

Mahindra & Mahindra

Core performance is back in focus

We raise our FY07-09F EPS by 8-11% on better-than-expected sales realisation and margins. The recent excitement over M&M's subsidiary value has cooled, and we expect the market to focus on its core valuation. Buy, with a Rs877.50 target price.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	66407.7	81904.6	99781.1	114267	131989
EBITDA (Rsm)	7705.9	9466.3	12174.3▲	13688.2	15660.6▲
Reported net profit (Rsm)	5126.7	8571.1	10501.5▲	9678.1▲	10717.2▲
Normalised net profit (Rsm) ¹	4991.2	6292.0	8768.5	9678.1	10717.2
Normalised EPS (Rs)	21.5	27.0	37.0▲	40.3▲	43.7▲
Dividend per share (Rs)	9.00	13.0	10.0	12.5▲	14.0▲
Dividend yield (%)	1.14	1.64	1.26	1.58	1.77
Normalised PE (x)	36.8	29.3	21.4▼	19.7▼	18.1▼
EV/EBITDA (x)	24.3	19.2	14.8	13.2	10.8
Price/book value (x)	9.13	6.36	4.96	4.31	3.34
ROIC (%)	15.2	19.6	24.7	20.5	19.9

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Volume outlook improves marginally

Mahindra & Mahindra's (M&M) FY07 volume growth was in line with our expectation, but the 25% growth in pick-up vehicles and 20% growth in Scorpio was a positive surprised to us. On the back of the improved product mix, we raise our volume forecasts by 2% to 302,600 vehicles for FY08 and by 7.6% to 343,300 for FY09. We see potential for further upgrades, as competition from Tata Motors' new UV platform has been delayed to FY10.

EPS forecasts raised on impressive 41% normalised PAT growth ytd

For 9MFY07, M&M's standalone normalised PAT increased 41% to Rs.6.6bn on just 10.7% volume growth. The strong realisation-led momentum has surprised us, even though its EBITDA margin has been volatile. We raise our FY07F EPS by 8.3% to Rs37, reflecting the better-than-expected realisation growth on improved product mix, our new EBITDA margins and other income assumptions. We expect EBITDA margins to come under pressure again in FY08 and FY09, as higher auto-loan interest rates push up promotion expenses. We upgrade our EPS forecast by 7.7% to Rs.40.3 for FY08 and by 11.3% to Rs43.7 for FY09, as we expect 'other income' from surplus funds to keep supporting the bottom line.

Buy (from Hold) with target price of Rs877.50 (from Rs747.30)

Investor optimism towards the IT and real-estate sectors caused a rally in Tech Mahindra and Mahindra Gesco shares (both subsidiaries of M&M). This pushed M&M shares to a record high. We value M&M on a SOTP basis with holding company discounts ranging from 15-20%. Our subsidiary value rises to Rs394 from Rs261. Our target price for M&M rises to Rs877.50, reflecting our EPS upgrade and the higher subsidiary value. At our target, the stock would trade at 12x our FY08F stand-alone EPS of Rs40.30, representing a discount to peers Maruti and Tata Motors. Our target price implies just over 12% upside. Hence, we upgrade our rating to Buy, from Hold.

Priced at close of business 3 May 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E), Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Buy (from Hold)

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Automobiles & Components

India

Price

Rs792.25

Target price

Rs877.50 (from Rs747.30)

Market capitalisation

Rs184.91bn (US\$4.50bn)

Avg (12mth) daily turnover

Rs161.44m (US\$3.60m)

Reuters

MAHM.BO

Bloomberg

MM IN

Asset allocation

Equities Underweight

Cash Overweight

Bonds Overweight

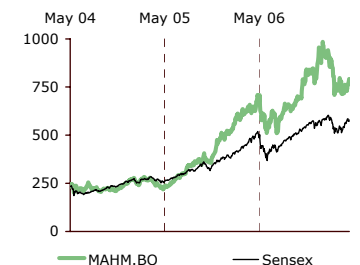
Price performance (1M) (3M) (12M)

Price (Rs) 727.8 912.8 644.3

Absolute % 8.9 -13.2 23.0

Rel market % -2.4 -11.2 7.5

Rel sector % -0.7 -22.9 6.9



Stock borrowing: **Moderate**

Volatility (30-day): 38.94%

Volatility (6-month trend): ↑

52-week range: 1002.00-488.00

Sensex: 14078.21

BBG AP Eng & Mach: 183.10

Source: ABN AMRO, Bloomberg

Researched by

**ABN AMRO Institutional
Equities Team**

www.abnamrobroking.co.in

Core performance is back in focus

We raise our earnings estimates for M&M on the better-than-expected auto performance. We expect aggressive acquisitions and tie-ups to generate synergies in the medium to long term. Buy, with a Rs877.50 target price.

Volumes exceeded expectations

M&M's FY07 volumes beat our estimates marginally, growing 19.5% to 272,106 vehicles (excluding LCVs) vs our estimate of 271,884. The main surprise came from the pick-up vehicle segment, where volumes rose 25.2% (vs our expectation of flat growth) thanks to good customer response to the company's recently launched low-priced pick-up vehicle, *Maxx Pik Up Flat Bed*. The *Scorpio's* volume growth of 20% to 38,015 vehicles was also better than we expected.

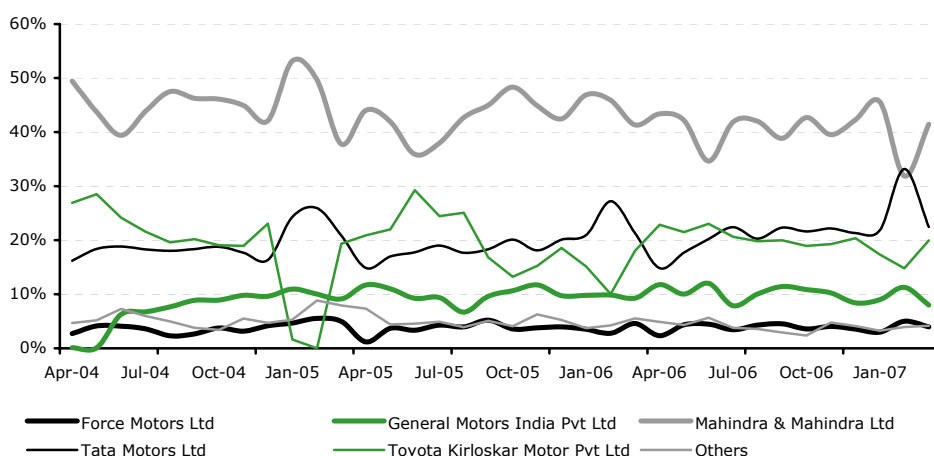
Overall, M&M's market share in the domestic UV segment fell 2.45ppt to 40.8%, as other UVs (excluding *Scorpio*) recorded flattish growth. In the three-wheelers segment, the company gained 2.11ppt market share to 8.3% on the back of the *Alfa* ramp up.

Table 1 : FY07 sales volume summary

Sub-segments	FY06	FY07	Growth (%)
Scorpio	31,700	38,015	19.9%
Other hardtops	40,827	42,389	3.8%
Pick-ups	30,678	38,401	25.2%
Soft tops	11,489	9,051	-21.2%
LCV's	6,777	-	
Total domestic UVs & LCVs	121,471	127,856	11.5%
Export UVs	5,534	8,021	44.9%
3-wheelers	22,419	33,700	50.3%
Tractors domestic	78,048	95,004	21.7%
Tractors exports	6,981	7,525	7.8%
Total tractors	85,029	102,529	20.6%
Total sales volume	234,453	272,106	16.1%

Source : Company data

Chart 1 : Monthly domestic UV market share trend

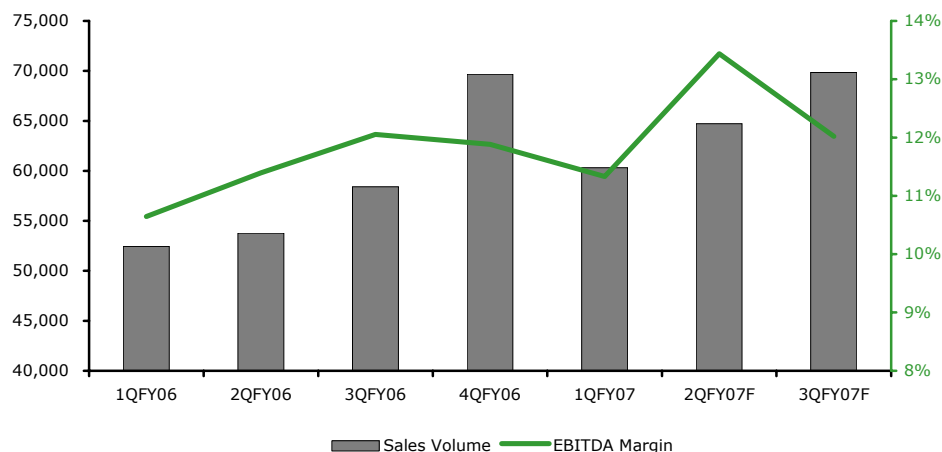


Source: SIAM, ABN AMRO

Quarterly profitability growth exceeded expectations

M&M's quarterly financial performance is volatile due to a large inventory variation required to meet the strong festive demand. The normalised PAT growth of 41% to Rs6.6bn for 9MFY07 exceeded our expectations. EBITDA growth of 90bp to 12.3% was also ahead of our estimate of 20bp growth for FY07. A large part of the gain was due to savings in raw material costs. Other positive surprises came from lower-than-expected depreciation charges and higher-than-expected other income from surplus funds.

Chart 2 : EBITDA margin trend



Source: Company data, ABN AMRO forecasts

Acquisitions/tie-ups should ensure medium- to long-term benefits

M&M's recent acquisition of a 43% stake in Punjab Tractors (PTL) at a valuation of Rs360 per share (much higher than the market price) surprised us. The acquisition has strengthened its domestic tractor market share by 10%, taking the total to 40%, which is 17% higher than its nearest rival, TAFE (source: TMA, Tractor Manufacturers' Association).

M&M plans to establish a strong presence in the small-car category. Towards this end, it has entered into a JV with Renault and another with Nissan and Renault. The M&M-Renault JV plans to set up a 400,000-unit car production unit in Chennai, leveraging Renault's global compact-car portfolio. We think this should prove a good strategy for M&M in the long term to make a mark in the high-growth compact car segment.

We believe M&M's various global acquisitions of auto components businesses will take time to generate synergies, given its lack of experience in the segment. We feel the earliest gains will come only from FY10, considering the experience of Bharat Forge and Amtek Auto, which have similarly acquired global auto-components businesses and which are taking time to integrate.

Equity dilution for the PTL acquisition was a negative surprise

We were surprised by M&M's move to raise US\$300m through QIP/FCCB to fund the PTL acquisition, as it had an unutilised FCCB (foreign currency convertible bonds) amount of US\$200m in its balance sheet as at 31 December 2006. Management has clarified that the FCCB money can't be utilised for domestic acquisitions and that the additional fund raising was required to finalise the deal quickly. At the current price, we estimate an equity dilution of 15.5m shares for the US\$300m fund raising – ie, a 6.2% dilution to the fully-diluted equity of 250m shares after the FCCB conversion.

EPS forecasts raised by 8% for FY07F and FY08F

We raise our FY07F standalone EPS by 8.3% to Rs37 on improved sales realisation from a better product mix and sustained high EBITDA margins in 9MFY07. We also upgrade our EPS by 7.7% to Rs.40.3 for FY08F and by 11.3% to Rs43.7 for FY09F, as realisation should continue to improve with the EBITDA margin maintained at 12%.

Table 2 : Earnings revision at a glance

	FY07F		FY08F		FY09F	
	Old	New	Old	New	Old	New
Sales volume	271,884	272,106	295,950	302,600	319,050	343,400
Variation		0.1%		2.2%		7.6%
Net sales	97,840	99,781	109,596	114,267	120,214	131,989
Variation		2.0%		4.3%		9.8%
EBITDA	11,569	12,174	13,180	13,688	14,386	15,661
Variation		5.2%		3.9%		8.9%
EBITDA margin (%)	11.8%	12.2%	12.0%	12.0%	12%	11.9%
Normalised PAT	8,116	8,768	8,982	9,678	9,627	10,717
Variation		8.0%		7.8%		11.3%
EPS	34.2	37.0	37.4	40.3	39.3	43.7
Variation		8.3%		7.7%		11.3%

Source : ABN AMRO forecasts

Market focus returns to the core business - Buy

M&M's shares reached a new high of Rs985 in mid-January, on the back of a sharp increase in the share prices of its subsidiaries Tech Mahindra and Mahindra Gesco given the market's optimism towards the IT and real estate sectors. However, M&M's price has since corrected 21% as investor excitement in these sectors/stocks has eased. We now value subsidiaries at Rs394 vs Rs261.30 previously, driven by the recent re-rating of Tech Mahindra. Our subsidiary valuation ignores potential from the acquisitions of global auto-components businesses and from the JVs with Renault and Navistar, as we think the benefits will start accruing only from FY10.

The market seems to be again focusing on M&M's core auto business. We expect the PTL acquisition to strengthen its presence in the domestic tractor industry. This should be positive for share performance, in our view. Similarly, the company's aggressive pricing strategy in the pick-up segment to improve volumes has shown good results. As a result of the EPS upgrades and an increase in our subsidiary fair value, we raise our SOTP-based target price for M&M to Rs877.50. Our target price implies a stand-alone FY08F PE of 12x, a discount to its peers Maruti Udyog and Tata Motors. We believe this is fair given they have a better FY07-09 earnings CAGR of 11.5-12.5% vs M&M's 8.7%. We upgrade our rating for M&M to Buy, from Hold.

Table 3 : Valuations at glance

Rs	FY07F	FY08F	FY09F
Current stock price	778.9		
Subsidiary value	394.0		
Residual value	384.8	384.8	384.8
EPS	37.0	40.3	43.7
PE (x)	10.4	9.6	8.8

Source : ABN AMRO forecasts

Table 4 : SOTP-based target price

Standalone business value of M&M	483.3
EPS FY08F	40.3
Implied PE FY08F	12.0
Total subsidiary value per share	394.2
Target price	877.5

Subsidiary company	Tech Mahindra	Mahindra Financial Serv	Mahindra Gesco	Mah UGINE Steel	Mahindra Forgings	Mahindra Holidays	Mah SAR Trans
Value per share of M&M	272.4	50.7	37.3	5.7	10.9	16.9	0.2
Equity capital of M&M	114.9	86.0	31.0	32.5	28.0	28.4	6.1
M&M's holding	45.0%	69.9%	55.0%	50.7%	47.1%	100.0%	51.0%
No of shares held by M&M (m)	51.7	60.1	17.1	16.5	13.2	28.4	3.1
Valuation method	ABN AMRO IT team estimate (DCF)	Current market price	Current market price	Current market price	Current market price	24x FY06	12x FY06
Stock target price or CMP (Rs)	1,560	235	609.8	97.25	230	176.03	14.31
Discount to current market price	20.0%	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%

Source : Bloomberg, ABN AMRO; priced at the closing of 3 May 2007

Key assumptions and sensitivities

Table 5 : Sales volume and per unit assumptions

numbers	FY05	FY06	FY07F	FY08F	FY09F
Scorpio	26,800	31,700	38,015	43,000	47,300
<i>Growth (%)</i>	9.6%	18.3%	19.9%	13.1%	10.0%
Inginio	0	0	0	0	10,000
Other hardtops	37,239	40,827	42,389	43,300	41,500
<i>Growth (%)</i>	23.7%	9.6%	3.8%	2.2%	-4.2%
Pick-ups	31,736	30,678	38,401	43,000	47,300
<i>Growth (%)</i>	40.1%	-3.3%	25.2%	12.0%	10.0%
Soft Tops	15,363	11,489	9,051	9,000	8,500
<i>Growth (%)</i>	8.0%	-25.2%	-21.2%	-0.6%	-5.6%
LCV's	7,887.0	6,777.0	-	-	-
<i>Growth (%)</i>		-14.1%			
Total Domestic UVs	119,025	121,471	127,856	138,300	154,600
<i>Growth (%)</i>	21.5%	3.2%	11.5%	8.2%	11.8%
Export UVs	3,046	5,534	8,021	10,000	15,000
<i>Growth (%)</i>	89.5%	81.7%	44.9%	24.7%	50.0%
3-wheelers	22,943	22,419	33,700	38,600	45,800
<i>Growth (%)</i>	32.2%	-2.3%	50.3%	14.5%	18.7%
Tractors domestic	60,005	78,048	95,004	106,700	117,000
<i>Growth (%)</i>	33.9%	30.1%	21.7%	12.3%	9.7%
Tractors exports	5,385	6,981	7,525	9,000	11,000
<i>Growth (%)</i>	12.9%	29.6%	7.8%	19.6%	22.2%
Tractors total	65,390	85,029	102,529	115,700	128,000
<i>Growth (%)</i>	31.9%	30.0%	20.6%	12.8%	10.6%
Total sales volume	210,404	234,453	272,106	302,600	343,400
<i>Growth (%)</i>	26.0%	11.4%	16.1%	11.2%	13.5%
Per unit matrix					
Net sales realisation	315,650	349,592	366,700	377,616	384,358
<i>Growth (%)</i>	6.2%	10.8%	4.9%	3.0%	1.8%
Contribution	97,222	105,712	113,677	117,061	118,767
<i>Growth (%)</i>	0.7%	8.7%	7.5%	3.0%	1.5%
EBITDA	36,628	40,405	44,741	45,235	45,604
<i>EBITDA (%)</i>	11.6%	11.6%	12.2%	12.0%	11.9%
PAT	23,724	26,856	32,225	31,983	31,209
<i>Growth (%)</i>	24.1%	13.2%	20.0%	-0.7%	-2.4%

Source: Company data, ABN AMRO forecasts

DISCLAIMER APPENDIX

This document is not for public distribution and has been furnished to you solely for your information only and must not be reproduced or re-distributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of ABN AMRO Asia Equities (India) Limited (AAAEIL). It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation or needs of individual clients. We have reviewed the report and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither AAAEIL nor any person connected with it accepts any liability arising from the use of this document. The information contained in the said report should be construed as non-discretionary in nature and the recipient of this material should rely on their own investigations and take their own professional advice. Price and value of investments referred to in this material may go up or down. Past performance is not a guide for future performance. Opinions expressed are our current opinions as of the date appearing on this material only. Clients should not await such reports at regular intervals / frequency and should not hold AAAEIL responsible for failure to send such reports. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors are cautioned that any forward looking statements are not predictions and may be subject to change without notice. Our proprietary trading may make investment decisions that are inconsistent with the recommendations expressed herein. AAAEIL has two independent equity research groups : Institutional Equities (IE) and Retail Broking Services (RBS). This report has been prepared by the IE and is being distributed to RBS clients after the report has been distributed to IE clients. We and our affiliates, officer, directors and employees worldwide may (a) from time to time have long or short positions in and but or sell securities thereof, of company(ies) mentioned therein or (b) be engaged in any other transactions involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities and no part of his or her compensation was, is or will be directly related to specific recommendations and related information and opinions. No part of this material may be duplicated in any form and / or re-distributed without AAAEIL's prior written consent.

MAHINDRA & MAHINDRA: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	66407.7	81904.6	99781.1	114267	131989
Cost of sales	-45954	-57138	-68849	-78844	-91204
Operating costs	-12748	-15301	-18758	-21734	-25124
EBITDA	7705.9	9466.3	12174.3	13688.2	15660.6
DDA & Impairment (ex gw)	-1840.5	-2000.0	-2147.8	-2597.4	-3096.0
EBITA	5865.4	7466.3	10026.4	11090.8	12564.6
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	5865.4	7466.3	10026.4	11090.8	12564.6
Net interest	55.8	184.0	600.0	175.0	80.0
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	1085.0	1065.7	1900.0	2270.0	2450.0
Reported PTP	7006.2	8716.0	12526.4	13535.8	15094.6
Taxation	-2015.0	-2424.0	-3757.9	-3857.7	-4377.4
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	135.5	2279.1	1733.0	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	5126.7	8571.1	10501.5	9678.1	10717.2
Normalised Items Excl. GW	135.5	2279.1	1733.0	0.00	0.00
Normalised net profit	4991.2	6292.0	8768.5	9678.1	10717.2

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	7998.4	12319.8	20849.5	21017.7	22901.8
Other current assets	16758.1	20135.0	24077.6	27476.9	31631.4
Tangible fixed assets	14748.8	15544.5	18396.6	22299.3	25703.3
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	10383.0	11854.7	17324.2	19674.2	20675.2
Total assets	49888.4	59854.0	80647.9	90468.1	100912
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	12345.1	15032.5	17731.0	20305.0	23488.2
Long term debt (3)	10526.2	8833.8	16643.6	16643.6	7759.7
Oth non-current liab	6894.6	6898.9	7905.9	9309.0	10410.9
Total liabilities	29765.8	30765.3	42280.5	46257.6	41658.8
Total equity (incl min)	20122.6	29088.7	38367.4	44210.5	59252.9
Total liab & sh equity	49888.4	59854.0	80647.9	90468.1	100912
Net debt (2+3-1)	2527.8	-3485.9	-4205.9	-4374.2	-15142

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	7705.9	9466.3	12174.3	13688.2	15660.6
Change in working capital	-1268.5	233.9	-177.0	-45.2	-21.4
Net interest (pd) / rec	1140.8	1249.7	2500.0	2445.0	2530.0
Taxes paid	-2150.0	-2854.0	-3319.5	-3654.7	-4075.5
Other oper cash items	1328.8	-425.7	-468.0	70.0	-151.0
Cash flow from ops (1)	6757.0	7670.1	10709.7	12503.3	13942.7
Capex (2)	-2673.4	-2795.7	-5000.0	-6500.0	-6500.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-786.4	-4793.0	-15483	-4000.0	-1000.0
Cash flow from invest (3)	-3459.7	-7588.6	-20483	-10500	-7500.0
Incr / (decr) in equity	0.00	2874.2	2180.8	0.00	8883.9
Incr / (decr) in debt	3228.1	-1692.4	7809.8	0.00	-8883.9
Ordinary dividend paid	-1719.7	-2781.9	-3424.1	-3835.0	-4558.6
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	-899.3	2581.9	1753.5	0.01	-0.01
Cash flow from fin (5)	609.2	981.8	8320.0	-3835.0	-4558.6
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	3906.4	1063.3	-1453.6	-1831.7	1884.0
Equity FCF (1+2+4)	4083.6	4874.5	5709.7	6003.3	7442.7

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

MAHINDRA & MAHINDRA: PERFORMANCE AND VALUATION

Standard ratios	M&M					Maruti Udyog Ltd			Tata Motors		
Performance	FY05A	FY06A	FY07F	FY08F	FY09F	FY07F	FY08F	FY09F	FY07F	FY08F	FY09F
Sales growth (%)	33.8	23.3	21.8	14.5	15.5	21.1	17.1	16.3	27.4	14.2	11.5
EBITDA growth (%)	41.7	22.8	28.6	12.4	14.4	20.9	12.6	17.7	26.4	13.8	12.2
EBIT growth (%)	55.0	27.3	34.3	10.6	13.3	25.6	9.69	14.5	28.7	11.2	7.40
Normalised EPS growth (%)	56.4	25.7	36.9	8.79	8.56	28.2	10.6	14.4	32.2	14.6	8.34
EBITDA margin (%)	11.6	11.6	12.2	12.0	11.9	15.1	14.5	14.6	12.4	12.4	12.5
EBIT margin (%)	8.83	9.12	10.0	9.71	9.52	13.2	12.4	12.2	9.74	9.48	9.13
Net profit margin (%)	7.52	7.68	8.79	8.47	8.12	10.2	9.62	9.46	7.31	7.57	7.39
Return on avg assets (%)	11.0	11.3	11.9	11.2	11.1	15.4	13.6	13.1	11.8	11.6	11.3
Return on avg equity (%)	26.4	25.6	26.0	23.4	20.7	24.7	22.1	20.8	28.0	24.7	22.3
ROIC (%)	15.2	19.6	24.7	20.5	19.9	57.5	38.8	29.3	21.3	16.8	17.1
ROIC - WACC (%)	4.89	6.96	14.3	10.1	9.60	44.3	25.6	16.1	8.68	-1.16	-0.93
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	2.82	2.22	1.81	1.58	1.29	1.33	1.15	1.01	1.19	0.99	0.88
EV/EBITDA (x)	24.3	19.2	14.8	13.2	10.8	8.85	7.97	6.86	9.57	8.02	7.05
EV/EBITDA @ tgt price (x)	26.9	21.3	16.5	14.6	12.1	11.6	10.4	8.93	13.0	11.0	9.70
EV/EBIT (x)	32.0	24.3	18.0	16.3	13.5	10.1	9.31	8.24	12.2	10.5	9.63
EV/invested capital (x)	7.64	6.70	5.01	4.30	3.65	5.39	3.61	2.67	2.78	2.51	2.20
Price/book value (x)	9.13	6.36	4.96	4.31	3.34	3.39	2.77	2.30	3.70	3.00	2.56
Equity FCF yield (%)	2.22	2.64	3.04	3.15	3.83	2.05	-0.09	0.08	1.60	9.66	6.42
Normalised PE (x)	36.8	29.3	21.4	19.7	18.1	15.3	13.8	12.1	15.4	13.4	12.4
Norm PE @tgt price (x)	40.8	32.5	23.7	21.8	20.1	19.3	17.5	15.3	21.2	18.5	17.1
Dividend yield (%)	1.14	1.64	1.26	1.58	1.77	0.56	0.62	0.78	1.80	2.00	2.13
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data	FY05A	FY06A	FY07F	FY08F	FY09F	Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (m)	232.0	232.7	236.8	240.3	245.1	Net debt to equity (%)	12.6	-12.0	-11.0	-9.89	-25.6
Reported EPS (INR)	22.1	36.8	44.3	40.3	43.7	Net debt to tot ass (%)	5.07	-5.82	-5.22	-4.84	-15.0
Normalised EPS (INR)	21.5	27.0	37.0	40.3	43.7	Net debt to EBITDA	0.33	-0.37	-0.35	-0.32	-0.97
Dividend per share (INR)	9.00	13.0	10.0	12.5	14.0	Current ratio (x)	2.01	2.16	2.53	2.39	2.32
Equity FCF per share (INR)	17.6	20.9	24.1	25.0	30.4	Operating CF int cov (x)	-6.81	-7.42	-4.61	-5.61	-6.12
Book value per sh (INR)	86.7	124.6	159.7	184.0	237.1	Dividend cover (x)	2.90	2.26	2.56	2.52	2.35
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: MAHM.BO - Rs792.25; MRTI.BO - Rs814.45; TAMO.BO - Rs734.10
Source: Company data, ABN AMRO forecasts

MAHINDRA & MAHINDRA: VALUATION METHODOLOGY

Table 6 : SOTP based target price

Standalone business value of M&M		483.3						
EPS FY08F		40.3						
Implied PE FY08F		12.0						
Total subsidiary value per share		394.2						
Target price		877.5						
Subsidiary company		Tech Mahindra	Mahindra Financial Serv	Mahindra Gesco	Mah UGINE Steel	Mahindra Forgings	Mahindra Holidays	Mah SAR Trans
Value per share of M&M		272.4	50.7	37.3	5.7	10.9	16.9	0.2
Equity capital of M&M		114.9	86.0	31.0	32.5	28.0	28.4	6.1
M&M's holding		45.0%	69.9%	55.0%	50.7%	47.1%	100.0%	51.0%
No of shares held by M&M (m)		51.7	60.1	17.1	16.5	13.2	28.4	3.1
		ABN IT team estimate	Current market	Current	Current	Current		
Valuation method		(DCF)	price	market price	market price	market price	24x FY06	12x FY06
Stock target price or CMP (Rs)		1,560	235	609.8	97.25	230	176.03	14.31
Discount to current market price		20.0%	15.0%	15.0%	15.0%	15.0%	20.0%	20.0%

Source : Bloomberg, ABN AMRO; priced at the closing of 3 May 2007

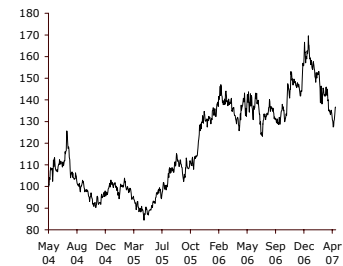
Mahindra & Mahindra

Company description

M&M is India's leading utility vehicle and agricultural equipment manufacturer, as per TMA & SIAM data. It has maintained market leadership in tractors and utility vehicles for decades. Understanding of rural markets and wide distribution network are its key strengths. With the success of its new products, M&M plans to enter the global arena, through acquisitions and otherwise. The group also has interests in numerous diversified activities through its subsidiaries. MBT, one of India's largest software exporters, is a JV between M&M and BT. Mahindra Finance is the other significant subsidiary, specialising in rural credit. It is also fast expanding in auto components through domestic and international acquisition under the MSAT division. Its JVs with Renault and International Truck for the launch of cars and trucks in coming years will expand its area of operations in the auto segment.

Buy

Price relative to country



Strategic analysis

Average SWOT company score: 3

Stand-alone EBIT, FY06

Strengths

Fully integrated automobile and agricultural equipment manufacturer with in-house product development capabilities. Market leadership in key segments of utility vehicles and tractors.

3

Weaknesses

Linked to the health of the rural economy and thereby a hostage to the vagaries of the monsoon. Investments in too many unrelated businesses are another weakness.

2

Opportunities

Export markets, especially in the tractor segment as the company has the scale and technology in low hp tractors. Exports of Scorpio and pick-ups are another possible opportunity.

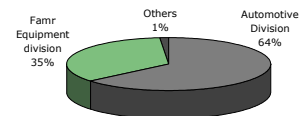
3

Threats

A lack of growth opportunities in major markets is driving global majors into India. A capacity glut in the medium to long term is a possible scenario. Decreasing public investment in the farm sector is another threat

2

Scoring range is 1-5 (high score is good)



Source: Company data

Market data

Headquarters

Mahindra Towers, Worli, Mumbai

Website

www.mahindraworld.com

Shares in issue

233.4m

Freefloat

77%

Majority shareholders

Promoter (23%)

India

Country view

Neutral

Country rel to Asia Pacific

The market looks expensive, but we believe it will remain supportive when regional funds seek a domestically-driven home with continuing robust earnings growth. The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. At the sector level, we still like autos, software and construction-related stocks.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Competitive position

Average competitive score: 3-

Broker recommendations

Supplier power

Low except for a very few vendors. In the long term, though, higher component exports may increase supplier power.

2-

Barriers to entry

Distribution network and understanding of rural markets are the key barriers to entry. Low-cost product development expertise with Indian OEMs is another barrier.

3+

Customer power

Very high due to intense competition among manufacturers. Dealer proliferation is another source of customer power.

4-

Substitute products

No alternative to tractors as an instrument of farm mechanisation. However, Utility vehicles compete with other passenger cars and low tonnage LCVs.

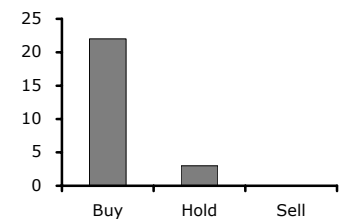
1+

Rivalry

High competition in both utility vehicles and tractors. Both the segments are likely to see pricing pressure in the long term.

4-

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse



Source: Bloomberg