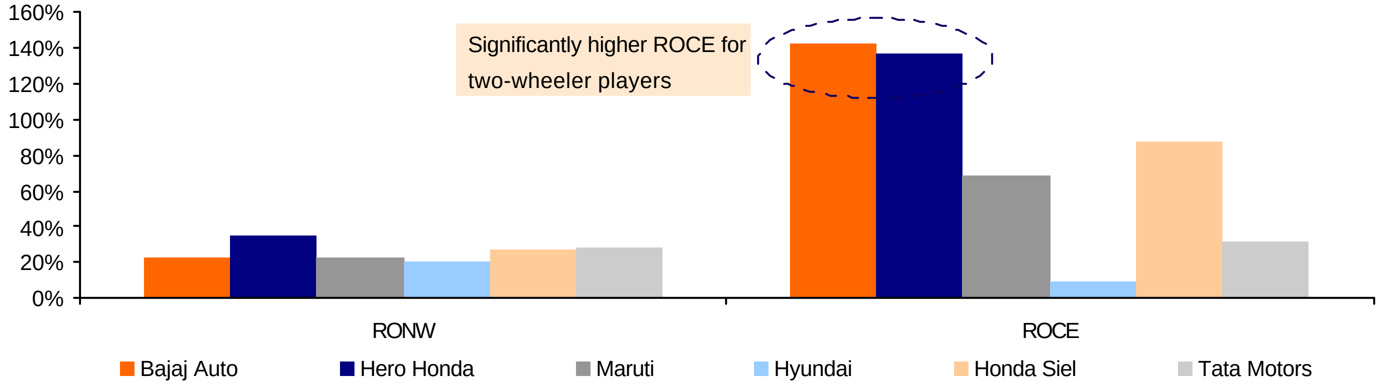


Free Cash Flow % Sales



Source: Companies, Emkay research

RONW and ROCE comparison for FY07



Source: Companies, Capitaline, Emkay research

Also, as per media reports, Ford India has made a profit of Rs 196 mn against a turnover of Rs 27,200 mn. The company has an accumulated loss of approx Rs 7,700 mn.

…Especially considering the huge capital expenditure plans laid down

Huge capex plans will ensure that cash flow from operation will be given importance. This would restrict aggressive pricing strategy

All the incumbent players have lined up huge capex plans during the next three years. Infact, as is evident from the table below, the capex plans announced are significantly higher than existing investments. *We believe that adequate cash flows from operations will be critical for the companies to fund their capex plans.* This also indicates that the strategy of each player will consist of a fine balance between volume and profitability growth.

Capex plans (Rs mn)

Company	Expected investment	Current investment	Expected capacity	Current capacity
GM India	12,800	6,000	140,000	85,000
Honda Seil	14,000	8,045	160,000	50,000
Hyundai	60,000	34,705	500,000	300,000
Ford	20,000	15,000	200,000	100,000
Maruti	90,000	61,000	500,000	600,000

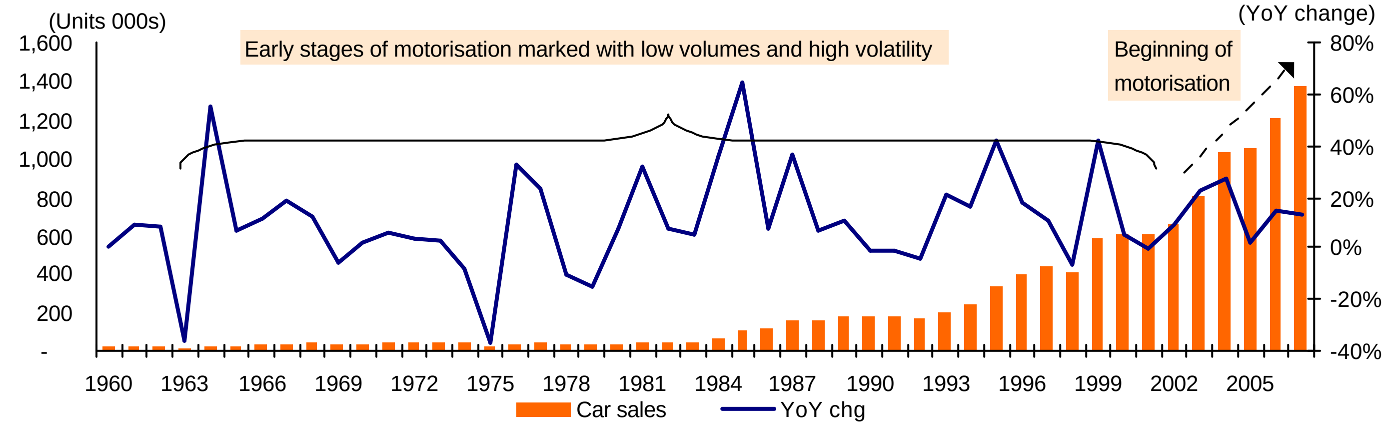
Source: Companies, Industry, Emkay research

This does not mean that there will not be much competition. What we are trying to point out is that the competition will not be as bad as that witnessed in the two wheeler segment.

Demand – In the initial growth phase

While 1.3 m annual passenger car sales appear to be high considering the historical low volume Indian market (see graph below), we believe that the concept of a personal car being a part of life style is gaining acceptance. We believe that the India is in the initial growth phase of motorization.

Historical passenger car sales and YoY growth

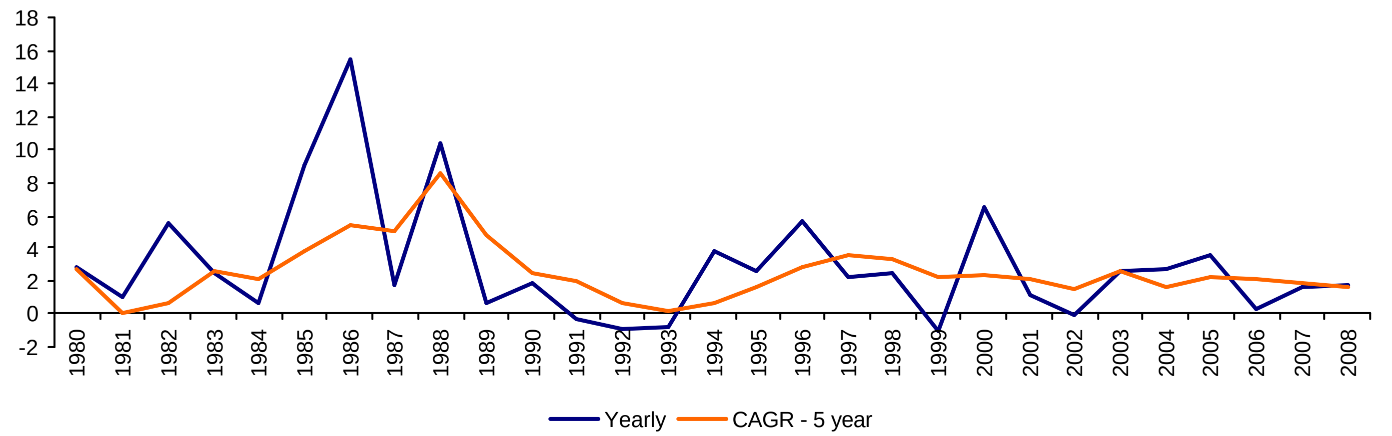


Source: SIAM, Emkay research

Also, volatility to reduce

Historically, the growth in Indian passenger car market has been volatile with significant deviation with respect to the GDP growth.

Correlation between annual car sales and GDP growth (Growth in car sales/GDP growth)



Source: RBI, SIAM, Emkay research

The correlation between GDP growth and car sales has been improving indicating a steady demand for vehicles in a rising income and strong economic environment

Having said that, we expect the volatility to reduce, going forward. We expect the demand to become more linear to the overall economic activity. Infact, we would like to bring about the fact that over the years, the link between the GDP growth and the vehicle growth has begun to stabilize (see table above). Going ahead, we expect the trend to continue considering the favorable macro environment like

- ❖ **Age of Indian population** - High proportion of young/working population to support the demand for cars.

- **Per capita income (PCI)** - Generally, US $ 1000 PCI is considered as the threshold level, beyond which, there exists a sustainable demand for passenger vehicles. Currently, the PCI in India is around US $ 600 mn (constant prices)

- **Low penetration levels** – The low penetration level of cars (approx 10 vehicles per 1000 people) in India together with the above factors is likely to ensure stability of demand. The penetration levels in India are significantly lower when compared to other developing nations. Infact, the penetration levels in India are similar to those of China in 2002. In 2002, car penetration in China was at 12 per 1000.

Sixth pay commission and fiscal measures to boost demand during 2009-10

The sixth pay commission can provide boost to the demand, but not before 4QFY09

The sixth pay commission has recommended a 40% hike on salaries as on January 2006. Thus, there will be a one time arrears payment to the employees of central government and quasi central government entities, (approx 4mn employees). With election in 10 states scheduled during the next 13 months, we expect similar announcements by state governments. Also, the wage negotiations for PSU banks and Oil PSUs are under progress (due effective from Nov 2007 and Jan 2007 respectively). In such a scenario, around 8 mn employees are likely to benefit during the next 12 to 18 months. This, together with significant revision in tax slabs can further boost demand. In our view, the net increase in cash will be equivalent to a down payment of a car or 4 to 6 months installment of a compact car. In the tables below, we have tried to determine the average one time income due to arrears accretion and the reduction in tax liability due to fiscal measures. The quantum of cash availability is likely to provide boost to the demand for passenger cars.

Sixth pay commission impact	BHEL*	SAIL*	PSU banks#
Avg Salary per employee	290,000	280,000	360,000
Less: 30% allowance for non entitlements	87,000	84,000	108,000
Net eligible salary	203,000	196,000	252,000
Arrears for 12 months (40% hike)	**81,200**	**78,400**	**100,800**
** Salaries for FY06 # Salary hikes due effective Nov 2007*			

Impact of fiscal measures	Scenario I	Scenario II	Scenario III
Taxable income (Rs)	200,000	400,000	600,000
Tax liability (existing)	16,000	69,000	129,000
Tax liability (new legislation)	5,000	40,000	90,000
Reduction in tax liability	**11,000**	**29,000**	**39,000**

Source: Companies, Emkay research

However, it should be noted that six pay commission is still a recommendation. It has not yet been approved by the Government. ***This makes us believe that the benefit of the sixth pay commission shall yield results not before 4QFY09,*** as there is generally a gap of 6 months between approval by Government and actual benefits filtering to the employees.

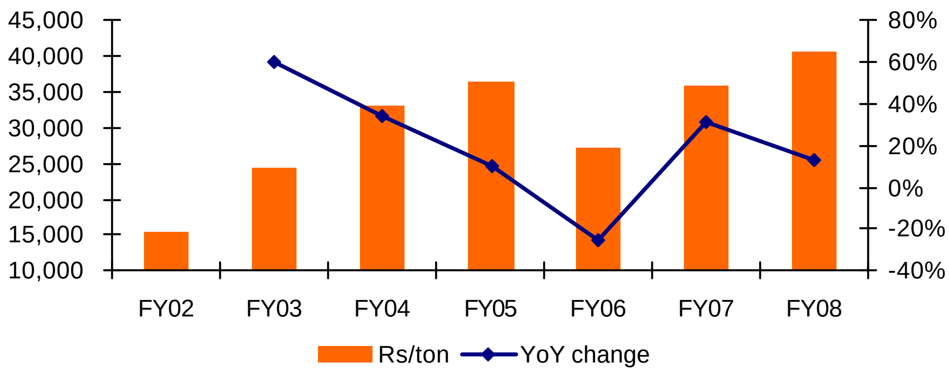
Our analysis indicates that a 2% to 3% hike in prices will be sufficient to cover a steel price hike of 15%

Key Concerns

Raw Material prices and inflationary pressure

In our view, the two key concerns for the industry are rising raw material prices (for profitability) and inflationary pressure (for demand). It should be noted that post March 2008, there has been significant increase in the steel prices (approx US $ 140 to US $1000) in the international market. In the domestic market, the steel companies have announced a price hike of Rs 5,000 (in form of surcharge). While the pressure on the raw material front in 4QFY08 results may not be that significant, the real pressure would arise when the long term contracts are due for renewal during 1QFY09. Having said that, the recent excise duty cuts and consequent price reduction (approximately 4%) provide some cushion to raise prices for partially offsetting the rising raw material costs.

2 MM HR Prices (Domestic)



Source: Capitaline Emkay research

Considering the current inflationary pressure persisting in the domestic economy and the aggressive stand adopted by the GOI, our steel analyst has assumed a 15% hike in the steel prices for FY09. We believe that a price hike to the extent of 2% to 3% will enable the automobile players to remain cost push neutral.

Impact analysis of steel price	M 800	Wagon R
Avg cost of steel used in a car		
Avg steel requirement (Kgs)	550	720
Avg steel prices (Rs per kg)	40	44
Avg cost of steel (Rs per car)	22,000	31,680
Avg realizations for company	160,000	240,000
Steel cost % avg realizations (%)	**13.8**	**13.2**
Required price hike		
Effective steel price hike (%)	15.0	15.0
Avg steel price increase (Rs per kg)	6.0	6.6
Increase in steel costs (Rs per car)	3,300	4,752
% Hike required to cover the costs	**2.1**	**2.0**

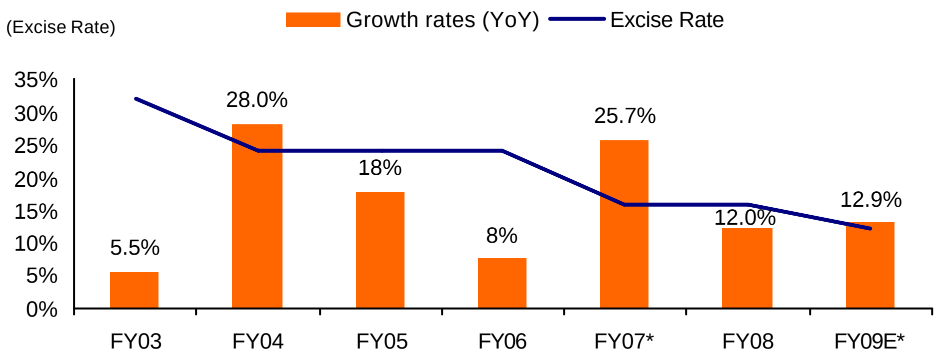
Source: Emkay research

Excise duty reduction – may not act as a catalyst

Traditionally, excise duty reduction results in spurt in demand

As can be seen from the graph below, excise duty cut has lead to spurt in the demand. However, we do not expect the same to be the case in FY09. This is because the quantum of the reduction is significantly lower as compared to the past. *Also, the OEMs are likely to increase the prices (already announced by M&M) in order to combat the rising raw material prices, which shall negate the potential stimulus to the demand due to reduction in excise rate*.

Impact of excise duty cut on demand



*The reduction in FY07 and FY09 in excise rate is only for small cars

Source: SIAM, GOI, Emkay research

Availability of Finance

As has been the case with the two wheeler industry, we believe that availability of finance is a key factor especially when more than 70% of the vehicles purchased are on credit.

At the current juncture, the key cause of concern is the availability of finance rather than 50 bps increase in interest rates

During FY08, we were a strong advocate of the fact the availability of finance (rather than the interest rates) were the key reason for a decline in sales of motorcycles. Infact the delinquencies increased so much that banks decided to strengthen their credit appraisal even for commercial vehicle segment (though for a period of approximately six months). It should be noted that delinquencies was a phenomenon of semi urban and rural areas. However, the passenger vehicle industry was not affected by the same.

Our interaction with the banks does indicate that, at the current juncture, they are not witnessing any significant increases in the delinquencies in the passenger vehicles segment.

Having said that, we understand that in the month of March 2008, ICICI bank has curtailed its operation in around 50 to 80 locations. However, we understand that at current juncture, other banks have not curtailed their operations.

In case there is a squeeze in availability of finance, Maruti will be the worst affected due to its penetration in the rural market.

Emkay Research

2 May, 2008

BUY

Price	Target Price
Rs 742	Rs 1000

Sensex - 17,287

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(13)	(31)	(8)
Rel. to Sensex	(19)	(9)	(21)	(26)

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	MRTI.BO
Bloomberg	MSIL@IL
Equity Capital (Rs mn)	1445
Face Value (Rs)	5
No of shares o/s (mn)	289
52 Week H/L(Rs)	1252/700
Market Cap (Rs bn)	214
Daily Avg Volume (No of shares)	858928
Daily Avg Turnover (US$ mn)	17.4

Shareholding Pattern (%)

(31st Mar.'08)

Promoters	54.2
FII/NRI	15.8
Institutions	23.1
Private Corp./Others	3.9
Public	3.0

Source: Capitaline

Maruti Suzuki India Ltd.

Company Update

Concerns Overdone…

We believe that the concerns with respect to the market share loss in 4QFY08 and competition are overdone. While we do not dispute Maruti losing market share to competition, we believe that the steep fall in market share witnessed in Q4FY08 is an aberration. Given Maruti's intensifying focus on the sedan segment and enhanced capacity to cater to growing demand, we believe that Maruti is well equipped to hold its ground. Also, its focus on the diesel segment and exports, increasing importance of India in Suzuki's global operations would provide further triggers to maintain momentum. Considering Maruti's strong balance sheet (Rs 127 per share of surplus cash), the company is in a position to withstand aggressive pricing by competition, if any.

Post the change in depreciation policy (refer to our 4QFY08 result update for more information), the stock appears fairly valued on PE basis. Having said that, there is no change in operating matrix (cash flows, EBIDTA, cash earnings) for the company. At our target price of Rs 1000, the stock trades at EV/EBIDTA of 9.2 times and 7.5 times and PE of 14.7 times and 12.9 times our FY09 and FY10 estimates respectively.

Focus on sedans to intensify

Traditionally, Maruti was focused on the compact car segment. However, considering a potential pool of 5mn compact car users, who are likely to upgrade their preference in the near future, Maruti's focus on sedans is likely to intensify. With changing life styles, rising income levels and a strong franchise, we believe Maruti's strategy to focus on sedans comes at a right time. Also, Suzuki Motor Co. has stated its objective to focus on large cars across the globe.

Expanding the reach to maintain momentum

To further strengthen its strong franchise, the company is expanding its dealer network by around 10% in FY09. To cater to the demand from rural markets, the company aims to increase its rural dealerships/extension counters to 1000 over the next five years. Similarly, Maruti has inked a pact with Shriram City Union Finance with an initial allocation of Rs 1,000 crore to focus on financing entry level cars in the rural areas to ensure availability of finance.

Increasing focus on diesel segment and rising exports - offers new avenues

Currently, only Swift is available with diesel option. Going forward, we expect more models of the company to come under the diesel forte, especially in the sedan segment. It should be noted that the share of diesel vehicles in sedans is at 40% versus the industry average of 19%. Also, rising exports should provide cushion against rising competition. Exports are expected to increase from 50, 000 levels to 160,000 in FY10.

Rising importance of Maruti in Suzuki Motor's performance – will ensure continued focus on India

India has become a strategic location for Suzuki Motor Co. Maruti contributed 42% to Suzuki's total PAT in FY07 . Similarly, India is likely to play a larger role in product development process. Suzuki is likely to invest US $ 1.7 bn on R&D in India. These factors give an assurance as to the continued focus of the management on Indian operations.

Key Financials

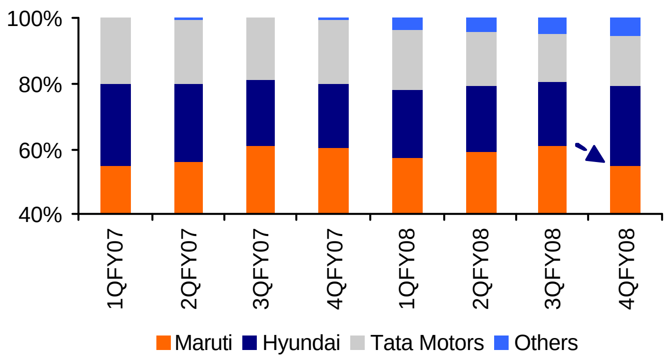
Y/E, Mar Rs Mn	Net Sales	EBITDA	EBITDA (%)	PAT	EPS	AROCE (%)	AROE (%)	PE (x)
FY07	145,922	16,489	11.3	15,619	54.1	66.4	25.4	13.7
FY08P	179,908	23,484	13.1	17,308	59.9	47.0	32.7	12.4
FY09E	214,125	26,388	12.3	19,631	67.9	37.0	21.1	10.9
FY10E	255,873	31,641	12.4	22,402	77.5	35.3	20.7	9.6

In 4QFY08, the market share declined by 6.9% QoQ and 3.5% YoY

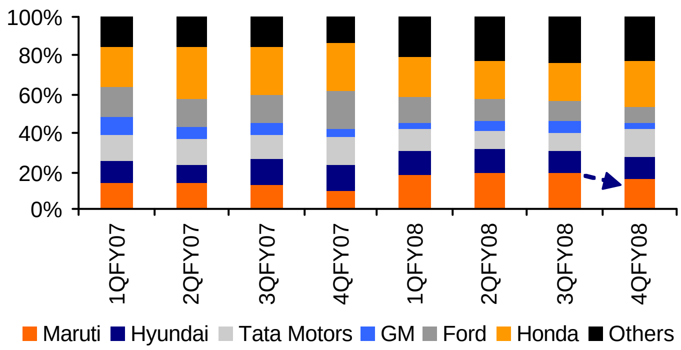
Recent loss of market share – How worrisome is it?

Recently, Maruti has been loosing momentum (especially in 4QFY08) in the A2 segment (which accounts for 80% of the volumes). The market share of the company significantly declined in 4QFY08. The market share of the company for 4QFY08 in Segment A2 stood at 55.2%, a decline of 5.7% QoQ and 5.4% YoY. Similarly, the market share in sedans stood at 15.5%, a decline of 4.3% QoQ. However, the market share increased by 5.7% YoY. Overall the market share in 4QFY08 stood at 48.1%, a decline of 6.9% QoQ and 3.5% YoY. For FY08, the total market share stood at 51.4%, an increase of 40 bps YoY.

Market share in Segment A2



Market share in sedan



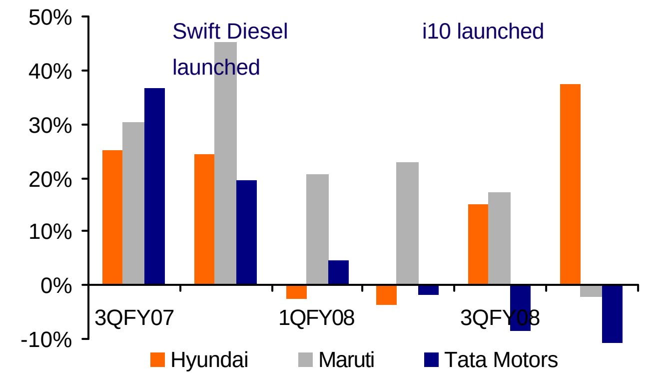
Source: SIAM Emkay research

What led to the market share loss?

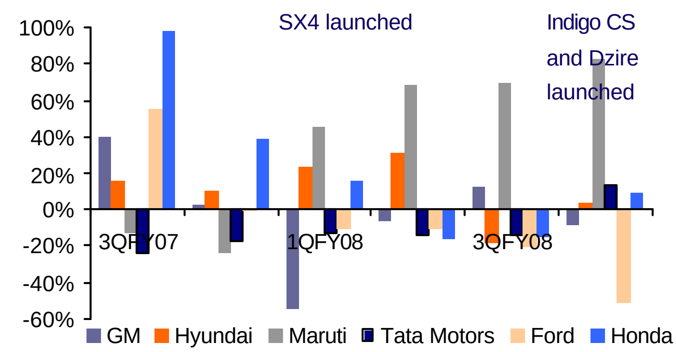
Good response to Hyundai's i10 (competing with Wagon R) and GM's Spark (competing with Alto) together with capacity constraints for Swift resulted in subdued sales in 4QFY08.

Traditionally, launch of a new model results in significant rise in sales for a company. This has been the case with Maruti (see graph below) with respect to launch of Swift and SX4, GM with respect to 'Spark, M&M with respect to 'Logan' and Tata Motors with respect to 'Indigo CS).

New offerings and YoY growth in Segment A2*



New offerings and YoY growth in sedans



** We have not included the growth rates for GM due non comparable base.*

Source: SIAM, Emkay research

What is our view?

4QFY08 performance an aberration

Historical performance in A3 segment indicates company's ability to withstand competition

While we have factored in market share loss for the company, going forward (details are in the latter part of the report), we *do not believe that the performance of just 4QFY08 forms a strong basis to decide the future growth momentum of the company. The* capacity increase at its Manesar plant from 130,000 units to 180,000 units effective April 2008 is likely to resolve capacity constraints concerns with respect to 'Swift'. Also, the launch of A-star in 3QFY09 in the compact car segment will also support the volume growth. We have factored in a lower growth for the company vis-à-vis industry to factor in rising competition in the A2 segment. At the same time, with rising share of 'Dzire and SX4', we expect average realization to improve going ahead

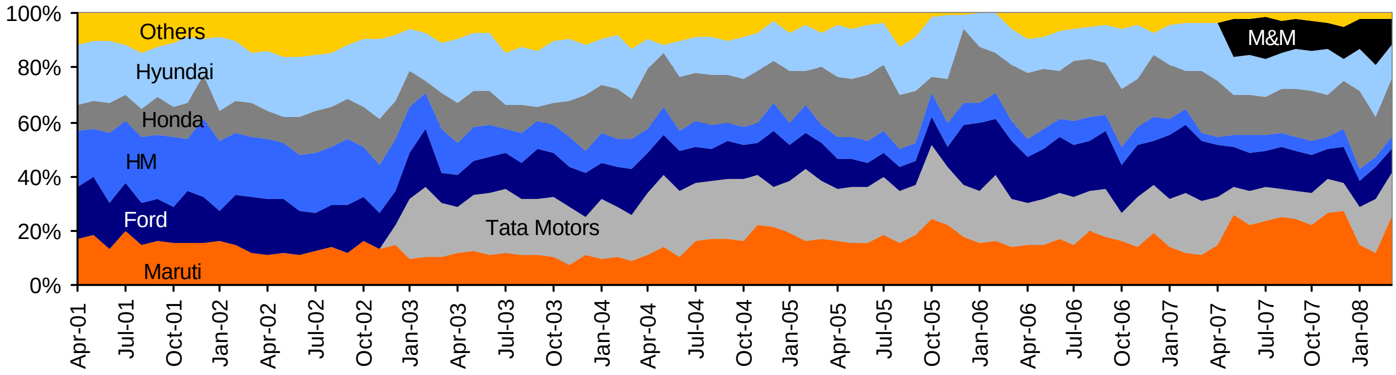
Having said that, we believe that the biggest threat for the company (in terms of demand) is lower demand for entry level offerings like M800 and Alto. The maximum impact of the rising inflationary pressure (relative to the overall target audience for different vehicles) would be felt by the target audience for these offerings. M800 and Alto have contributed 41% to the domestic sales in FY08 for the company.

There are adequate reasons to believe that 4QFY08 is an aberration

Performance in A3 segment indicates the ability of the company to withstand competition

An analysis of the performance of the A3 segment (which accounts for 18% of the domestic market) of the industry indicates that Maruti can hold on to its market share. The A3 segment has been oligopolistic in nature (with no single player having more than 20% market share). Also, the competition has been significantly higher in this segment vis-à-vis the A2 segment as the global players have been focusing on this segment. *As indicated in the graph below, Maruti has been able to hold on and marginally increase its market share despite strong competition.* Traditionally, the company has not been a focus player in this segment.

Monthly market share in Segment A3



Source: SIAM, Emkay research

Going forward, Maruti's focus on sedans to intensify

Going ahead, we believe that the company will increase its focus on sedans, in line with the changing industry dynamics. Also, Suzuki Motor Co. has stated its objective to focus on large cars across the globe. The focus on the Kizashi concept (launch expected in 2010) is an indication of the direction of the company. We believe that this strategy could benefit Maruti significantly, considering the strong brand loyalty that Maruti enjoys. As per some statistics, almost 75% of the existing Maruti customers prefer to buy a Maruti product. **It should be noted that there are around 5 mn compact car users in the country. With improving income and changing life style, we expect the existing customers to upgrade their vehicle preferences**. We would not be surprised if the company increases its market share in Segment C, but for the capacity constraints. The recent launches (SX4 and Dzire), indicate the intent of the company with respect to segment A3.

Strong pipeline and significant ramp up in capacity will support our argument

Maruti's product pipeline appears to be very strong. We expect Maruti to introduce maximum number of new offerings/variants/upgrades over the next 12 to 18 months with a dedicated focus on Segment A3. Also, it should be noted that except for Tata Motors (launch expected in 2HFY09), the other passenger car players are likely introduce their offerings in FY10.

Model	Time frame	Remarks
A-Star	3QFY09	The launch will be a part of the global launch of concept 'A-Star'
Mini car	2HFY09	Launch will also depend on the impact of the competitors new launches on existing sales
SX4 diesel	2HFY09	
Kisahi concept	FY10	Entry in Segment D

Source: Emkay research

Similarly, the company has significantly advanced its capacity expansion plans. It should be noted that the new plant at Manesar will have the capacity to produce 300,000 units from October 2008 as against the initial plan of end FY10. We believe, this is likely to address the capacity constraint concerns that have been associated with the company.

Capacity addition is just one part of the competition…

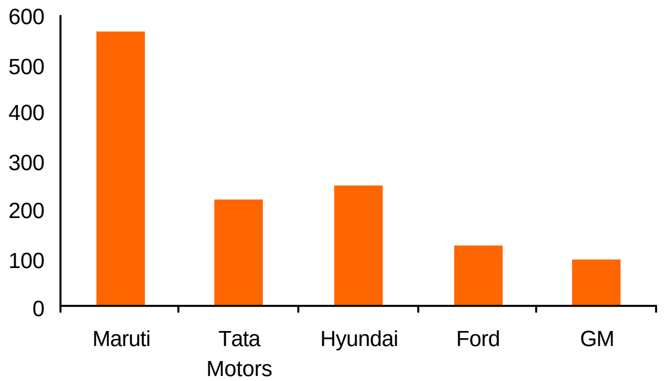
Despite the threat of competition, we expect Maruti to consolidate in the medium term, as we believe that capacity addition is just one part of the industry dynamics. Apart from this, marketing and distribution reach, vendor management, brand building success (which includes after sales services, maintenance costs), product spread (lower dependence on any single product for growth) play an important role.

Maruti has an advantage on at least three of the above parameters vis-à-vis its competitors. A well spread distribution reach, strong brand recall and brand loyalty and sound product spread makes us believe that Maruti is well placed to take on the competition.

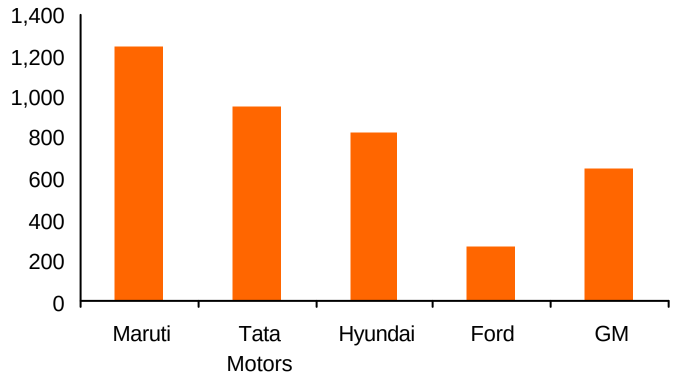
Well spread dealership network to support growth plans in the medium term

While the depth of the dealership network of MSIL is well known, what is interesting to note is that , the sales per dealer is significantly higher as compared to competitors. Higher sales per dealer would ensure adequate profitability for each dealer, despite aggressive expansion plans and rising competition.

Dealer network comparison



Sales (units) per dealer comparision



Source: Company, Emkay research

Expanding the reach to maintain momentum

The company is planning to increase its dealer network by around 10% in FY09 (FY08 – 574 dealers) to access new touch points and have first mover advantage. **To give an example, the company has around 160 rural dealerships (or extension counters) to cater to the rising demand from the hinterland**. We understand that the company's aim is to take the tally to around 1000 over the next five years. We believe that the move is in the right direction, as going ahead; the demand from rural India is likely to outpace urban demand. As per NCAER, the share of rural India in the demand for cars is likely to increase to 11% by 2009-10 from 8% in 2005-06. Similarly, Maruti has inked a pact with Shriram City Union Finance with an initial allocation of Rs 1,000 crore to focus on financing entry level cars (M800, Alto and Omni) in the rural areas to ensure availability of finance to consumers, who can afford the vehicle but may not meet the appraisal criteria of the bank.

Rising share of Maruti in Suzuki Motor's performance – will ensure continued focus on India

Maruti contributed 42.5% of Suzuki's profits in FY07

Post the change in top management (with the retirement of Jagdish Khattar), there have been concerns raised with respect to maintaining momentum and creating shareholder's wealth. We believe that the concerns are overdone.

The role of Maruti in the overall operations of Suzuki has been on the rise. India has become a strategic location in the overall scheme of things for Suzuki Motor Co. This gives an assurance as to the continued focus of the management on its Indian operations. The table below indicates the financial contribution of Maruti in the global Suzuki performance.

Maruti % Suzuki Motor Co	FY04	FY05	FY06	FY07
Sales (%)	10.4	11.0	11.2	11.9
EBIDTA (%)	13.7	15.8	16.8	17.5
PAT (%)	24.5	28.6	37.0	42.5
Equity (%)	11.6	12.8	19.6	20.7
Debt (%)	4.8	4.6	1.3	4.1

Source: Companies, Emkay research

We believe the focus of Suzuki on Maruti is likely to accelerate, as not only Maruti is highly profitable but also Maruti is likely to play a larger role in the product development activities. Also, India offers a sound auto component industry, which ensures component sourcing at cheaper costs.

Rising importance of Indian operations for Suzuki

- India becoming the base for launch of 'world car'.
- USD 1.7 bn spends on R&D activities.
- Aims to increase the number of Indian engineers in R&D activities to 1000 by 2010
- India is biggest production location outside Japan.
- Volume sales in India have crossed that in Japan.
- Signs a mega port terminal for exports with Mundra Port and Special Economic Zone Limited (MPSEZL)
- Setting up 300,000 units power train and transmission facility.

Rising exports to provide cushion against increasing competition in the domestic market

In the medium term, Maruti will be a play on the exports rather than domestic sales

Currently, exports are around 50,000 units, accounting for 7% of the total sales. By FY10, we expect export volumes to account for more than 15% of the total sales. Going forward, Maruti will be a play on exports rather than the domestic market. We believe that India is likely to become an important base for launch of 'world car' going ahead. The most immediate one will be the Concept 'A-Star' the export of which will commence from 4QFY09. To facilitate the exports, the company has entered into agreement with MPSEZL for mega car terminal. Also, the company is building a dedicated pre – inspection delivery centre and a dedicated stockyard. Apart from this, company has also entered into contract manufacturing for Nissan to the tune of 50,000 units in 2010.

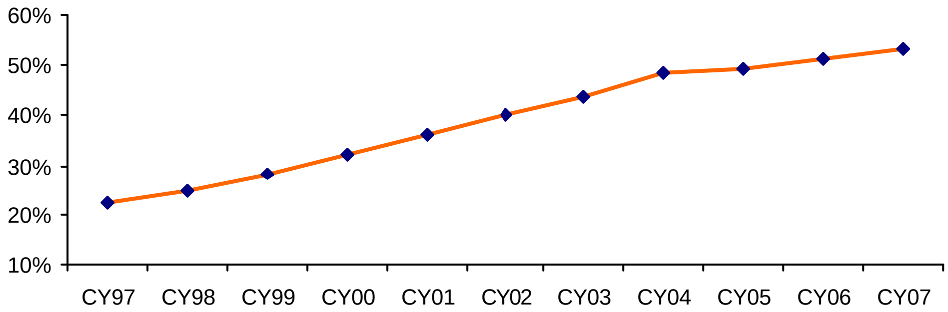
Entry in the diesel segment – just the beginning

With increasing focus on sedans, success in the diesel segment has come at the right time

India passenger car market has many similarities vis a vis the European markets in terms of product styling and designing, higher preference for small and low medium cars (accounting for 37.1% and 32.4% respectively in European market). and focus on fuel efficiency. **The share of diesel cars in the European region increased from 22.7% to 53.3% during 1997 – 2007**. Improving diesel engine technology and spiraling fuel prices, has led to a perceptible shift in preference towards diesel cars. We believe that similar shift in the Indian passenger vehicle market is possible.

Currently, the penetration of the diesel cars stands at around 19% in India. *An interesting point to note is that unlike in India, where there is difference between petrol and diesel prices, there is no such difference in the fuel prices in the European region. We believe that this price differential is likely to be the key driver for higher preference for diesel cars.*

Rising share of diesel cars in Europe



Source: PSA, Emkay research

Maruti has been late in entering the diesel segment in India. However, with the success of Swift diesel (engine technology procured from Fiat), we expect Maruti to increase its focus on the diesel segment in the domestic market. Also, with increasing focus on the European markets (with the launch of 'A-Star'), we expect the share of diesel engines to increase in the overall portfolio. The company is ramping up its engine manufacturing capacity at Suzuki Powertrain India Private Ltd (SPIPL) from 100,000 to 300,000 units (Maruti holds 30% stake).

Also, the timing of expansion of the diesel engine capacity (at SPIPL) fits well with the strategy of the company to increase its focus on'sedans' (Segment C and D). **We believe a strong diesel engine portfolio is of prime importance in Segment C and Segment D as share of diesel engine in these segments is around 40% as compared to around 19% at industry level**. Also, it should be noted that the lower share vehicles with diesel engines is largely due to supply shortage rather than demand. For example, models like Alto, Santro, Wagon R, i10 are not available with diesel engines.

Tata Nano – How big is the threat for Maruti?

Tata Nano will facilitate motorization in India rather than being a threat to Maruti

We do not expect Tata Nano to significantly dent the overall performance of the company. In fact, we believe that the vehicle could lead to expansion of the car market. We believe that price point of Tata Nano (approx Rs 120,000) is significantly lower than Maruti's entry model M 800 (approx Rs 200,000) and Alto (approx Rs 250,000). Also, the share of M800 in the overall company volumes has come down significantly over the years. In FY08, it contributed around 8% of the volumes and we expect the same to be around 5% in FY10. ***We have factored in volume de-growth of 10% and 15% respectively for M800 and Alto as well as decline in realization of 10% in our FY10 estimates.*** We believe that Tata Nano has the potential to revolutionize the Indian car market and can accelerate full scale motorization in India, especially when the penetration levels are around 10 per 1000 people as compared to average of 120 units in the emerging markets and 500 in the developed nations.

Well placed to take on price competition.

In an unlikely scenario of price war becoming a regular feature of the industry, we believe that Maruti is better equipped to handle the same. Infact, Maruti's strong fundamentals do indicate that company can take the lead.

FY07	Maruti	Tata Motors*	Hyundai	Honda Seil
DE	0.1	0.6	0.8	0.0
RONW (%)	22.7	27.9	20.4	26.7
ROCE (%)	69.4	31.6	8.6	87.4

** including vehicle loan portfolio of Rs 42 bn not transferred to subsidairy TMLFSL*

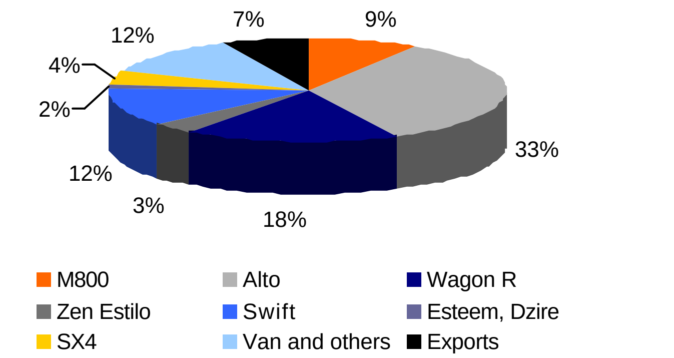
Source: Companies, Capitaline, Emkay research

Key Concerns

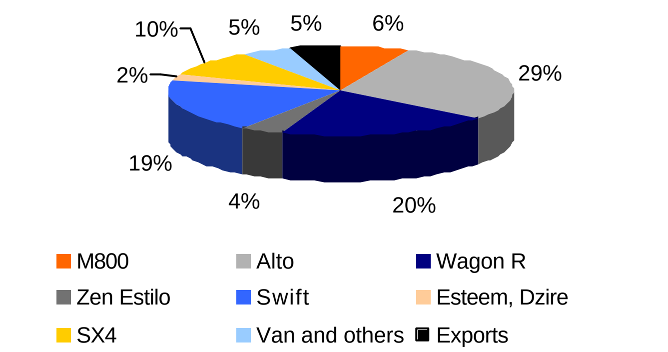
Higher share of dated products

Currently, the product portfolio of Maruti is tilted in favor of older products. Maruti 800, Alto and Wagon R account for 60% of the volume sales and around 55% of the sales. We expect the same to reduce to 45% and 36% respectively by FY10. We believe that 800, Alto and Wagon R run the maximum risk of decline in sales due to new product offerings by the competitors. Having said that company is introducing 'A-Star' in the compact segment to improve the product portfolio in the compact car segment in 3QFY09.

Estimated volume break up - FY08



Estimated sales break up - FY08



Source: Emkay research

We have factored in a lower growth in the A2 segment for the company vis a vis the industry to factor in the risk of competition. We have factored in domestic growth of 10% and 7.5% in FY09 and FY10 respectively for the company vis a vis the industry growth of 16% and 14% respectively.

Rising exposure to currency fluctuations

As a corollary to rising exports, the company is likely to be subjected to risk of currency fluctuations. The company expects its exports to increase from the current 50,000 to 200,000 units by 2010. Similarly, as Maruti imports around 10% of its requirements (largely Yen denominated), this could result in volatility in the margins of the company.

Volume estimates

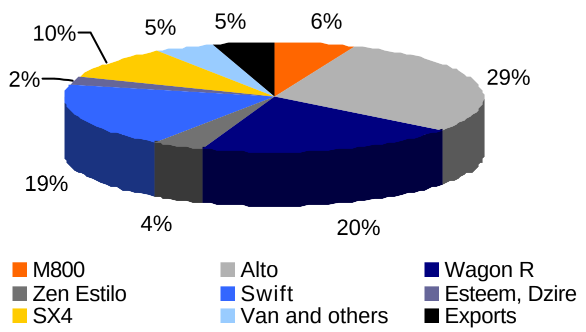
We have factored in the underperformance for the company in the domestic market, primarily due to higher reliance on the old models (M800, Wagon R and Alto). Also, we have not factored in the volume gains that could arise from the launch of 'A-Star' in October 2008. We believe that exports together with the performance of the Swift, Dzire and SX4 will drive the performance of the company going forward.

Volume Estimates	FY08	FY09E	FY10E
Industry			
Domestic	1,293,260	1,460,664	1,643,057
YoY change (%)	11.5	12.9	12.5
Exports	210,779	258,235	436,000
YoY change (%)	10.3	22.5	68.8
Total	**1,504,039**	**1,718,899**	**2,079,057**
Maruti			
Segment A1	69,553	62,598	56,338
YoY change (%)	-12.2	-10.0	-10.0
Segment A2	499,280	549,208	590,399
YoY change (%)	13.4	10.0	7.5
Omni	89,729	95,113	100,820
YoY change (%)	13.4	6.0	6.0
Segment A3	49,335	80,909	97,900
YoY change (%)	66.1	64.0	21.0
MUV	3,927	4,123	4,330
YoY change (%)	21.9	5.0	5.0
Total Domestic	**711,824**	**791,951**	**849,786**
YoY change (%)	12.6	11.3	7.3
Exports	**51,669**	**73,055**	**168,914**
YoY change (%)	31.5	41.4	131.2
Total	**763,493**	**865,006**	**1,018,700**

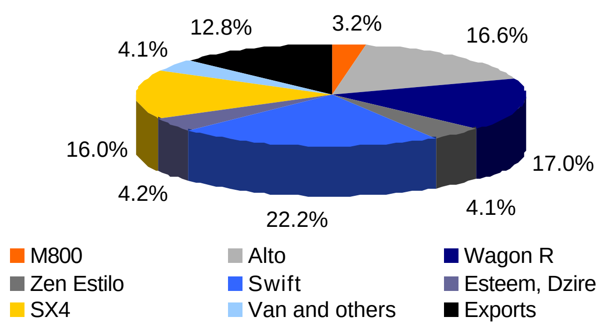
Sales to grow faster than the volumes

We expect sales to grow faster than the volumes due to changing product mix. We have factored in an average realization growth of 7% and 5.5% for the domestic market. For exports, we have factored in a 3% average realization improvement.

Estimated volume break up - FY08



Estimated volume break up - FY10



Source: Emkay research

Valuations

At current price of Rs 742, the stock discounts our FY09 and FY10 earnings by 10.9 times and 9.6 times respectively. We expect the earnings to grow at a CAGR of 13.2% against a topline CAGR of 19.3%.

Post the change in depreciation policy **(please refer to our 4QFY08 result update for more information),** the stock appears fairly valued on PE basis. Having said that, there is no change in operating matrix (cash flows, EBIDTA, cash earnings) for the company.

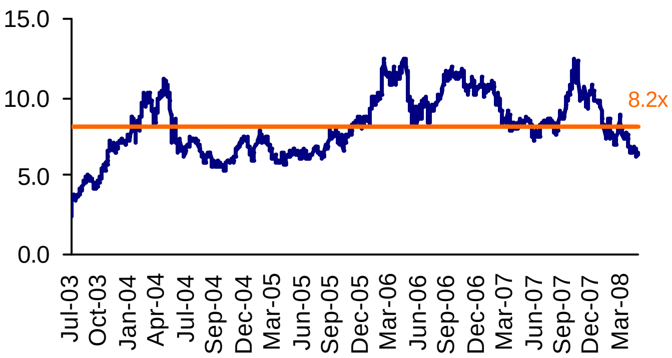
We believe that the current valuations factor in the negatives. Infact, the stock trades at discount to its historical valuations (see charts on next page).

Considering the strong franchise, rising importance of Maruti in the global operations of Suzuki, diversifying product and geographical profile, strong financials (higher ROCE, surplus cash per share of Rs 127) makes us believe that the concerns are over done.

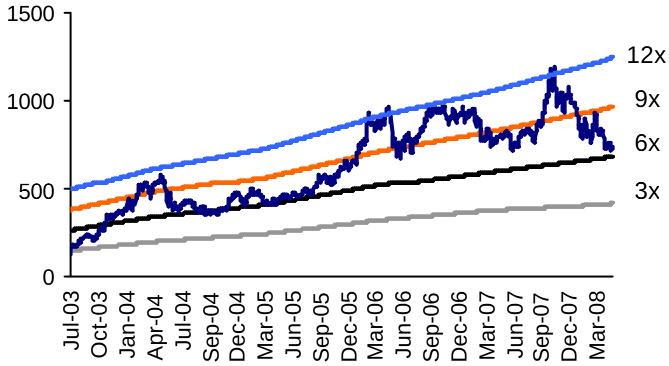
We believe the key risk to our estimates rises from the pressure on the raw material front and sluggish demand at the industry level due to inflationary pressure. **To factor in the probable risk, we have revised our target EV/EBIDTA valuation multiple downward by 16.67% to 7.5 x.**

We maintain our BUY on the stock with a price target of Rs 1000. At our target price the stock would trade at PE of 14.7 times and 12.9 times and EV/EBIDTA of 9.2 times and 7.5 times respectively of our FY09 and FY10 estimates.

Maruti-1yr Fwd Ev/Ebitda (x)

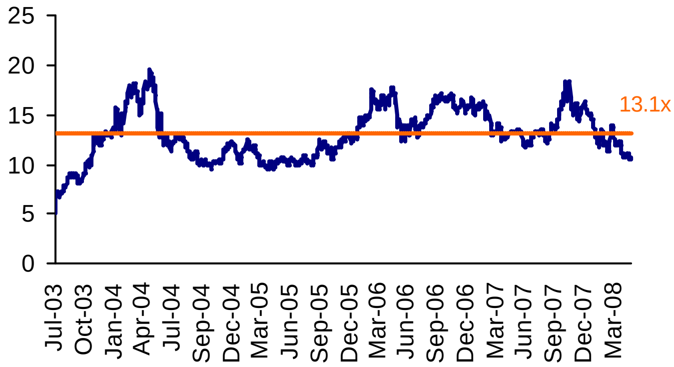


Maruti-EV/EBitda Band

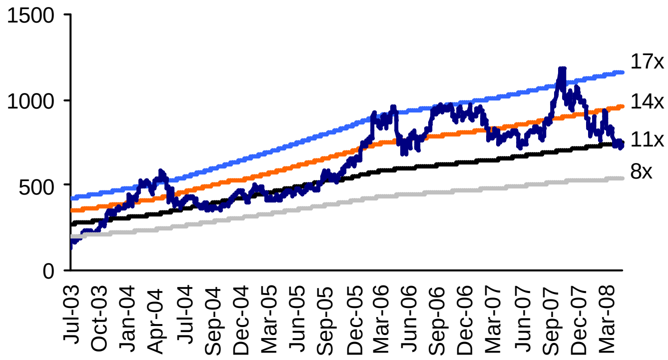


Source:Emkay Research

Maruti-1yr Fwd PE (x)

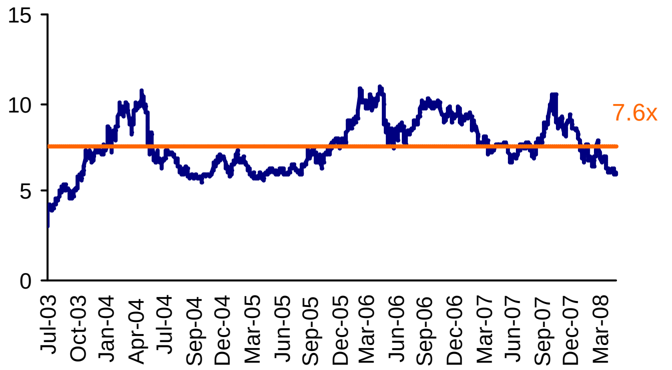


Maruti-PE Band

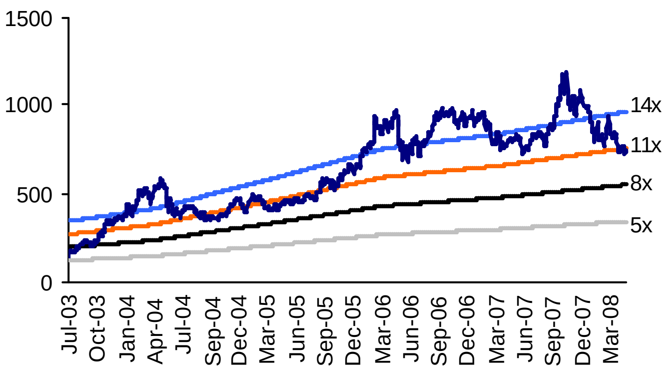


Source:Emkay Research

Maruti-1 yr fwd CPE (x)



Maruti-CPE Band



Source:Emkay Research

Income Statement

Mar ending (Rs mn)	FY07	FY08E	FY09E	FY10E
Net Sales	**145,922**	**179,908**	**214,125**	**255,873**
Growth YoY %	21.6	23.3	19.0	19.5
Operating Expenses				
Raw Materials	110,637	136,468	163,578	195,661
% of sales	75.8	75.9	76.4	76.5
Staff Costs	2,884	3,562	4,246	5,030
% of sales	2.0	2.0	2.0	2.0
Other Expenses	13,198	16,395	19,914	23,540
% of sales	9.0	9.1	9.3	9.2
EBIDTA	**19,203**	**23,484**	**26,388**	**31,641**
Growth %	21.7	22.3	12.4	19.9
EBIDTA %	**13**	**13**	**12**	**12**
Depreciation	2,714	5,682	6,928	8,589
EBIT	**16,489**	**17,802**	**19,460**	**23,053**
Other Income	6,684	9,158	9,721	10,240
Interest	376	880	760	860
PBT	22,797	26,080	28,421	32,433
Tax	7,178	7,722	8,790	10,030
Extraordinary (income) / exp		1,050		
Net Profit	**15,619**	**17,308**	**19,631**	**22,402**
NPM %	10.7	9.6	9.2	8.8
EPS	54.1	59.9	67.9	77.5
Adj EPS	54.1	60.5	67.9	77.5
CEPS	63.5	79.6	91.9	107.3

Source: Emkay research

Balance Sheet

Mar ending (Rs mn)	FY07	FY08P	FY09E	FY10E
Share Capital	1,445	1,445	1,445	1,445
Reserves	67,094	82,628	100,424	120,732
Owned Funds	**68,539**	**84,073**	**101,869**	**122,177**
Secured Loans	635	4,035	5,035	6,535
Unsecured Loans	5,673	4,965	4,965	4,965
Loan Funds	**6,308**	**9,000**	**10,000**	**11,500**
Deferred Tax Liability	**1,675**	**1,675**	**1,675**	**1,675**
Total	**76,522**	**94,748**	**113,544**	**135,352**
Gross Fixed Assets	61,468	72,850	89,980	113,009
Acc. Depreciation	34,871	40,553	47,481	56,070
Net Fixed Assets	26,597	32,297	42,499	56,939
Capital WIP	2,389	10,000	10,000	10,000
Net Block	**28,986**	**42,297**	**52,499**	**66,939**
Investments	**34,092**	**43,800**	**47,800**	**51,800**
Sundry Debtors	7,474	9,800	12,383	14,682
Inventory	7,132	12,106	11,695	14,682
Cash & Bank	14,228	3,342	8,265	10,257
Advances	9,241	11,362	14,312	16,970
Other Current Assets	384	384	384	384
Current Assets	**38,459**	**36,995**	**47,038**	**56,975**
Liabilities	20,110	20,471	24,406	29,150
Provisions	4,905	7,873	9,387	11,212
Current Liabilities	**25,015**	**28,344**	**33,793**	**40,362**
Net Current Assets	**13,444**	**8,651**	**13,245**	**16,614**
Total	**76,522**	**94,748**	**113,544**	**135,352**

Source: Emkay research

Cash Flow

Mar ending (Rs mn)	FY07	FY08P	FY09E	FY10E
Net Profit before tax	22,797	26,080	28,421	32,433
Add: Depreciation	2,714	5,682	6,928	8,589
Add: Interest	376	880	760	860
Less: Other income	6,684	9,158	9,721	10,240
Working capital chgs	4,292	(6,093)	328	(1,376)
Other non operating items	(3,137)	(1,111)		
Less: Tax paid	6,352	7,722	8,790	10,030
Cash from operations	**20280**	**9,669**	**17,926**	**20,235**
Capex	(13,832)	(18,993)	(17,130)	(23,029)
Investments and Others	(13,191)	(9,708)	(4,000)	(4,000)
Other income	2,655	9,158	9,721	10,240
Cash from Investing	**(24,368)**	**(19,543)**	**(11,409)**	**(16,789)**
Borrowings	5,591	2,692	1,000	1,500
Interest paid	(280)	(880)	(760)	(860)
Dividend paid	(1,011)	(1,713)	(1,835)	(2,094)
Cash from financing	**4,300**	**99**	**(1,595)**	**(1,454)**
Cash generation	212	(9,775)	4,923	1,992
Opening Balance	14,016	14,228	3,342	8,265
Closing Balance	14,228	3,342	8,265	10,257

Source: Emkay research

Valuation Summary

Mar ending (Rs mn)	FY07	FY08P	FY09E	FY10E
Per Share Data				
EPS	54.1	59.9	67.9	77.5
Cash EPS	63.5	79.6	91.9	107.3
BVPS	237.2	291.0	352.6	422.9
Net cash per share	140.4	127.1	154.5	170.0
Valuation ratio				
P/E	13.7	12.4	10.9	9.6
Cash P/E	11.7	9.3	8.1	6.9
P/BV	3.1	2.5	2.1	1.8
EV/EBIDTA	9.0	7.5	6.4	5.2
Return Ratios (%)				
AROE	25.4	22.7	21.1	20.0
AROCE	66.4	47.0	37.0	35.3
Dupont				
NPM (%)	10.7	9.6	9.2	8.8
Sales/TA	1.4	1.5	1.5	1.5
TA/Equity	1.5	1.5	1.4	1.4
Other key ratios				
D/E	0.1	0.1	0.1	0.1
NCA/Sales (%)	9.2	4.8	6.2	6.5

Source: Emkay research

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Emkay Rating Distribution

BUY	Expected total return (%) of stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) of stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
REDUCE	Expected total return (%) of stock price appreciation and dividend yield) of below 10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.
NEUTRAL	Analyst has no investment opinion on the stock under review.