

INITIATING COVERAGE

Share Data

Market Cap	Rs. 180.27 bn
Price	Rs. 734.7
BSE Sensex	14501
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.21 mn
52-Week High/Low	Rs. 1,002/495.10
Shares Outstanding	245.37 mn

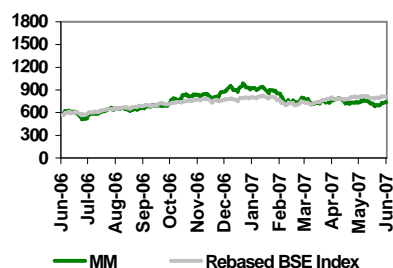
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	74.3	91.5
+/- (%)	10.8%	23.2%
PER (x)	9.8x	8.0x
EV/ Sales (x)	1.1x	1.0x
EV/ EBITDA (x)	7.0x	5.7x

Shareholding Pattern (%)

Promoters	23
FII's	32
Institutions	21
Public & Others	24

Relative Performance



Mahindra and Mahindra Ltd

Buy

Value creation through new products

Mahindra & Mahindra Limited (M&M), the flagship of the Mahindra group (India), is a leading tractor and farm equipment manufacturer in India. M&M's foray into exports and tie up with Renault to make the Logan car in India will hold the company in good stead in future. The company is also considering developing the Rs. 1.5 lakh car in the Indian market through Mahindra Renault, to penetrate the entry level segment. Moreover, the company is expected to benefit from the government's continued focus on the agriculture sector, new product launch and diversified business through subsidiaries.

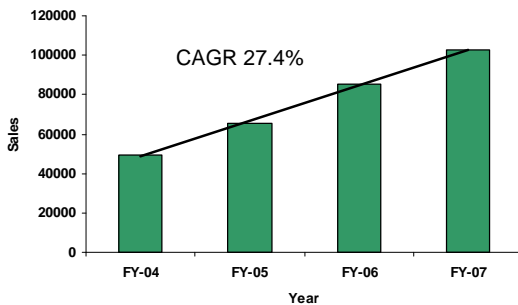
Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Volume (nos.)	210,404	234,444	277,180	303,525	326,009	8.5%
Net Sales	76,367	98,073	176,175	195,350	212,456	9.8%
EBITDA	13,037	19,539	29,988	31,756	38,863	13.8%
Net Profit	6,374	10,160	15,851	17,567	21,648	16.9%
Margins(%)						
EBITDA	13.7%	15.6%	16.7%	16.0%	18.0%	
NPM	6.7%	8.1%	8.8%	8.8%	10.0%	
Per Share Data (Rs.)						
Normalized EPS	28.6	45.1	67.0	74.3	91.5	16.9%
PER (x)	25.4x	16.1x	10.9x	9.8x	8.0x	

- We expect M&M's revenues to grow from Rs. 176.2 bn in FY07 to Rs. 212.5 bn in FY09E with a CAGR of 9.8%, driven by a robust growth in tractor segment and in exports.
- We expect the EBITDA margins to improve from 16.7% to 18% and net profit margins from 8.8% to 10% over the next two years.
- At the current price of Rs. 734.70, the stock trades at a forward PE of 9.8x FY08 earnings and at 8x FY09 earnings. We have valued the company's standalone business at Rs. 453 and its subsidiaries at Rs. 456 (after factoring a holding discount of 20%). We initiate coverage with a buy rating on M&M, with a price target of Rs. 909.

Investment Rationale

Sales Performance of M&M



Favourable government policies would intensify demand of tractors

Sales of tractors in India have grown at a CAGR of 43% from FY-04 to FY-07, registering sales of over 3,00,000 units in FY07 alone. Sales of M&M, the largest tractor manufacturing company in India is in line with the industry growth. It has crossed 1,00,000 units in 2007, doubling over three years. The government's increased focus on agriculture and pro-rural sector policies such as strong rural credit support will further intensify demand for tractors over the coming years. M&M, with its leadership status in the industry, presence across various price-segments, and wide distribution network, is well placed to meet this increase in demand and expand its customer base.

Low tractor penetration would provide opportunity to tap market share

The penetration rate of tractors in India is 10 tractors per 1,000 hectares of cropped area, whereas the world average is 22 tractors per 1,000 hectares of cropped area. With the firming up of the prices of the agricultural products in India and the resulting rise in disposable incomes of the farming community, we expect the tractor penetration rate in India to improve in the future which will provide significant opportunities to companies like M&M.

New product launch would expand market share

In a joint venture with Renault, M&M recently launched 'Logan', a mid-sized sedan, in India. Logan has received a good initial response with sales of 2,000 units in the first month of launch. This initiative shows that, the company is looking to expand its footprint in the Indian automotive industry. Renault is looking to launch a Rs. 1.5 lakh (\$3,000) small car for emerging markets such as India, to be marketed by Mahindra Renault. The success of this car would help the company to tap its presence in entry level.

Launch of 'Ingenio' would help company in maintaining its market share

The company is well positioned in the utility vehicle (UV) segment with its Bolero and Scorpio models. It is likely to launch the 'Ingenio' in mid-2008. The new product is expected to help the company maintain its market share in the face of increasing competition and new launches from other companies in this segment.

M&M likely to expand its footprint by launch of Rs. 1.5 lakh car

Company well positioned to expand in commercial vehicles

M&M also entered into a JV with 'International Truck Private Limited', for marketing commercial vehicles such as trucks and buses manufactured by M&M. This is expected to enhance the company's presence in the commercial vehicle segment.

*Presence in lucrative overseas markets through JVs will boost exports**Overseas joint ventures to boost exports*

The company has been looking to enter into joint ventures overseas to market its products and establish its presence in the more lucrative and larger markets. It formed Mahindra USA in USA, Mahindra Australia in Australia and Mahindra China Tractor Company Limited in China, among others. The company is also exploring various global tractor markets in Africa, East Europe and Middle East. Moving forward, these ventures are likely to give the company's exports a major fillip.

*Subsidiaries has added to M&Ms valuation**Diversified business through subsidiaries would add value to M&M*

The Mahindra group has 56 subsidiaries and 8 associate companies. It has diversified its business across various segments through subsidiaries such as Tech Mahindra in IT, Mahindra Gesco in infrastructure development, and Mahindra & Mahindra Financial Services in financial services. The performance of these subsidiaries was impressive especially Tech Mahindra and Mahindra Gesco. M&M derives a substantial chunk of its value from its subsidiaries. We expect that subsidiaries would continue to add value in M&M. After factoring in a 20% holding company discount, we have arrived at a price of Rs. 456 for subsidiaries.

*Increased demand from the defence sector bodes well for the company's prospects**Increasing presence in the defence sector*

M&M is a leading supplier of vehicles to the Indian defence sector. It provides soft-top as well as all-terrain vehicles to the army and the para-military forces. With the opening of the hitherto restricted segments to the auto-industry, M&M has also started supplying armoured vehicles and bullet proof-cars to the defence sector and the government. Though this segment contributes very little to the company's revenues, significant growth is likely to be seen.

Key Risks

Political and natural uncertainty

With M&M's strong focus on globalisation, any form of tariff/non-tariff barriers imposed by any country where M&M has a significant presence or plans to grow can slow down the growth of company.

Agricultural activity, a key driver of tractor sales in India is largely rain fed as only 40% of net sown area is under irrigation. Hence, tractor sales have a strong correlation with monsoons. Inadequate rainfall can affect company's top line adversely.

Inadequate rainfall can affect M&M's top line adversely

Exchange rate risk could adversely affect company's competitive position

Mahindra & Mahindra has entered in overseas market such as China and US through joint ventures. Rupee appreciation against dollar will increase the prices of products in US. As the company is looking at more opportunities overseas, any further appreciation in the rupee would reduce its realization from exports in rupee terms.

Strengthening rupee to reduce realizations from exports

Rising interest rates could cut profit margins

About 95% farmers in India buy tractors against loans. The interest rates have been on an upward spiral in the recent past. The interest rates for financing tractors have increased from 12% to 18%. A further increase in interest rates or a prolonged sustenance of high interest-rates could adversely impact the demand for tractors and the ability of farmers to repay loans.

Rise in interest rates for financing tractors from 12% to 18% could impact demand

Outlook

The Indian automotive and tractor industry has grown significantly during last few years. The government's emphasis on development of rural economy and supporting agriculture sector provides excellent long term opportunities for companies in the tractors and farm equipment manufacturing business. We believe that M&M has a well diversified product mix and is well positioned to reap significant benefits from these developments.

We expect net sales to grow from Rs. 176.2 bn in FY07 to Rs. 212.45 bn in FY09E with a CAGR of 9.8%, driven by a robust growth in tractor segment and in exports. At the current price of Rs. 734.70, the stock trades at a forward PE of 9.8x FY08 earnings and at 8x FY09 earnings. We have valued the company's standalone business at Rs. 453 and its subsidiaries at Rs. 456 (after factoring a holding discount of 20%). We initiate this coverage with a buy rating on M&M with a price target of Rs. 909.

Company Background

Leading manufacturer of multi-utility vehicles and tractors

The Mahindra Group (India) is a US \$4.5 bn conglomerate and is a leader in the Indian automotive sector. Mahindra & Mahindra Limited (M&M) is the flagship company of the group was incorporated in 1945 and was made public limited company in 1955, at Mumbai. It is a leading manufacturer of multi-utility vehicles and tractors with significant presence in key sectors like infrastructure, information technology and financial services. Primarily, M&M has two main operating divisions: automotive and farm equipment.

- The automotive division manufactures utility vehicles, light commercial vehicles and three wheelers. The company has a joint venture with Renault for the manufacture of a mid-sized sedan, the Logan, and with International Truck and Engine, US, for manufacture of trucks and buses in India.
- The farm equipment division manufactures agricultural tractors and equipments. With 30% market share, the Bhoomiputra, Sarpanch and Arjun brand of tractors establish the company's presence in all the major segments in India.

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