

August 13, 2010

BUY

Price	Target Price
Rs 644	Rs 775
Sensex	18,074

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	16	28	63
Rel. to Sensex	(0)	10	15	35

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	MAHM.BO
Bloomberg	MM@IN
Equity Capital (Rs mn)	1394
Face Value (Rs)	5
No of shares o/s (mn)	279
52 Week H/L (Rs)	670/367
Market Cap (Rs bn/USD mn)	366/7,878
Daily Avg Vol (No of shares)	1997434
Daily Avg Turnover (US\$ mn)	25.7

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

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- Ssangyong (SS) appears to be a strategic fit, except for luxury car portfolio (~15% of volumes). Reported EBIDTA margins of 8.1% in 2008 and peak margins of 14.2% in 2003
- M&M to buy additional equity (>51%) which will be used to repay debt and make SS debt free. Except for M&M, there will be no single shareholder with >5% holding
- Concerns continue wrt to time and capital required to realign the technology and break even levels. M&M to withstand the adversities for a longer period given the size of SS
- Biggest trigger from SS will come from volumes and improvement in brand recall. Expect stock to underperform due to hangover, retain BUY rating and TP of 775

Key highlights of conference call

Current status of bid and nature of deal

M&M has been declared as a preferred bidder. However no MOU has been signed. After signing of MOU detailed due diligence will commence. Expect the entire process to of acquisition to be completed by December 2010. M&M will be subscribing to new equity capital in SS which shall be used to pay of debts of the company, post which the company will be virtually a debt free company expects for working capital loan. Except for M&M, no single shareholder will have >5% stake in the company

About Ssangyong

SS is primarily a SUV manufacturer. It also manufactures luxury car 'Chairman' (currently accounting for ~15% of total volumes). Current run rate is ~7000 units per month. Current production capacity is ~120,000 units per annum on a single shift basis. It has ~ 150,000 units of engine capacity. It has two plants located in Korea. Large part of its product portfolio is diesel engine based (> 60%). Engine for Chairman are procured from Daimler.

Product profile and markets

Except for the luxury car, the product profile of SS is an vertical extensions to that of M&M. Ssangyong SUV are not super luxury products. Their characteristics are similar to M&M product. Currently, exports account for 50% of its volume. Western Europe being the biggest market with 45% share of exports. It has 1300 dealers spread across 90 countries.

Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE		EV/	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	P/BV
FY09	130,488	10,477	8.0	7,933	13.2	(10.0)	16.6	47.9	33.1
FY10	185,296	28,828	15.6	19,459	32.4	145.3	29.8	19.5	11.4
FY11E	212,024	31,822	15.0	23,525	39.1	20.9	26.0	16.2	9.8
FY12E	230,063	34,850	15.1	25,618	42.6	8.9	23.1	14.8	8.5

Source: Company. Emkay Research

Key rationale of acquisition

SUV product portfolio which is vertical extension to M&M. SS has gone through various product lifecycle development as compared to M&M' which has gone through only two product life cycle development. Size of acquisition which is half the size of M&M automotive business in terms of revenue and hence the risk involved in turnaround and the management bandwidth requirement will be relatively smaller. Technology of SS which is better than M&M.

Product development

The biggest issue with the company has been inadequate product development spend over the last four to five years. It will be launching a new engine over next 12 months, thereafter there may not be any new introduction for two years as many of the product development activities which should have been ready by now are behind schedule.

Capacity and production

Current capacity of the company is ~120,000 units per annum on a single shift basis, with sales run rate of ~ 7000 units per month. The peak sales of the company were ~170,000 units in 2003. It has capacity of manufacturing engine of 150,000 units per annum on a single shift

Breakeven levels and restructuring

As per management, SS has been EBDIT break even in 1Q2010 with volumes of ~18000 units. Also, there has been employee restructuring at SS (it faced strike for 77 days in 2009), as a result of which fixed cost are lower by 37% (we presume employee cost).

Valuations and View

We continue to have concerns with respect to the acquisition though the concerns have receded to some extent, with respect to potential cash burn post the acquisition and debt levels of the SS post the acquisition. We continue to have concerns with respect to following

- Product development and new technologies – There is no clarity about current standing of the company, how far it is behind and the time and capital required to bring the current programs to its logical end.
- Luxury car – The potential of the business and the intent of M&M of expanding the business, as it will be in contrast to M&M's aspiration of becoming a global SUV player.
- Extent of support required before SS can become self sufficient – We expect M&M will need atleast two to three years to bring various product development programs to its logical conclusion. During this period the extent of support that will be required from the parent.
- Volumes will be the key – Given the fact that at current run rate of ~ 80,000 units (66% utilization) and SS was EBDIT breakeven in 1Q2010, implies volumes will be the biggest growth driver. We would await for more details on the potential of lowering the breakeven levels based on current utilization levels

As of now we retain our BUY rating on the stock with a target price of Rs 775. However, we expect the stock to underperform till more clarity emerges on SS.

Valuation Summary

Particulars	Basis	Discount	Value per share (Rs)	
			FY11E	FY12E
M&M	EV/EBIDTA (9x)		565	635
Listed Subsidiaries				
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
Total			706	775

Ssangyong – Summary Financials**Profit and Loss Statement**

USD mn	2,003	2,004	2,005	2,006	2,007	2,008	2,009
Sales	2,884	3,355	3,355	3,093	3,357	2,311	841
EBIDTA	179	185	185	249	249	(37)	(151)
EBIDTA margins (%)	8.1	5.5	5.5	8.1	7.4	(1.6)	(18.0)
Operating profit	27	(2)	(2)	29	47	(211)	(231)
APAT	26	(41)	(41)	(196)	(4)	(79)	(218)

Source: Bloomberg, Emkay Research

Balance Sheet

USD mn	2,003	2,004	2,005	2,006	2,007	2,008	2,009
Networth	1,179	1,110	1,110	995	1,033	205	260
Long term Debt	454	644	644	565	657	467	651
Total	1,633	1,754	1,754	1,560	1,690	671	910
Fixed Assets	1,462	1,522	1,522	1,621	1,513	689	694
Long term Assets	342	283	283	160	178	177	157
Net current assets	(172)	(51)	(51)	(221)	(1)	(195)	59
Total	1,633	1,754	1,754	1,560	1,690	671	910

Source: Bloomberg, Emkay Research

Financials

Income Statement

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

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	7,110	24,842	27,862	30,258
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
Operating Cashflow	16,313	23,365	22,112	28,099
Capital expenditure	(13,380)	(6,999)	(9,358)	(8,000)
Free Cash Flow	2,933	16,366	12,754	20,099
Other income	2,703	1,994	2,298	2,586
Investments	-8,733	-8,449	-9,000	-9,000
Investing Cashflow	-6,030	-6,456	-6,702	-6,414
Equity Capital Raised	361	118	0	0
Loans Taken / (Repaid)	14,657	-11,726	0	0
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		
Financing Cashflow	9,477	-8,021	-7,521	-8,224
Net chg in cash	6,380	1,890	-1,469	5,461
Opening cash position	9,239	15,618	17,432	15,963
Closing cash position	15,744	17,432	15,963	21,425

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
Minority Interest	52,440	78,302	102,434	119,448
Net worth				
Secured Loans	9,810	6,025	6,025	6,025
Unsecured Loans	30,718	22,777	14,269	14,269
Loan Funds	40,528	28,802	20,293	20,293
Net deferred tax liability	(183)	2,403	2,403	2,403
Total Liabilities	92,785	109,507	125,130	142,144
Gross Block	48,939	52,763	61,763	70,763
Less: Depreciation	23,263	25,378	29,718	34,691
Net block	25,676	27,385	32,045	36,072
Capital work in progress	6,467	9,642	10,000	9,000
Investment	57,864	63,980	72,980	81,980
Current Assets	50,629	60,424	68,644	78,544
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
Current lia & Prov	47,978	51,965	58,580	63,493
Current liabilities	35,202	34,000	39,496	42,786
Provisions	12,776	17,965	19,083	20,707
Net current assets	2,652	8,458	10,064	15,050
Misc. exp	126	41.2	41.2	41.2
Total Assets	92,785	109,507	125,130	142,144

Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
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	57.8	162.1	123.4	107.0
Per Share Data (Rs)				
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
Valuations (x)				
PER	47.9	19.5	16.2	14.8
P/CEPS	35.0	16.4	13.6	12.4
P/BV	7.2	4.9	3.7	3.2
EV / Sales	2.7	1.8	1.5	1.3
EV / EBITDA	33.1	11.4	9.8	8.5
Dividend Yield (%)	1.6	1.5	2.0	2.1
Gearing Ratio (x)				
Net Debt/ Equity	0.3	0.0	(0.1)	(0.2)
Net Debt/EBIDTA	1.5	0.0	(0.3)	(0.5)
Working Cap Cycle (days)	(39.6)	(18.8)	(13.9)	(13.8)

Recommendation History: Mahindra & Mahindra Ltd. – MM IN

Date	Reports	Reco	CMP	Target
29.07.2010	<u>Mahindra & Mahindra Q1FY11 Result Update</u>	Buy	644	775
01.06.2010	<u>Mahindra & Mahindra Q4FY10 Result Update</u>	Buy	545	725
27.01.2010	<u>Mahindra & Mahindra Q3FY10 Result Update</u>	Accumulate	1,072	1,265
30.10.2009	<u>Mahindra & Mahindra Q2FY10 Result Update</u>	Accumulate	927	1,120

Recent Research Reports

Date	Reports	Reco	CMP	Target
12.08.2010	<u>Motherson Sumi Q1FY11 Result Update</u>	Buy	176	205
30.07.2010	<u>Apollo Tyres Q1FY11 Result Update</u>	Buy	64	80
29.07.2010	<u>Hero Honda 1QFY11 Result Update</u>	Hold	1,871	1,930
26.07.2010	<u>Maruti Suzuki Q1FY11 Result Update</u>	Reduce	1,358	1,275

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