

July 29, 2010

## BUY

Price <b>Rs 644</b>	Target Price <b>Rs 775</b>
<b>Sensex</b>	<b>17,992</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	3	20	27	57
Rel. to Sensex	2	18	15	34

Source: Bloomberg

### Stock Details

Sector	Automobiles
Reuters	MAHM.BO
Bloomberg	MM@IN
Equity Capital (Rs mn)	2892
Face Value(Rs)	5
No of shares o/s (mn)	578
52 Week H/L	656/367
Market Cap (Rs bn/USD mn)	372/7,957
Daily Avg Volume (No of sh)	2100213
Daily Avg Turnover (US\$m)	26.1

### Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	26.3	26.3	27.2
FII/NRI	32.1	32.4	29.1
Institutions	25.0	24.9	27.1
Private Corp	7.9	7.7	7.6
Public	8.7	8.8	8.9

Source: Capitaline

### Chirag Shah

chirag.shah@emkayglobal.com  
+91 22 6612 1252

### Siddharth Aggarwal

siddharth.aggarwal@emkayglobal.com  
+91 22 6624 2414

- EBIDTA at Rs 7.8bn is above est of Rs 7.3bn as other exp decline sharply (favorable MTM on forex in 1QFY11). PAT at Rs 5.6bn is in line due to higher than expected tax rate
- Supply constraints continue to hamper growth. Capex and investment plans remain on the higher side. Expect some scale down as and when actual investments take place
- Upgrade volume by 7% for FY11 and 6.6% for FY12 for higher sales of tractor, 3-wheelers and exports. Upgrade FY11 and FY12 EPS by 15.4% & 13.0% to Rs 39.1 & Rs 42.6 respectively
- Upgrade TP to Rs 775 (up by 6.9%). Valuing standalone business at FY12E EV/EBIDTA of 9x and listed subs and Tech Mahindra at Rs 140 per share. Maintain BUY rating

### Net Sales – below expectation due to lower avg. realizations

Net sales at 51.6bn were below our expectation of Rs 53.7bn due to 2.7% YoY decline in avg. realizations as a result of unfavorable product mix. Avg. realizations stood at Rs 402,530 against est. of Rs 413,518.

Product Mix %	1QFY11	1QFY10	4QFY10
UV's	42.4	47.6	46.3
Three Wheelers(Inc Gio)	15.8	8.8	17.1
Tractors	37.5	41.0	34.3
Export	4.4	2.5	2.3
<b>Units Sold</b>	<b>127,299</b>	<b>102,280</b>	<b>128,428</b>

Source: Company, Emkay research

### EBIDTA – above expectation driven by lower other expenses

EBIDTA at Rs 7.8bn was 7% ahead of our expectation mainly due to lower expenses which stood at 9.3% of sales against est of 12.5%. Other expenses declined both YoY and QoQ. The decline in other expenses is due to lower sales promotion and branding cost as well as favorable MTM on forex.

### APAT – in line

Despite above expected operating performance and higher than expect other income (including interest income), net profits are in line with expectation due to higher tax rate. Tax rate stood at 22% against our expectation of 15%.

### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	130,488	10,477	8.0	7,933	13.2	(10.0)	16.6	48.8	33.8	7.4
FY10	185,296	28,828	15.6	19,459	32.4	145.3	29.8	19.9	11.6	4.9
FY11E	212,024	31,822	15.0	23,525	39.1	20.9	26.0	16.5	10.0	3.8
FY12E	230,063	34,850	15.1	25,618	42.6	8.9	23.1	15.1	8.7	3.2

Source: Company, Emkay Research

**Segmental performance- Strong YoY growth, FES margin down 300bps QoQ**

Both FES and automotive segment reported strong YoY growth. However, sequential performance was weak primarily driven by FES segment (Margins declined 290 bps QoQ).

Segmental details (Rs mn)	1QFY11	1QFY10	4QFY10
<b>Farm Equipment</b>			
Tractor (Units)	50,150	43,383	46,963
Net Sales (Rs mn)	22,739	19,750	21,763
Avg realizations	453,412	455,250	463,416
Results (Rs mn)	3,894	3,344	4,358
Margins %	17.1	16.9	20.0
Capital Employed (Rs mn)	8,756	10,898	11,147
ROCE %	44.5	30.7	39.1
<b>Automotive</b>			
UVs and 3-wheelers (units)	77,149	58,897	81,465
Net Sales (Rs mn)	28,798	22,575	31,139
Avg realizations	373,280	383,298	363,535
Results (Rs mn)	3,521	2,302	4,065
Margins %	12.2	10.2	13.1
Capital Employed (Rs mn)	20,856	17,398	20,755
ROCE %	16.9	13.2	19.6

**Valuations and View**

We have valued the company on SOTP basis. We have upgraded our TP by 6.9% to Rs 775. We have valued the standalone business at Rs 635 (FY12E EV/EBIDTA of 9x). We have valued the listed subsidiaries and Tech Mahindra at Rs 140 per share.

**Revision in Estimates**

Volumes	FY11E			FY12E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
UV's	236,213	234,193	(0.9)	254,528	252,407	(0.8)
Three Wheelers (Inc Gio)	54,800	65,160	18.9	60,262	71,658	18.9
Tractors	162,461	182,139	12.1	172,209	191,246	11.1
Exports	15,144	19,390	28.0	16,087	20,737	28.9
<b>Total</b>	<b>468,618</b>	<b>500,883</b>	<b>6.9</b>	<b>503,086</b>	<b>536,048</b>	<b>6.6</b>
Sales ( Rs. Mn)	203,649	212,024	4.1	222,209	230,063	3.5
EBIDTA ( Rs. Mn)	29,445	31,822	8.1	32,272	34,850	8.0
EBIDTA margins (%)	14.5	15.0		14.5	15.1	
Net Profits( Rs. Mn)	19,923	23,525	18.1	22,137	25,618	15.7

**Valuation Summary**

Particulars	Basis	Discount	Value per share (Rs)	
			FY11E	FY12E
M&M	EV/EBIDTA (9x)		565	635
<b>Listed Subsidiaries</b>				
Mahindra Finance	CMP	20	32	32
Mahindra Forgings	CMP	20	6	6
Mahindra Life	CMP	20	12	12
Mahindra Holidays	CMP	20	43	43
Mahindra Ugine	CMP	20	1	1
Tech Mahindra	CMP	20	46	46
<b>Total</b>			<b>706</b>	<b>775</b>

**Key extracts from the con call**

- Management expects 14-15% and 12-13% industry growth for automotive and FES segment respectively for remaining part of FY11.
- Maximmo was launched in Q4FY10, has gained a market share of 25% in the markets where it is launched. Currently, Maximmo is launched in Northern markets. Recently it entered in Karnataka and Kerala.
- During the quarter company launched Swaraj tractors in Gujarat market. Also, Arjun tractors (>50 HP) is doing well with 35% market share in the relevant segment.
- Exports are expected to register good growth in Q2FY11 given the low base but pressure should build in from Q3FY11 onwards
- Company took price hike to an extent of Rs 10,000 in FES segment in April first week. Sequential decline in the realizations would be on account of addition of Yuvraj tractors in portfolio, which have a lower realization.
- Powerol business has been expanded to develop home UPS (1000 units sold in Q1FY11) and genset for business other than telecom. Revenue from this segment was around Rs 2.25bn during the quarter.
- Capacity constraints continue to effect sales to extent of 7-8%. The constraints are mainly on account of shortage in supply of key components like Tyres, Castings and Injection equipment for diesel engines. This should be expected to be sorted by Q3/Q4FY11 only.
- Under its JV with Navistar for commercial vehicle, will start the sales once order for 500 units has been received.
- Tax rate was lower due to benefits from tax free plants, higher tax free income of dividend and also deduction on account of R&D expenditure.
- Company would be launching ~ 3 variants each of Xylo and Maximmo in over next 12 month. Also, a new product in SUV segment is expected to be launched in Q1FY12.
- Currently Chakan produces 5-6 trucks per day.
- company is trying to increase the capacity for tractors by de-bottlenecking. Also, is in process of finalizing a location for a new plant, which most probably should be Tamil Nadu.
- Capex in M&M – Rs 45bn over next three years, for Chakan – Rs 56bn (from FY09-FY13). There would be additional investments of Rs 25bn
- Out of Rs 56bn on Chakan, M&M will contribute Rs 20 bn (has already done Rs 4.5bn till FY10), MVML will contribute Rs20bn, MNAL – Rs 10 bn and MEPL – balance Rs 5 to 6bn.
- Cash position – Rs 25bn, Debt – Rs 30bn (Rs 14bn in foreign currency)

## Quarterly Summary

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>42,426</b>	<b>44,853</b>	<b>44,971</b>	<b>53,046</b>	<b>51,601</b>	<b>21.6</b>	<b>(2.7)</b>
<b>Expenditure</b>	<b>36,336</b>	<b>37,172</b>	<b>38,116</b>	<b>44,591</b>	<b>43,845</b>	<b>20.7</b>	<b>(1.7)</b>
<i>as % of sales</i>	<i>85.6</i>	<i>82.9</i>	<i>84.8</i>	<i>84.1</i>	<i>85.0</i>		
Consumption of RM	28,056	29,289	30,140	35,845	35,905	28.0	0.2
<i>as % of sales</i>	<i>66.1</i>	<i>65.3</i>	<i>67.0</i>	<i>67.6</i>	<i>69.6</i>		
Employee Cost	3,083	2,941	3,300	2,661	3,137	1.8	17.9
<i>as % of sales</i>	<i>7.3</i>	<i>6.6</i>	<i>7.3</i>	<i>5.0</i>	<i>6.1</i>		
Other expenditure	5,198	4,942	4,677	6,084	4,803	(7.6)	(21.1)
<i>as % of sales</i>	<i>12.3</i>	<i>11.0</i>	<i>10.4</i>	<i>11.5</i>	<i>9.3</i>		
<b>EBITDA</b>	<b>6,090</b>	<b>7,681</b>	<b>6,855</b>	<b>8,456</b>	<b>7,756</b>	<b>27.4</b>	<b>(8.3)</b>
Depreciation	885	892	984	947	976	10.3	3.0
<b>EBIT</b>	<b>5,205</b>	<b>6,789</b>	<b>5,872</b>	<b>7,508</b>	<b>6,780</b>	<b>30.3</b>	<b>(9.7)</b>
Other Income	236	1,333	244	181	205	(13.1)	13.0
Interest	60	128	82	9	(227)		
<b>PBT</b>	<b>5,381</b>	<b>7,994</b>	<b>6,033</b>	<b>7,681</b>	<b>7,211</b>	<b>34.0</b>	<b>(6.1)</b>
Total Tax	1,373	2,087	1,783	1,978	1,588	15.7	(19.7)
<b>Adjusted PAT</b>	<b>4,009</b>	<b>5,907</b>	<b>4,250</b>	<b>5,703</b>	<b>5,624</b>	<b>40.3</b>	<b>(1.4)</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
<b>Adjusted PAT after MI</b>	<b>4,009</b>	<b>5,907</b>	<b>4,250</b>	<b>5,703</b>	<b>5,624</b>	<b>40.3</b>	<b>(1.4)</b>
<b>Extra ordinary items</b>	<b>-</b>	<b>1,123</b>	<b>(113)</b>	<b>-</b>	<b>-</b>	<b>(91.6)</b>	
<b>Reported PAT</b>	<b>4,009</b>	<b>7,030</b>	<b>4,137</b>	<b>5,703</b>	<b>5,624</b>	<b>40.3</b>	<b>(1.4)</b>
<b>Reported EPS</b>	<b>14</b>	<b>25</b>	<b>15</b>	<b>20</b>	<b>10</b>	<b>(32.7)</b>	<b>(52.7)</b>

<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	14.4	17.1	15.2	15.9	15.0	68	(91)
EBIT	12.3	15.1	13.1	14.2	13.1	87	(102)
EBT	12.7	17.8	13.4	14.5	14.0	129	(50)
PAT	9.4	13.2	9.4	10.8	10.9	145	15
Effective Tax rate	25.5	26.1	29.6	25.8	22.0	(349)	(374)

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>130,488</b>	<b>185,296</b>	<b>212,024</b>	<b>230,063</b>
<i>Growth (%)</i>	(2.2)	42.0	14.4	8.5
<b>Expenditure</b>	<b>120,011</b>	<b>156,469</b>	<b>180,202</b>	<b>195,212</b>
Materials Consumed	92,419	123,462	143,931	156,503
Employee Cost	10,246	11,985	13,223	14,590
Other Exp	17,345	21,022	23,047	24,120
<b>EBITDA</b>	<b>10,477</b>	<b>28,828</b>	<b>31,822</b>	<b>34,850</b>
<i>Growth (%)</i>	(5.2)	175.1	10.4	9.5
<b>EBITDA margin (%)</b>	<b>8.0</b>	<b>15.6</b>	<b>15.0</b>	<b>15.1</b>
Depreciation	2,915	3,708	4,340	4,973
<b>EBIT</b>	<b>7,562</b>	<b>25,120</b>	<b>27,482</b>	<b>29,877</b>
<b>EBIT margin (%)</b>	<b>5.8</b>	<b>13.6</b>	<b>13.0</b>	<b>13.0</b>
Other Income	2,703	1,994	2,298	2,586
Interest expenses	453	278	-380	-380
<b>PBT</b>	<b>9,813</b>	<b>26,835</b>	<b>30,160</b>	<b>32,844</b>
<b>Tax</b>	<b>1,880</b>	<b>7,376</b>	<b>6,635</b>	<b>7,226</b>
<i>Effective tax rate (%)</i>	19.2	27.5	22.0	22.0
<b>Adjusted PAT</b>	<b>7,933</b>	<b>19,459</b>	<b>23,525</b>	<b>25,618</b>
<i>Growth (%)</i>	(9.9)	145.3	20.9	8.9
<b>Net Margin (%)</b>	<b>6.1</b>	<b>10.5</b>	<b>11.1</b>	<b>11.1</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-
<b>Adj. PAT After JVs/Ass/MI</b>	<b>7,933</b>	<b>19,459</b>	<b>23,525</b>	<b>25,618</b>
E/O items	435	1,418	-	-
<b>Reported PAT</b>	<b>8,368</b>	<b>20,878</b>	<b>23,525</b>	<b>25,618</b>
<i>Growth (%)</i>	(9.9)	145.3	20.9	8.9

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>7,110</b>	<b>24,842</b>	<b>27,862</b>	<b>30,258</b>
Depreciation	2,915	3,708	4,340	4,973
Interest Provided	453	278	-380	-380
Other Non-Cash items	(808)	6,032	-	-
Chg in working cap	8,524	-4,119	-3,074	475
Tax paid	-1,880	-7,376	-6,635	-7,226
<b>Operating Cashflow</b>	<b>16,313</b>	<b>23,365</b>	<b>22,112</b>	<b>28,099</b>
Capital expenditure	(13,380)	(6,999)	(9,358)	(8,000)
<b>Free Cash Flow</b>	<b>2,933</b>	<b>16,366</b>	<b>12,754</b>	<b>20,099</b>
Other income	2,703	1,994	2,298	2,586
Investments	-8,733	-8,449	-9,000	-9,000
<b>Investing Cashflow</b>	<b>-6,030</b>	<b>-6,456</b>	<b>-6,702</b>	<b>-6,414</b>
Equity Capital Raised	361	118	-	-
Loans Taken / (Repaid)	14,657	-11,726	-	-
Interest Paid	-453	-278	380	380
Dividend paid (incl tax)	(3,111)	(6,238)	(7,902)	(8,605)
Income from investments	-	-	-	-
Others	(1,978)	10,103	-	-
<b>Financing Cashflow</b>	<b>9,477</b>	<b>-8,021</b>	<b>-7,521</b>	<b>-8,224</b>
<b>Net chg in cash</b>	<b>6,380</b>	<b>1,890</b>	<b>-1,469</b>	<b>5,461</b>
Opening cash position	9,239	15,618	17,432	15,963
<b>Closing cash position</b>	<b>15,744</b>	<b>17,432</b>	<b>15,963</b>	<b>21,425</b>

## Balance Sheet

Y/E, Mar (Rs. Mn)	FY09	FY10	FY11E	FY12E
Equity share capital	2,792	2,910	3,006	3,006
Reserves & surplus	49,648	75,393	99,428	116,442
<b>Net Worth</b>	<b>52,440</b>	<b>78,302</b>	<b>102,434</b>	<b>119,448</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Secured Loans	9,810	6,025	6,025	6,025
Unsecured Loans	30,718	22,777	14,269	14,269
<b>Loan Funds</b>	<b>40,528</b>	<b>28,802</b>	<b>20,293</b>	<b>20,293</b>
Net deferred tax liability	(183)	2,403	2,403	2,403
<b>Total Liabilities</b>	<b>92,785</b>	<b>109,507</b>	<b>125,130</b>	<b>142,144</b>
Gross Block	48,939	52,763	61,763	70,763
Less: Depreciation	23,263	25,378	29,718	34,691
<b>Net block</b>	<b>25,676</b>	<b>27,385</b>	<b>32,045</b>	<b>36,072</b>
Capital work in progress	6,467	9,642	10,000	9,000
<b>Investment</b>	<b>57,864</b>	<b>63,980</b>	<b>72,980</b>	<b>81,980</b>
<b>Current Assets</b>	<b>50,629</b>	<b>60,424</b>	<b>68,644</b>	<b>78,544</b>
Inventories	10,607	11,888	16,919	18,359
Sundry debtors	10,437	12,581	14,496	15,729
Cash & bank balance	15,744	17,432	15,963	21,425
Loans & advances	13,826	18,014	20,757	22,523
Other current assets	16	509	509	509
<b>Current lia &amp; Prov</b>	<b>47,978</b>	<b>51,965</b>	<b>58,580</b>	<b>63,493</b>
Current liabilities	35,202	34,000	39,496	42,786
Provisions	12,776	17,965	19,083	20,707
<b>Net current assets</b>	<b>2,652</b>	<b>8,458</b>	<b>10,064</b>	<b>15,050</b>
Misc. exp	126	41.2	41.2	41.2
<b>Total Assets</b>	<b>92,785</b>	<b>109,507</b>	<b>125,130</b>	<b>142,144</b>

## Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	8.0	15.6	15.0	15.1
Net Margin	6.1	10.5	11.1	11.1
ROCE	12.6	26.8	25.4	24.3
ROE	16.6	29.8	26.0	23.1
RoIC	26.2	76.3	71.9	60.5
<b>Per Share Data (Rs)</b>				
EPS	13.2	32.4	39.1	42.6
CEPS	18.0	38.5	46.4	50.9
BVPS	87.2	130.2	170.4	198.7
DPS	10.2	9.5	12.5	13.6
<b>Valuations (x)</b>				
PER	48.8	19.9	16.5	15.1
P/CEPS	35.7	16.7	13.9	12.7
P/BV	7.4	4.9	3.8	3.2
EV / Sales	2.7	1.8	1.5	1.3
EV / EBITDA	33.8	11.6	10.0	8.7
Dividend Yield (%)	1.6	1.5	1.9	2.1
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.3	0.0	(0.1)	(0.2)
Net Debt/EBITDA	1.5	0.0	(0.3)	(0.5)
Working Cap Cycle (days)	(39.6)	(18.8)	(13.9)	(13.8)

**Recommendation History: Mahindra and Mahindra Ltd – MM IN**

Date	Reports	Reco	CMP	Target
01.06.2010	<a href="#">Mahindra &amp; Mahindra Q4FY10 Result Update</a>	Buy	545	725
27.01.2010	<a href="#">Mahindra &amp; Mahindra Q3FY10 Result Update</a>	Accumulate	1,072	1,265
30.10.2009	<a href="#">Mahindra &amp; Mahindra Q2FY10 Result Update</a>	Accumulate	927	1,120
12.10.2009	<a href="#">Mahindra &amp; Mahindra Company Update</a>	Accumulate	890	1,070

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
26.07.2010	<a href="#">Maruti Suzuki Q1FY11 Result Update</a>	Reduce	1,358	1,275
23.07.2010	<a href="#">Bajaj Auto Q1FY11 Result Update</a>	Accumulate	2,490	2,865
22.07.2010	<a href="#">TVS Motor Co Q1FY11 Result Update</a>	Hold	133	133
05.07.2010	<a href="#">Hero Honda Management Meet Update</a>	Accumulate	2,021	2,250

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such 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. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. 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 and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction 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 may perform or seek to perform investment banking services for such company(ies) 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 same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.