

Mahindra & Mahindra

CMP: Rs 731
Hold
**Target Price: Rs 845
(12 Months)**
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Stock Info

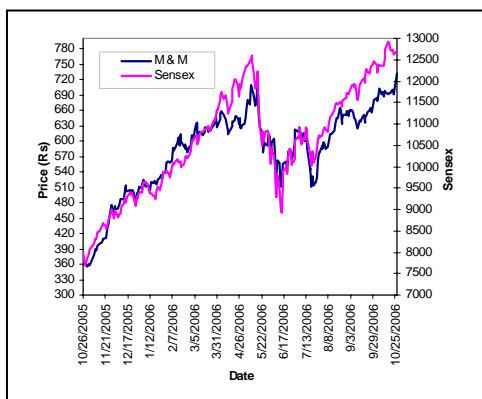
Market Cap (Rs cr)	17,062
Market Cap (US\$ mn)	3,758
52 WK High / Low	748/351
Avg Daily Volume	264064
Face Value (Rs)	10

BSE Sensex	12,698
Nifty	3,739

BSE Code	500520
NSE Code	M&M
Reuters Code	MAHM.BO
Bloomberg Code	MM@IN

Shareholding Pattern (%)

Promoters	22.8
MF/Banks/Indian FIs	21.5
FII/ NRIs/ OCBs	41.9
Indian Public	13.8

Share Price Vs Sensex

Q2FY2007 Result Update
Performance Highlights

- M&M posted a 30.1% jump in topline to Rs 2,490.5cr (Rs 1,914.8cr) backed by a strong volume growth of 20.2%. The improvement in volumes was aided especially by the strong sales volume recorded by M&M's Farm Equipment Division. Net realizations for Q2FY2007 raised by 7.2% YoY and 5.5% QoQ.
- Tractor Division reported an increase of 39.9% to 21,801 units in Q2FY2007. M&M retained its market leader position in the Tractor segment with a 28.7% market share in Q2FY2007. M&M also retained its market share in the utility vehicles (UV) at 45.7% with 10.7% growth in the segment.
- OPM expanded by 340bps to 14.8% resulting in a 69.4% jump in its operating profits to Rs 369.6cr (Rs 265.4cr). Margin improvement is attributable to higher contribution from the high margin Tractors business continued focus by the company on operating and financing costs.
- M&M's Farm Equipment Division clocked Net Sales of Rs 883.3cr, a YoY growth of 45% driven by a 28.7% growth in Tractor sales and better growth in price realization. PBIT Margins of the Farm Equipment Division moved up by 300bps YoY to 14.2%, highest in the last nine quarters.
- M&M's Automotive Division reported 21.7% YoY growth in Q2FY2007 largely due to the 10.5% sales growth registered by the UV Division and 69% growth in 3-wheeler segment. The Sales growth was mainly due to the growth in demand for Hard Top Vehicles. The Scorpio continued its strong performance in the market with a 20% improvement in volumes over Q2 last year.
- In the 4MT LCV segment, the sales of Mahindra vehicles increased by 5.7% to 1,991. Three-wheeler sales in Q2FY2007 were strong growing 69% YoY in the quarter on the back of the newly launched small 3W 'Alfa'.

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2005	FY2006	FY2007E	FY2008E
Net Sales	6,530.7	7,988.8	9,816.4	11,385.0
% chg	27.0	22.3	22.9	16.0
Net Profits*	499.0	647.1	966.2	1,069.0
% chg	11.3	29.7	49.3	10.6
OPM (%)	11.8	12.1	13.4	13.0
EPS (Rs)	44.7	27.7	39.4	43.6
P/E (x)	16.4	26.4	18.6	16.8
RoE (%)	25.3	22.3	27.0	24.7
RoCE (%)	19.3	19.5	24.0	23.2
EV/Sales (x)	2.6	2.2	1.8	1.6
EV/EBITDA (x)	22.3	17.8	13.8	12.2

*Source: Company, Angel Research; *Net Profit after extraordinary items*
Large Cap – Automobile

- The Company's vehicle export saw a strong growth of 51.5% with the Company exporting 2,761 vehicles in Q2 F2007 as compared to 1,822 vehicles exported in Q2 last year. This is the highest ever quarterly vehicle export volume for the Company.

Consolidated Performance

Consolidated results, too were strong for M&M in Q2FY2007. The Gross Revenues and Other Income for Q2FY2007 of the Mahindra Group was at Rs. 4617.6cr, grew by 45.7% over Rs. 3170.1cr for the second quarter last year. The profit before exceptional items and tax for the Q2FY2007 is at Rs. 617.2cr, compared to Rs. 329.3cr in Q2FY2006 – a growth of 87.4%.

Outlook and Valuation

M&M reported Q2FY2007 Net Profit after extraordinary items at Rs 270.5cr, a 70.5% YoY growth and is much ahead of our estimate of Rs 192.6cr. The company reported extraordinary income on account of profit from sale of shares in Tech Mahindra and an octroi refund. Reported Net Profit for the quarter was higher at Rs 386.5cr. We upgrade our adjusted estimated EPS for M&M for FY2007 to Rs 39.4 and for FY2008 to Rs 43.9. **We recommend Hold on the stock with a revised target price of Rs 845. Our SOTP target price is made up of Rs 564 per share for the core business and Rs 289 per share for embedded value in subsidiaries.**

Exhibit 2: SOTP Valuation

Key Subsidiary	No. of Shares Held (Cr)	CMP / BV (Rs.)	Value (Rs. Cr)
Mahindra Financial Services	5.8	242.0	1,409.4
Mahindra GESCO	1.3	806.3	1,013.1
Tech Mahindra	5.8	899.7	5,182.0
Other major subsidiaries at BV (FY06)			590.3
Total value			8,194.9
No of share o/s of M&M (Cr)			24.1
Per share value of M&M (at 15% discount)			289.1
Intrinsic value of M&M			564.0
M&M' price with investments in subsidiaries			853.1

Source: Company, Angel Research

M&M has substantial investments on its Books including some of its key subsidiaries performing better than the parent company. We expect the higher growth potential of its subsidiaries to unlock the actual valuation of the stock.

Exhibit 3: Q2FY2007 Financial Performance

Y/E Mar (Rs Cr)	Q2FY2007	Q2FY2006	% chg	1HFY2007	1HFY2006	% chg
Net Sales	2,490.5	1,914.8	30.1	4,726.8	3,726.7	26.8
Other Income	72.9	29.4	147.7	118.4	49.8	137.7
Total Income	2,563.4	1,944.3	31.8	4,845.1	3,776.5	28.3
EBITDA	369.6	218.2	69.4	639.8	411.1	55.6
OPM (%)	14.8	11.4	30.2	13.5	11.0	22.7
Interest	(15.5)	(4.8)	221.5	(30.2)	(10.2)	195.7
Depreciation	50.1	46.6	7.6	96.4	93.2	3.4
EOI	116.0	(1.5)		114.5	(3.0)	
Profit Before tax after EOI	407.9	205.9	98.2	691.9	377.8	83.1
Tax	137.4	47.2	191.4	215.8	72.4	198.0
Profit After tax	270.5	158.7	70.5	476.2	305.4	55.9
EPS	11.4	7.1	60.9	20.1	13.7	47.2

Source: Company, Angel Research

Exhibit 4: Q2FY2007 Segmental Performance

Y/E March (Rs Cr)	Q2FY2007	Q2FY2006	% chg	FY2006	FY2005	% chg
Total Net Sales	2,490.5	1,915.0	30.1	8,223.0	6,661.0	23.5
Auto Segment	1,556.5	1,279.3	21.7	5,240.3	4,568.2	14.7
Farm Segment	883.3	608.8	45.1	2,854.0	2,030.0	40.6
Other Segments	115.1	74.5	54.5	307.1	199.3	54.1
Total PBIT	523.9	204.4	156.4	1,099.5	714.2	54.0
Auto Segment	231.8	130.8	77.2	581.2	466.3	24.6
Farm Segment	125.5	71.6	75.2	315.8	188.2	67.8
Other Segments	3.9	2.9	32.9	12.5	8.2	51.7
PBIT/ Sales (%)	21.0	10.7		13.4	10.7	
Auto Segment	14.9	10.2		11.1	10.2	
Farm Segment	14.2	11.8		11.1	9.3	
Other Segments	3.4	3.9		4.1	4.1	

Source: Company, Angel Research



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