

May 31, 2010

Stock Rating
Overweight

Industry View
Cautious

Mahindra & Mahindra

Beats Expectations, Reiterate OW

Quick Comment: Remain OW. M&M posted a good set of numbers with F4Q10 EBITDA of Rs8.5 bn, 14% above expectations. We remain positive on M&M as we believe that, aided by new launches, volumes and earnings growth will remain strong and valuations are supportive at 11x consolidated F11E earnings with an estimated 14% F10-12 earnings CAGR.

F4Q10 results beats expectations: At the standalone level, revenue, EBITDA and adjusted net income were up 46%, 114% and 110% YoY, respectively. At the revenue level, numbers were in line with our estimates but M&M outperformed at the EBITDA level, recording strong margins of 15.9%, up 70 bps QoQ. The bottom-line came in at Rs5.7bn, up 34% QoQ and 15% ahead of consensus.

Fall in staffing cost leads to positive surprise: Within operating expenses, while raw material and other expenses as a percentage of sales rose 60 bps QoQ, this was more than offset by 230 bps QoQ decline in staff costs as a percentage of sales, thus leading to 70 bps QoQ EBITDA expansion. Staff expenses were down on lower gratuity provisioning. *Even if we assume staff costs are in line with F3Q10 levels, results look impressive with EBITDA at Rs7.8 bn, 6% ahead of expectations.*

Interest costs fell as the company repaid debt and it ended the year with standalone and consolidated D/E of 0.4x and of 0.4x and 1.3x respectively.

At the consolidated level: Revenue was Rs73 bn. Net profit was Rs7.2bn, up 25% YoY and 54% QoQ.

Key Ratios and Statistics

Reuters: MAHM.BO Bloomberg: MM IN
India Four-Wheelers: Commercial Vehicles

Price target	Rs610.00
Upside to price target (%)	12
Shr price, close (May 28, 2010)	Rs545.05
52-Week Range	Rs598.35-312.58
Sh out, dil, curr (mn)	574
Mkt cap, curr (mn)	Rs312,877
EV, curr (mn)	Rs306,929
Avg daily trading value (mn)	Rs192

Fiscal Year ending	03/09	03/10e	03/11e	03/12e
ModelWare EPS (Rs)	23.90	41.08	49.14	55.15
Revenue, net (Rs mn)	130,937	183,708	217,403	247,012
EBITDA (Rs mn)	16,306	32,922	37,931	42,469
ModelWare net inc (Rs mn)	13,722	23,582	28,206	31,658
P/E	8.0	13.3	11.1	9.9
P/BV	1.9	3.7	2.9	2.3
RNOA (%)	17.7	36.7	34.3	32.1
ROE (%)	28.5	40.7	33.2	29.0
EV/EBITDA	6.4	8.9	7.6	6.4
Div yld (%)	10.4	2.1	2.2	2.2
FCF yld ratio (%)	9.5	5.8	7.3	9.0
Leverage (EOP) (%)	(9.4)	(21.0)	(26.1)	(32.8)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
e = Morgan Stanley Research estimates

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New ventures: M&M's entry into the US is scheduled to take place in December 2010, with the launch of a couple of compact diesel-driven, pick-up truck models. M&M also announced on May 28 that it had submitted a letter to the Korean Auto maker, Ssangyong Motors, which manufactures sports utility vehicles such as Rexton and Kyron and recreational vehicles. Given that M&M is in the process of launching its line in international markets, Ssangyong's

technology and design expertise could offer synergies with M&M's ambitions. Also, on May 26 the company announced its entry into the electrical vehicle (EV) segment, buying a majority stake in Reva, the largest EV car maker globally.

More post the analyst meet: The company is holding the analyst meet on 31 May and we will revert with more details post that.

Exhibit 1

M&M F4Q10 Standalone

Rs Mn	F4Q09	F3Q10	F4Q10	YoY	QoQ	
Tractors	19,715	35,803	38,963	97.6%	8.8%	
MUVs	48,681	53,931	63,755	31.0%	18.2%	
3-W & Others	10,281	14,926	21,902	113.0%	46.7%	New launches aid growth
Total Standalone Volumes	88,061	112,660	132,620	50.6%	17.7%	
ASP (Rs/pu)	411,008	397,541	398,043	-3.2%	0.1%	Flat QoQ
Total Income	36,466	44,971	53,046	45.5%	18.0%	
Total Expenditure	32,516	38,116	44,591	37.1%	17.0%	
EBITDA	3,950	6,855	8,456	114.1%	23.3%	
Depreciation	932	984	947	1.7%	-3.7%	
EBIT	3,018	5,872	7,508	148.8%	27.9%	
Other income	231	244	181	-21.4%	-25.6%	
Net Interest	209	82	9	-95.7%	-89.0%	Interest bearing debentures converted
PBT and extraordinary items	3,039	6,033	7,681	152.7%	27.3%	
Extraordinary income	2,120	-	24			Forex gains in Q4
Extraordinary expense	734	-	-			
PBT	4,425	6,033	7,704	74.1%	27.7%	
Tax	323	1,791	1,978	512.2%	10.5%	
Reported PAT	4,102	4,137	5,726	39.6%	38.4%	
PAT before Extraordinary Items	2,716	4,243	5,703	110.0%	34.4%	
EBIDTA Margin (%)	10.8	15.2	15.9	5.1	0.7	
PBT Margin (%)	12.1	13.4	14.5	2.4	1.1	
Net Margin (%)	7.4	9.4	10.8	3.3	1.3	
Tax Rate (%)	10.6	29.7	25.8	15.1	-3.9	FY10 tax rate at 27%
Raw Materials	70.0%	67.0%	67.6%	-2.4%	0.6%	Inching up
Staff Cost	7.5%	7.3%	5.0%	-2.5%	-2.3%	Cut in gratuity provisioning
Other Expenses	11.7%	10.4%	11.5%	-0.3%	1.1%	Advertisement spend goes up

Source: Company data, Morgan Stanley Research

Exhibit 2

M&M- Consolidated F410 Results

Consolidated	F4Q09	F3Q10	F4Q10	YoY	QoQ
Revenues	51,037	81,568	72,871	42.8%	-10.7%
PAT	5,835	4,737	7,294	25.0%	54.0%
% from standalone	70	87	79		

Source: Company data, Morgan Stanley Research

Exhibit 3

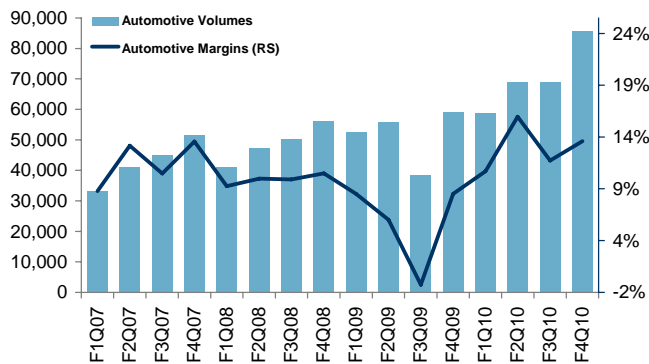
Segmental Performance: FES contributes 51% to Standalone EBIT

Segmental Breakdown	F4Q09	F3Q10	F4Q10	YoY	QoQ
Realization per vehicle					
Automotive realization	371,358	371,322	363,535	-2.1%	-2.1%
Tractors Realization	497,766	440,194	463,416	-6.9%	5.3%
Revenues Mix					
Automotive Segment (%)	60	57	59	-1.2	1.8
Farm Equipment Segment (%)	40	43	41	1.4	-1.8
EBIT Mix					
Automotive Segment (%)	51	45	48	-3.2	3.1
Farm Equipment Segment (%)	47	55	51	4.6	-3.6
PBIT Margin					
Automotive (%)	8.0	11.2	13.1	5.0	1.8
Farm (%)	11.1	18.3	20.0	8.9	1.8

Source: Company data, Morgan Stanley Research

Exhibit 4

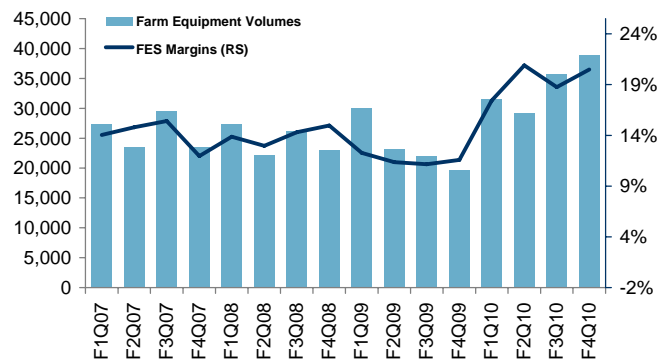
Automotive EBIT Margins recover in 4Q



Source: Company data, Morgan Stanley Research

Exhibit 5

FES EBIT Margins Improve



*FES is Farm Equipment Division.
Source: Company data, Morgan Stanley Research

Exhibit 6

Group Level: Sector wise performance snapshot, Margins and Mix


	F4Q09	F3Q10	F4Q10	YOY (%)	QoQ (%)
EBIT Margin (%)					
Automotive (%)	6	10	12	6.0	1.5
Farm Equipment (%)	10	16	16	6.7	0.4
Trade, Retail and Logistics (%)	-30	14	16	46.2	1.9
Financial Services (%)	41	35	46	5.2	10.2
Infrastructure (%)	22	27	21	-0.9	-6.3
Hospitality (%)	33	25	35	2.0	9.3
IT Services (%)	24	20	25	0.7	4.7
Systech (%)	-13	-6	-4	8.5	1.9
Others (%)	-9	-12	-14	-5.0	-2.0
Revenues Contribution (%)					
Automotive (%)	35	35	36	1.6	1.7
Farm Equipment (%)	25	27	28	3.5	0.8
Trade, Retail and Logistics (%)	-2	2	2	3.6	0.0
Financial Services (%)	6	5	5	-0.5	0.0
Infrastructure (%)	2	2	2	0.1	0.1
Hospitality (%)	2	2	2	0.0	-0.1
IT Services (%)	17	16	14	-2.9	-2.2
Systech (%)	10	8	8	-1.6	-0.1
Others (%)	8	3	3	-5.3	-0.3
EBIT Contribution(%)					
Automotive (%)	19	27	28	9.4	1.4
Farm Equipment (%)	23	33	30	7.5	-2.6
Trade, Retail and Logistics (%)	5	2	2	-2.8	0.0
Financial Services (%)	23	14	16	-6.6	1.8
Infrastructure (%)	3	3	2	-1.1	-0.9
Hospitality (%)	5	3	4	-1.5	0.5
IT Services (%)	39	25	23	-16.0	-1.9
Systech (%)	-12	-4	-2	9.9	1.6
Others (%)	-7	-3	-3	4.3	0.2

Source: Company data, Morgan Stanley Research

Company Description

Mahindra & Mahindra manufactures and markets general purpose utility vehicles, including medium and heavy commercial vehicles, jeeps, cars, agricultural tractors, and other related products. With revenue of nearly US\$2.8bn in F2009, it is one of the top-five auto companies in India. It has several subsidiaries involved in businesses such as financing, telecom software, construction, steel, and auto components.

India Four-Wheelers: Commercial Vehicles**Industry View: Cautious**

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Total	2,563		777		

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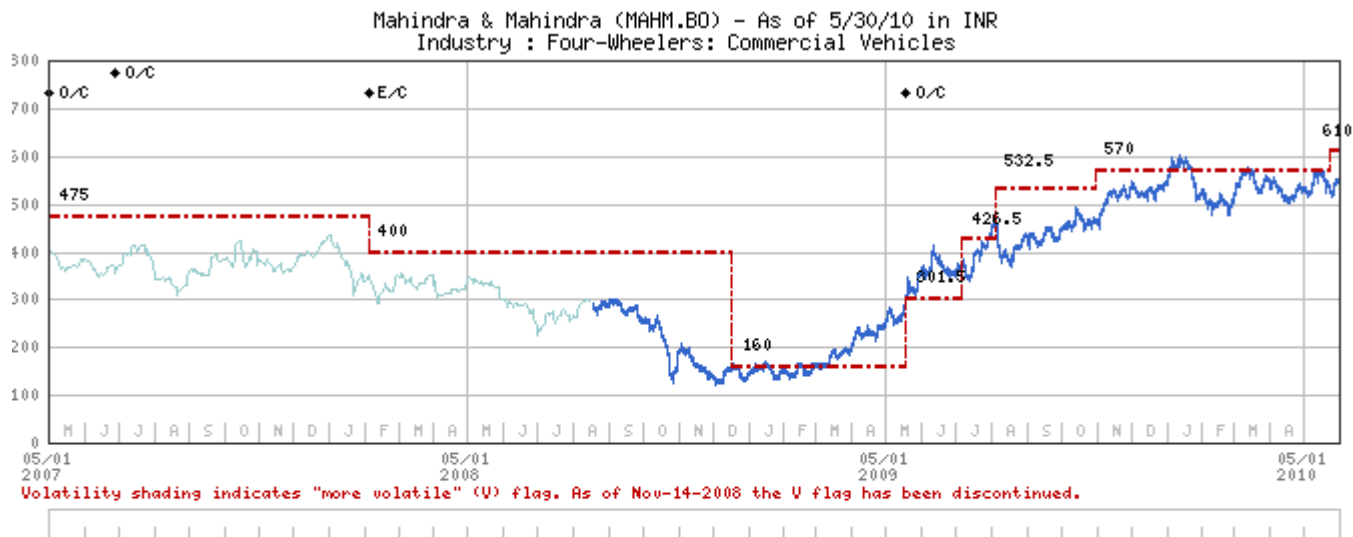
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Price Target History: 12/1/06 : 475; 2/4/08 : 400; 12/17/08 : 160; 5/18/09 : 301.5; 7/6/09 : 426.5; 8/4/09 : 532.5; 10/30/09 : 570; 5/24/10 : 610

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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**Industry Coverage: India Four-Wheelers:
Commercial Vehicles**

Company (Ticker)	Rating (as of)	Price* (05/28/2010)
Binay Singh		
Ashok Leyland Ltd. (ASOK.BO)	O (11/03/2009)	Rs60.35
Mahindra & Mahindra (MAHM.BO)	O (05/18/2009)	Rs545.05
Tata Motors (TAMO.BO)	O (11/30/2009)	Rs748

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* Historical prices are not split adjusted.