

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	MAHM.BO
Bloomberg code	MM IN
Market cap. (US\$ mn)	5,478
6M avg. daily turnover (US\$ mn)	25.4
Issued shares (mn)	279
Target price (Rs)	1,164

Performance (%) 1M 3M 12M

Absolute	9	10	207
Relative	14	4	73

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs.)	59.5	65.4
+/- (%)	77.7	9.9
PER (x)	15.6	14.2
PBV (x)	3.8	3.2
Dividend/Yield (%)	1.3	1.3
EV/Sales (x)	1.7	1.4
EV/EBITDA (x)	11.3	10.2

Major shareholders (%)

Promoters	27
FII's	22
MF's	5
BFSI's	23
Public & Others	23

Financial highlights*

(Rs mn)	2QFY10	2QFY09	YoY(%)	1QFY10	QoQ(%)	1HFY09	1HFY10	YoY(%)	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	44,853	31,110	44.2	42,426	5.7	64,045	87,279	36.3	164,408	25.6	195,799	19.1
EBITDA	7,587	2,659	185.3	6,090	24.6	5,906	13,677	131.6	24,259	122.1	27,014	11.4
EBITDA Margins (%)	16.9	8.5	8.4	14.4	2.6	9.2	15.7	6.4	14.8	6.4	13.8	(1.0)
Other Income	1,333	235	468.4	236	465.6	(161)	1,569	(1073.3)	3,838	6.7	4,100	6.8
Interest	128	153	(16.3)	60	114.5	250	187	(25.1)	1,800	34.2	1,600	(11.1)
Depreciation	892	639	39.6	885	0.8	1,260	1,777	41.0	3,832	31.4	4,499	17.4
PBT	7,901	2,102	275.8	5,381	46.8	4,235	13,282	213.6	22,466	118.9	25,015	11.3
PAT	5,805	1,754	230.9	4,009	44.8	3,347	9,814	193.2	16,512	99.8	18,761	13.6
Extra-ordinary Items	1,224	513	(138.8)	0	0	513	1,224	(138.8)	697	578.6	-	(100.0)
Reported PAT	7,029	2,267	210.1	4,009	75.4	3,860	11,038	186.0	17,209	105.7	18,761	9.0
NPM (%)	12.9	5.6	7.3	9.4	3.5	5.2	11.2	6.0	10.0	3.7	9.6	(0.5)
EPS (Rs)	21.2	7.0	205.5	14.7	44.4	12.2	35.9	193.2	59.5	84.3	65.4	9.9

*Numerals are not comparable YoY due to merger of Punjab Tractors and Mahindra Holdings

Mahindra & Mahindra

Maintain Outperformer

Price: Rs 928

BSE Index: 16,053

29 October 2009

2QFY10 Result – Reaching new highs

Mahindra & Mahindra's (MM) result for the quarter were ahead of our and street expectations with the company posting record profit (recurring) of Rs 5.8 bn (up 45% QoQ). The results are not comparable YoY due to merger for Punjab Tractors and Mahindra Holding. On a QoQ basis net sales was higher by Rs 2.4 bn at Rs 44.9bn, against this the operating profit at Rs 7.6 bn was higher by 1.1 bn reflecting the strong QoQ improvement. Operating margins at 16.9% was higher by 260 bps QoQ, EBIT margins for auto (after excluding Octroi refund) and farm segment stood at 13.1% and 20.4%, posting a QoQ improvement of 290 bps and 350 bps, respectively. Improvement in auto segment profitability was driven by better sales mix (higher UVs), higher volumes (up 15.8% QoQ) and cost cutting. Farm segment margin expansion happened despite volumes being lower by 13.5% QoQ; this was due to synergy benefits arising out of acquisition of Punjab Tractors. Cost cutting initiatives led to QoQ reduction in employee and other expenditure. Other income of Rs 1.3 bn included dividend from subsidiaries of Rs 831 mn. The company earned non-recurring income of Rs 1.6 bn (Rs 1.2 bn net of taxes) from listing of Mahindra Holidays (Rs 907 mn) and Octroi refund (Rs 725 mn). Consequently reported PAT stood at Rs 7.0 bn (up 75% QoQ).

The company recently entered the sub 1 tn LCV market with Gio, which is a four wheeled version of its existing three-wheeler, Champion Alfa. The product (priced Rs 165,000 ex-showroom) is positioned between the three wheeler and entry level LCV (Ace). This is a precursor to the Light Transport Vehicle against Tata Ace which will be launched in another two months. With Gio, MM is testing the market appetite for an smaller alternative to existing entry level LCVs (~Rs 280,000) at a cheaper price but with same features.

We have realigned our estimates to factor in the improvement in profitability, stronger demand and launch of new LCV. Our revised standalone earnings fro FY10E and FY11E are higher by 18.6% and 20.7% at Rs 59.5 and Rs 65.4, respectively. Success of the recently launched Gio and proposed Ace competitor will provide considerable upsides to our volume and margin assumptions. Currently, the entry level LCV market is virtually a monopoly of Tata Motors and the company is earning margins of over 20%.

Key assumptions

(Units)	Revised		Earlier		1HFY10	Residual FY10E
	FY10E	FY11E	FY10E	FY11E		
UV	199,761	216,465	184,185	211,788	104,000	95,761
YoY (%)	30.0	8.4	19.9	15.0	36.2	23.9
LCV (M&M)	6,000	18,000	–	–	–	6,000
YoY (%)	–	200.0	–	–	–	–
Three-wheelers	39,189	39,189	36,962	36,962	20,752	18,437
YoY (%)	(12.0)	0.0	(17.0)	0.0	(19.4)	(1.9)
Tractor-Domestic	150,677	159,718	141,545	147,207	83,915	66,762
YoY (%)	21.3	6.0	14.0	4.0	27.3	42.5
Tractor-Exports	6,966	8,647	5,911	7,433	3,253	3,713
YoY (%)	(4.2)	24.1	(18.6)	25.8	(28.9)	51.0
Auto-Exports	5,950	17,850	5,525	16,575	2,884	3,066
YoY (%)	(30.0)	200.0	(35.0)	200.0	(52.9)	29.3
Total Volume	408,543	459,868	383,592	448,358	219,672	188,871
YoY (%)	21.9	12.6	14.5	16.9	19.1	25.3
EBITDA Margins (%)	14.8	13.8	12.8	11.8	15.7	13.7
EPS (Rs)	59.5	65.4	50.2	54.2	35.9	24.5
YoY (%)	84.3	9.9	55.3	8.0	163.9	172.8

The revision in our earnings is primarily from improvement in the core business thus improving the core business value to Rs 863 discounting FY11E core earnings 14x. We are retaining a lower multiple than the broader market and its peers to factor in the losses in businesses like Mahindra Renault, two-wheeler business and other various new ventures. However, we would like to reiterate that MM is the most insulated from competition onslaught amongst all the listed auto companies as the competitive scenario in tractor and the UV business is not expected to change much. This is highlighted by the fact that MM's margin performance has been much better than its peers.

We maintain our Outperformer call on the stock with a revised sum-of-the-parts (SOTP) based target price of Rs 1,165. Key downside risk would be failure of Rabi crop and poor monsoons.

SOTP valuation

Company	Valuation Method	Per share (Rs)	Multiple	Value (Rs)	Remarks
Mahindra & Mahindra (Standalone)	P/E	61.6	14.0	863	Core EPS for FY11E
Mahindra Holiday & Resorts	CMP*	85.6	0.8	68	20% discount
Mahindra Renault	P/BV	0.0	1.5	0	BV on 31 March 2008
Mahindra International	P/BV	1.9	1.5	3	BV on 31 March 2008
Swaraj Engines	CMP	6.9	0.8	6	20% discount
Tech Mahindra	CMP	180.2	0.8	144	20% discount
Mahindra Lifespace Developers	CMP	24.2	0.8	19	20% discount
M&M Financial Services	CMP	54.5	0.8	44	20% discount
Mahindra Forgings	CMP	17.0	0.8	14	20% discount
Mahindra UGINE Steel	CMP	5.7	0.8	5	20% discount
SOTP target price				1,165	

*CMP = current market price as on 29 October 2009

Vehicle sales

(Units)	2QFY09	2QFY10	YoY(%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY(%)
Scorpio	8,187	10,377	26.7	8,160	27.2	18,352	18,537	1.0
Non Scorpio	30,275	44,903	48.3	40,560	10.7	58,029	85,463	47.3
UV's	38,462	55,280	43.7	48,720	13.5	76,381	104,000	36.2
LCV	2,685	2,375	(11.5)	2,493	(4.7)	5,642	4,868	(13.7)
Logan	4,622	1,423	(69.2)	1,478	(3.7)	9,217	2,901	(68.5)
Three-wheelers	14,335	11,720	(18.2)	9,032	29.8	25,731	20,752	(19.4)
Auto Domestic Total	60,104	70,798	17.8	61,723	14.7	116,971	132,521	13.3
Auto Exports	2,941	1,862	(36.7)	1,022	82.2	6,128	2,884	(52.9)
Auto Total	63,045	72,660	15.3	62,745	15.8	123,099	135,405	10.0
Non Logan Auto Total	58,423	71,237	21.9	61,267	16.3	113,882	132,504	16.4
Domestic Tractors	29,152	38,597	32.4	45,318	(14.8)	65,942	83,915	27.3
Exports Tractors	2,305	1,833	(20.5)	1,420	29.1	4,575	3,253	(28.9)
Total Tractor	31,457	40,430	28.5	46,738	(13.5)	70,517	87,168	23.6
Total Volumes	94,502	113,090	19.7	109,483	3.3	193,616	222,573	15.0

Segmental revenue break-up

(Rs mn)	2QFY09	2QFY10	YoY(%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY(%)
Automotive (Incl. Octroi)	19,478	26,869	37.9	22,575	19.0	38,209	49,445	29.4
Farm Equipment	11,785	18,556	57.5	19,750	(6.0)	25,030	38,306	53.0
Others	203	230	13.4	198	15.9	2,219	428	(80.7)
Total	31,466	45,655	45.1	42,524	7.4	65,459	88,179	34.7
Less: Inter Segment Revenue	86	78	(9.8)	98	(20.5)	1,145	175	(84.7)
Net Revenue	31,380	45,578	45.2	42,426	7.4	64,314	88,004	36.8

EBIT (Pre-exceptional)

(Rs mn)	2QFY09	2QFY10	YoY(%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY(%)
Automotive	1,326	4,154	213.1	2,302	80.5	2,827	6,456	128.3
Farm Equipment	1,280	3,784	195.7	3,344	13.1	2,841	7,128	150.9
Others	35	52	48.2	27	89.8	69	79	14.3
Total	2,641	7,989	202.5	5,673	40.8	5,738	13,663	138.1

Pre-exceptional EBIT margin

(%)	2QFY09	2QFY10	YoY(%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY(%)
Automotive	6.8	15.5	8.6	10.2	5.3	7.4	13.1	5.7
Farm Equipment	10.9	20.4	9.5	16.9	3.5	11.3	18.6	7.3
Others	17.3	22.6	5.3	13.8	8.8	3.1	18.5	15.4
Total	8.4	17.5	9.1	13.3	4.2	8.8	15.5	6.7

Source: B&K Research

Concall highlights

- During the quarter, drop in material cost (down by 600 bps YoY), higher sales and benefits from operating synergies between MM and PTL tractors were the main driver of the operating outperformance. The company has garnered additional savings of Rs 3,965 per tractor in PTL from operational synergies.
- There were no one-off/non-recurring items in the operational performance barring the Octroi refund of Rs 725 mn.

Farm equipment segment

- The company has not taken any price cut in this segment during 1HFY10.
- Domestic tractor industry has registered a growth of 21% YoY to 191,000 units in the 1HFY10 whereas the company has registered a growth of 27.3% and improved its market share to 42%.
- Demand for tractors is expected to remain strong in the near future as the ownership is very low. The industry is expected to grow by 10-12% in FY10 with better growth for MM.
- The company expects the longer term growth (next 5 years) for the tractor market to be around 6-8%.

Automotive segment

- EBIT improvement was backed by improved sales mix, lower material cost and strong demand for XYLO.
- Chakan plant will be commissioned by early 4QFY10 with the roll out of heavy truck and a LCV against Tata Ace.
- **Gio:** The recently launched 0.5 tn truck, Gio, will be rolled out from the tax haven plant at Haridwar.
- **US launch:** The company is on schedule to launch the pick-up variant of Scorpio in the US market by February 2010 followed by the SUV Scorpio later. The company is targeting a monthly export volume of 2,500 to 3,000 units.

Others

- Going forward the company expects commodity prices to harden up.
- **Capex** – The company has outlined a capex of Rs 65 bn (including investment in JV for Chakan plant) during FY10-12. Out of which, Rs 4 bn has been incurred during 1HFY10 (including Chakan plant).

Balance sheet items as on 30 September 2009

- D/E ratio- 0.42x.
- Cash on the books – Rs 20 bn.
- Debt on the books – Rs 30 bn (Including convertible bonds).
- The total outstanding forex cover is down to US\$ 800 mn from US\$ 1 bn at the beginning of the fiscal.

Consolidated performance

- Total income for the quarter grew by 6.4% to Rs 82.6 bn from Rs 7.8 bn.
- Profit before exceptional items and tax stood at Rs 10.8 bn up 73.3%.
- PAT after considering the Mahindra Holidays IPO profit and deducting minority interests is Rs 8.4 bn, up 126%.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	108,046	126,491	159,286	190,453
<i>Growth (%)</i>	12.2	17.1	25.9	19.6
Operating expenses	(101,730)	(120,014)	(140,149)	(168,785)
Operating profit	6,316	6,476	19,138	21,668
Other operating income	7,366	4,446	5,122	5,346
EBITDA	13,682	10,922	24,259	27,014
<i>Growth (%)</i>	14.4	(20.2)	122.1	11.4
Depreciation	(2,393)	(2,915)	(3,832)	(4,499)
Other income	1,926	3,596	3,838	4,100
EBIT	13,216	11,603	24,266	26,615
Interest paid	(876)	(1,341)	(1,800)	(1,600)
Pre-tax profit	12,340	10,262	22,466	25,015
(before non-recurring)				
Non-recurring items	1,727	103	697	0
Pre-tax profit	14,068	10,364	23,163	25,015
(after non-recurring)				
Tax (current + deferred)	(3,034)	(1,997)	(5,953)	(6,254)
Net profit (before Minority)	11,034	8,367	17,209	18,761
Interest, Pref. Dividend, etc.)				
Prior period adjustments	0	307	0	0
Reported PAT	11,034	8,675	17,209	18,761
Adjusted net profit	9,306	8,572	16,512	18,761
<i>Growth (%)</i>	(4.6)	(7.9)	92.6	13.6

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	11,567	24,049	30,697	27,685
Other current assets	26,632	32,668	38,972	45,952
Investments	39,196	49,559	54,736	64,737
Net fixed assets	23,609	32,143	42,614	52,535
Other non-current assets	1,610	4,117	1,304	1,304
Total assets	102,615	142,536	168,323	192,213
Current liabilities	31,201	45,761	54,790	63,552
Total debt	25,871	40,528	40,652	40,652
Other non-current liabilities	2,178	3,934	4,256	4,610
Total liabilities	59,249	90,222	99,698	108,814
Share capital	2,431	2,792	2,860	2,953
Reserves & surplus	41,070	49,829	66,072	80,753
Less: Misc. expenditure	(135)	(307)	(307)	(307)
Shareholders' funds	43,365	52,314	68,626	83,399
Total equity & liabilities	102,615	142,536	168,323	192,213
Capital employed	71,414	96,776	113,533	128,661

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	14,068	10,364	23,163	25,015
Depreciation	2,387	2,915	3,832	4,499
Change in working capital	195	9,185	487	1,651
Total tax paid	(2,788)	(3,318)	(1,420)	(5,900)
Other operating activities	0	307	0	0
Cash flow from oper. (a)	13,861	19,454	26,062	25,266
Capital expenditure	(6,923)	(13,380)	(14,303)	(14,420)
Change in investments	(19,776)	(15,714)	(5,177)	(10,001)
Others	(321)	1,760	(0)	0
Cash flow from inv. (b)	(27,020)	(27,334)	(19,480)	(24,421)
Free cash flow (a+b)	(13,159)	(7,880)	6,582	845
Equity raised/(repaid)	285	39	3,061	103
Debt raised/(repaid)	9,511	14,657	124	0
Dividend (incl. tax)	(1,149)	(3,303)	(3,121)	(3,959)
Others	(137)	3,633	0	0
Cash flow from fin. (c)	8,510	15,026	65	(3,857)
Net chg in cash (a+b+c)	(4,648)	7,145	6,647	(3,012)

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	39.0	33.5	59.5	65.4
Growth	(5.7)	(14.1)	77.7	9.9
Book NAV/share (Rs)	181.3	204.0	247.0	290.5
Dividend/share (Rs)	11.8	11.1	12.2	12.2
Dividend payout ratio	34.5	37.5	24.0	21.8
Tax	21.6	19.3	25.7	25.0
EBITDA margin	11.9	8.3	14.8	13.8
EBIT margin	11.5	8.9	14.8	13.6
RoCE	21.1	13.8	23.1	22.0
Net debt/Equity	33.0	31.5	14.5	15.5

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	23.8	27.7	15.6	14.2
PCE	18.9	20.7	12.7	11.4
Price/Book	5.1	4.6	3.8	3.2
Yield (%)	1.3	1.2	1.3	1.3
EV/Net sales	2.5	2.2	1.7	1.4
EV/EBITDA	20.1	25.2	11.3	10.2

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	8.6	6.8	10.4	9.9
Asset turnover	1.2	1.0	1.0	1.1
Leverage factor	2.3	2.6	2.6	2.4
Return on equity (%)	23.6	17.9	27.3	24.7

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