

Mahindra Holidays more valuable

Listing to provide upside trigger

We are raising PO to Rs 950 (earlier Rs 924), solely driven by our revised value of Mahindra Holiday Resorts (MHRL) at \$811mn (from \$484mn), on DCF basis. Despite M&M's stake post-IPO being diluted to 84%, this translates to imputed value of Rs110/share (from Rs78/share). Our PO factors a 20% discount on all of M&M's subsidiaries, including Mahindra Holidays & Resorts.

Strong performance this fiscal

MHRL has achieved 73% growth in sales to Rs838mn and 180% in net profit to Rs177mn in Q1FY08. The run rate is much higher than our expectations of FY08E, mainly due to 44% increase in membership additions, higher annual subscription fees, and other income.

Key alterations to assumptions

We have raised estimates through the following variables (1) membership additions at 20K this fiscal (10% above earlier), and 25% increase in FY09 (earlier 20%), (2) higher capex to factor member additions, and (3) interest income on instalment sales (earlier assumed as cost, and part of membership fee).

Holiday Resorts IPO to provide upside

The DHRL has been filed with SEBI, and the listing is planned for Feb 2008. We believe that the run up to the listing will provide the necessary impetus to M&M stock. Reiterate Buy on M&M for potential 14% upside.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	10,689	15,688	16,970	20,365	23,123
EPS	45.80	63.46	68.60	82.38	93.54
EPS Change (YoY)	57.9%	38.6%	8.1%	20.1%	13.5%
Dividend / Share	10.00	11.50	12.00	13.00	14.00
Free Cash Flow / Share	(61.42)	(136.62)	(77.08)	(48.46)	(9.69)
GDR EPS (US\$)	1.04	1.40	1.74	2.09	2.37
GDR Dividend / Share (US\$)	0.226	0.254	0.304	0.330	0.355

Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	18.20x	13.13x	12.15x	10.12x	8.91x
Dividend Yield	1.20%	1.38%	1.44%	1.56%	1.68%
EV / EBITDA*	14.19x	9.91x	7.81x	6.24x	5.30x
Free Cash Flow Yield*	-6.96%	-16.39%	-9.25%	-5.81%	-1.16%

* For full definitions of *iQmethod*SM measures, see page 4.

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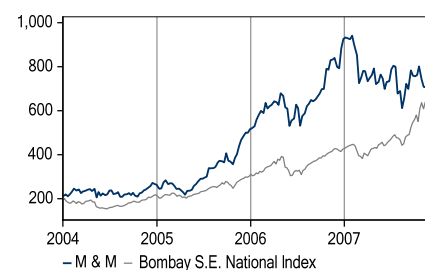
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Stock Data

Price (Common / GDR)	Rs833.55 / US\$20.88
Price Objective	Rs924.00 to Rs950.00 / US\$24.50
Date Established	27-Dec-2007 / 24-Oct-2007
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs608.00-Rs1,002
Market Value (mn)	US\$5,226
Shares Outstanding (mn)	247.2 / 247.2
Average Daily Volume	151,903
ML Symbol / Exchange	MAHF / BSE
ML Symbol / Exchange	MAHMF / LIN
Bloomberg / Reuters	MM IN / MAHM.BO
ROE (2008E)	28.6%
Net Dbt to Eqty (Mar-2007A)	89.0%
Est. 5-Yr EPS / DPS Growth	15.0% / 10.0%
Free Float	73.0%



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Refer to important disclosures on page 5 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

iQprofileSM Mahindra & Mahindra

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010E
(Rs Millions)					
Sales	125,036	176,253	231,278	277,206	321,765
Gross Profit	41,920	62,517	69,383	83,162	96,529
Sell General & Admin Expense	(22,906)	(35,382)	(35,021)	(40,116)	(45,754)
Operating Profit	16,227	23,501	28,248	35,575	42,227
Net Interest & Other Income	(745)	(123)	108	(55)	(692)
Associates	47	164	250	280	280
Pretax Income	15,482	23,378	28,356	35,519	41,535
Tax (expense) / Benefit	(3,450)	(6,279)	(6,079)	(7,290)	(9,497)
Net Income (Adjusted)	10,689	15,688	16,970	20,365	23,123
Average Fully Diluted Shares Outstanding	233	247	247	247	247

Key Cash Flow Statement Data

Net Income (Reported)	10,689	15,688	16,958	20,365	23,123
Depreciation & Amortization	2,833	3,799	6,364	7,751	8,828
Change in Working Capital	(19,229)	(15,121)	(22,402)	(18,528)	(18,415)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	2,099	(814)	(249)	(236)	649
Cash Flow from Operations	(3,608)	3,552	671	9,352	14,185
Capital Expenditure	(10,728)	(37,322)	(19,725)	(21,330)	(16,580)
(Acquisition) / Disposal of Investments	(5,850)	1,770	(13,500)	2,000	2,000
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(16,578)	(35,552)	(33,225)	(19,330)	(14,580)
Shares Issue / (Repurchase)	2,878	1,572	8,215	0	0
Cost of Dividends Paid	(2,782)	(3,247)	(2,966)	(3,214)	(3,461)
Cash Flow from Financing	21,934	40,579	22,073	17,451	18,254
Free Cash Flow	(14,335)	(33,770)	(19,054)	(11,978)	(2,395)
Net Debt	40,842	57,839	79,326	84,153	78,594
Change in Net Debt	13,020	16,997	21,487	4,827	(5,559)

Key Balance Sheet Data

Property, Plant & Equipment	26,055	47,867	61,228	74,807	82,559
Other Non-Current Assets	11,803	10,180	23,533	21,533	19,533
Trade Receivables	18,516	27,026	31,682	37,973	44,077
Cash & Equivalents	11,872	20,451	9,970	17,443	35,302
Other Current Assets	66,932	92,919	114,597	136,517	158,232
Total Assets	135,178	198,444	241,010	288,274	339,703
Long-Term Debt	52,713	78,290	89,296	101,596	113,896
Other Non-Current Liabilities	3,378	3,195	3,548	4,048	4,548
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	33,591	51,992	55,924	65,608	75,011
Total Liabilities	89,682	133,478	148,768	171,252	193,456
Total Equity	45,497	64,966	92,242	117,022	146,247
Total Equity & Liabilities	135,178	198,444	241,010	288,274	339,703

iQmethodSM - Bus Performance*

Return On Capital Employed	16.8%	16.2%	15.4%	15.7%	14.9%
Return On Equity	35.2%	36.8%	28.6%	25.8%	23.7%
Operating Margin	13.0%	13.3%	12.2%	12.8%	13.1%
EBITDA Margin	15.2%	15.5%	15.0%	15.6%	15.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	-0.3x	0.2x	0x	0.5x	0.6x
Asset Replacement Ratio	3.8x	9.8x	3.1x	2.8x	1.9x
Tax Rate (Reported)	22.3%	26.9%	21.4%	20.5%	22.9%
Net Debt-to-Equity Ratio	89.8%	89.0%	86.0%	71.9%	53.7%
Interest Cover	5.7x	5.7x	6.7x	7.5x	7.8x

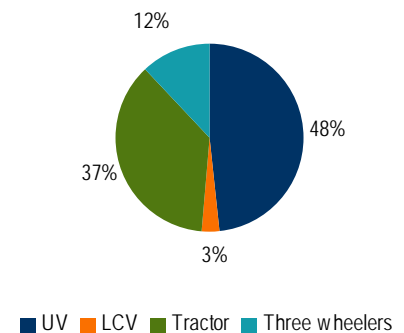
Key Metrics

* For full definitions of iQmethodSM measures, see page 4.

Company Description

Mahindra & Mahindra (M&M) is the flagship company of the Mahindra Group. It has two main operating divisions, autos and farm equipment. Autos includes Utility vehicles, light commercial vehicles and three-wheelers, and farm equipment includes tractors and agricultural implements. The company also has investments in standalone entities operating in the areas of hospitality, trade & financial services, auto components, IT, telecom and infrastructure development

Chart 1: Volume mix – FY07



Source: Merrill Lynch research

Stock Data

Shares / GDR	1.00
Price to Book Value	2.9x

Price objective basis & risk

M & M (MAHMF)

Our PO is based on sum of parts valuation on FY09E, for the core business segments, as well as key operating subsidiaries. We have imputed 12.5x PE multiple on tractors, as well as autos. Based on this, our PO is Rs 950.

Table 1: Sum-of-parts valuation

	Basis (FY09E)	Imputed Multiple (x)	Value/share
Core			485
Autos	P/E	12.5	294
Tractors	P/E	12.5	190
Subsidiaries			466
Tech Mahindra	Market Price		303
M&M Financial Services	Price to Adj BV	1.5	48
Mahindra GESCO	Market Price		48
Punjab Tractors	P/E	12.5	32
Mahindra Holidays	DCF	84%	110
Mahindra Renault	EV/Sales	1.0	18
Mahindra Systec	EV/Sales	1.0	33
Less: dividend from Subsidiaries			(8)
Less: Holding company discount		20%	(118)
Consolidated Value/Share (Rs)			950

Source: Merrill Lynch Research estimates

Risks are higher input costs, rising competition and exchange fluctuations.

Analyst Certification

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

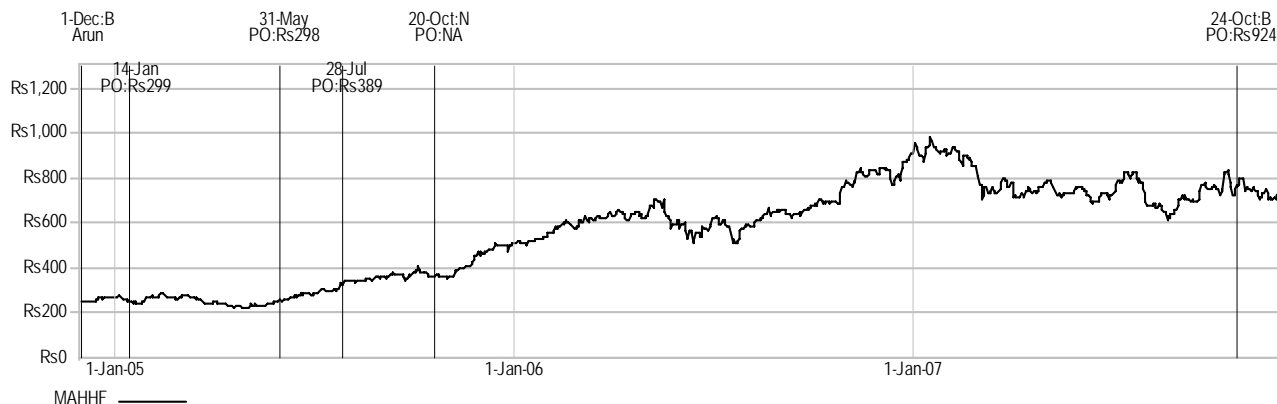
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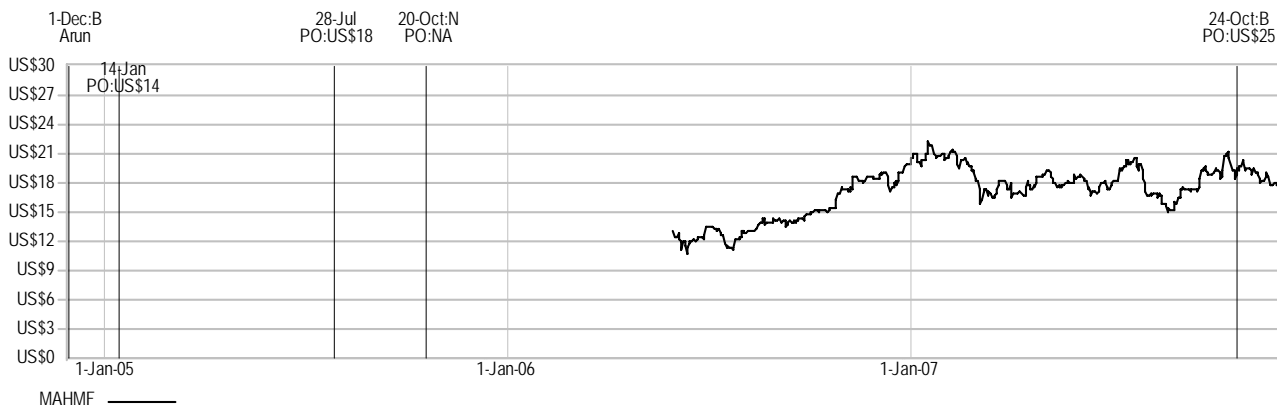
MAHMF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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MAHMF Price Chart



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Investment Rating Distribution: Autos Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	45	44.55%	Buy	7	18.92%
Neutral	43	42.57%	Neutral	6	17.14%
Sell	13	12.87%	Sell	1	8.33%

Investment Rating Distribution: Global Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1701	47.03%	Buy	437	29.15%
Neutral	1611	44.54%	Neutral	425	29.11%
Sell	305	8.43%	Sell	58	21.09%

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