

COMPANY WATCH: MARUTI UDYOG LTD

- September sales surges 21% on account of festive season
- **Mega investments of \$2.5 billion lined up**
- **Annual export target of \$3 billion after 2009**
- **Profits in first quarter ending June 2006 jumped 63%**

The festive season in India has again put Maruti Udyog Ltd, the largest carmaker of India and a subsidiary of Japan's Suzuki Motor Corporation, in the fast lane. It reported 22% jump in the domestic sales of 56,606 vehicles in September 2006, against 46,393 vehicles in the same month year-ago. Total sales also increased by 21% to reach almost 60-k mark with 59,420 vehicles including export of 2,814 units, against the total sales of 49,278 in September 2005. Compared to previous month also, the company has shown 15% growth from 51,855 units in August 2006.

Most of the sales for Maruti is coming from the premium hatchback (referred to as B-Segment in the industry-jargon). The segment that includes models named Alto, Zen, Wagon-R and Swift grew 29% to 37,995 units for September 2006, compared to 29,456 in September 2005. The segment also grew 17% month-on-month.

Plans of mega investments worth \$2.5 billion

It has recently announced an additional investment of \$652 million (Rs. 3,000 crore) in addition to earlier announced investments worth \$1.3 billion (Rs. 6000 crore), taking its total capital expenditure plans to \$1.95 billion (Rs. 9000 crore) by 2008. The increased amount would be utilised for raising diesel engine capacity at its Manesar plant in the north Indian state of Haryana to 300,000 units in the next 3 to 4 years and increasing the assembly line to 300,000. Maruti will use the new facility to manufacture about 100,000 units of its successful model Swift and additional 200,000 units of new small sized car, which it is planning to introduce by the end of 2008. Out of these 200,000 new small sized cars, 100,000 units will be exported to Europe and 50,000 units will be supplied to Japan's second largest automaker Nissan Motor Co. while the remaining 50,000 units will be sold in the domestic market. In the next five years, Maruti is planning to bring about five new models in addition to variants and upgrades. In about four years, its production capacity will almost double. The company is also discussing with Nissan Motor to set up a new plant with an additional investment of about \$540 million (Rs. 2,500 crore).

\$3 billion exports target by 2009

In the month of September 2006, company's exports declined by 2.5% to come down at 2,814 units from 2,885 units in September 2005. However, exports will get a big boost once Suzuki starts sourcing more cars from Maruti's new plant. Suzuki plans to export 400,000 cars annually from India post 2009, resulting in an export turnover of \$3 billion for the company. As mentioned above, the \$1.95 billion (Rs. 9000 crore) capex plan has a clear focus on exports. Maruti will target to export 150,000 cars out of the total 200,000 cars of the new model to be launched by end of 2008 produced annually, including the 50,000 units to be supplied to Nissan. And after 2009, the company will try to export as much as 40% of its total sales.

Small is beautiful for Maruti

Maruti is the king of small cars in India with two most successful models called Maruti 800 and Alto in the segment. Overall, it has 11 brands in its portfolio, including the small car Maruti 800, small van called Omni with passenger and cargo variants, premium small car Zen, international brands Alto and WagonR, off-roader Gypsy, mid-size sedan Esteem, luxury car Baleno, multi-purpose vehicle (MPV) called Versa, Swift and luxury sports utility vehicle Grand Vitara XL7. Maruti 800, the car that once ruled Indian roads, has now been displaced from the top-slot by its sibling Alto for last couple of years. Similarly Zen is losing its grip in favour of Swift. WagonR, which was brought to counter arc-rival Hyundai Motor India's successful model Santro was a laggard till recently. But, the recently introduced duo-version of WagonR offering the options of petrol as well as liquid petroleum gas (LPG) has been a quick success, as it offers the benefit of low-cost gas fuel.

The future: Challenge from Tata's Rs. 1 lakh car (\$2,200)

As the Indian automobile market is gaining size, competition from domestic as well as global players is heating up for Maruti. Tata Motors, India's largest automobile manufacturer has reportedly developed the prototype of its much-touted \$2,200 (Rs. 1 lakh) car, which is expected to come in the market by early 2008. The new small car by Tata will be coming at half the price of Maruti 800, which is the cheapest car available in the Indian market right now with a price tag of about \$4400 (Rs. 2 lakh). Although, there are reports that Maruti may

bring down the price of Maruti 800 by 25% to reduce the gap. Even after this move, there will be a price-gap between the new small car by Tata and Maruti 800. But the strategy assumes that people would be willing to pay the premium for a well-tested model like Maruti 800. Apart from this challenge for Maruti, Japanese car-manufacturers Toyota and Honda are also talking of making small cars in India, although their plans may take little time.

To boost its presence in the mid-size sedan segment, Maruti is reportedly gearing up to bring a new model early next year to replace the Baleno, which has hardly made any impact in the segment. In the mid sized car segment Maruti is also facing tough competition from other leading global automobile manufacturers such as, Ford, Fiat and General Motors. In this context the investment in diesel engine technology would go a long way for Maruti's Swift model to compete with other diesel cars in the market, especially now that Tata Motors has tied up with Fiat for the same diesel technology. However, diesel Swift may partly cannibalize sales of the petrol Swift.

Despite the competition heating up drastically, Maruti has outlined its strategy to maintain its market share at about 50%. Annual sales of passenger vehicles in India is estimated to double to 2 million by 2010, out of which Maruti wants to keep half the slice.

Flourishing financials

Maruti had registered 63% rise in profits to \$81 million (Rs. 369.57 crore) from \$49.6 million (Rs. 226.46 crore) for the quarter ended June 2006, while Sales during the quarter moved up 19% to \$685 million (Rs. 3125.47 crore) compared with the April-June 2005. Operating margins improved to 12% in the first quarter registering a rise of 317.74 basis points against the corresponding quarter last year. Net margin also moved up from 8% to 11% during the quarter.

The stock price of Maruti is currently hovering around it's highest-ever levels. It touched the highest level of \$21.7 (Rs. 991) on October 03, 2006, which is 71% higher than the closing level of \$12.7 (Rs. 578) on October 03, 2005.