

Company Flash

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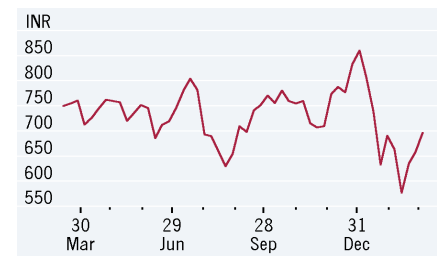
Mahindra & Mahindra (MAHM.BO)

Citi India Conference 2008: Day 2 Takeaways

- Conference takeaways** — M&M spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Core business outlook mixed** — Management guided to a mixed outlook, with healthy growth of 10-12% forecast for UVs over the next 2 years; outlook for tractors was cautious – flat growth over FY09 despite the benefits being provided to farmers by the government.
- Capex plan** — Management reiterated a capital expenditure of Rs90bn over FY08-10; Rs50bn will be absorbed at the new Chakan plant (and the platforms that will be built at Chakan) and Rs11bn is allocated toward inorganic initiatives (for Systech); Rs5bn is for the tractor business.
- Value unlocking in subsidiaries** — Mahindra plans to list Mahindra Holiday and Resorts over the next few months, in line with management's philosophy.
- Inorganic initiatives at Systech** — Management appears confident of achieving a revenue target of \$1bn by end-2009 (from annualized ~\$850m at present) through organic and inorganic initiatives.

Buy/Low Risk	1L
Price (12 Mar 08)	Rs685.00
Target price	Rs865.00
Expected share price return	26.3%
Expected dividend yield	1.6%
Expected total return	27.9%
Market Cap	Rs168,333M US\$4,171M

Price Performance (RIC: MAHM.BO, BB: MM IN)



Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2006A	6,688	26.18	-39.5	26.2	5.5	27.2	1.5
2007A	9,872	38.64	47.6	17.7	4.4	29.9	1.7
2008E	10,250	40.12	3.8	17.1	3.7	25.2	1.6
2009E	11,293	44.20	10.2	15.5	3.1	23.4	1.8
2010E	13,133	51.40	16.3	13.3	2.6	23.0	1.9

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Mahindra & Mahindra

Company description

Mahindra and Mahindra manufactures utility vehicles, light commercial vehicles and tractors. It has recently entered the three-wheeler segment. M&M is the market leader in both the utility vehicle and tractor segments.

Investment strategy

We rate M&M shares Buy / Low Risk (1L) with a target price of Rs865. Tractor sales are benefiting from relatively low penetration levels and the government's emphasis on increasing credit to the agriculture sector. Apart from dominance of the lower end of the market, where competition has been limited, M&M's utility vehicle business is also benefiting from product initiatives, particularly the launch of the Scorpio and Bolero models and variants of these, which have enabled M&M to tap into the urban markets for passenger vehicles. Moreover, we also recognize management's efforts to retain market share within segments like three-wheelers, given the stiff competition in this segment. We remain positive on management's efforts to de-risk from the local market by pursuing sales in select international markets. The target is to raise international sales from around 10% at present to 20% over the next three years. Their efforts have met with substantial success particularly in the tractor segment, wherein they are currently ranked No. 4 (in terms of unit sales) globally. The substantial value of the company's real estate and investment holdings (particularly in the information technology business through Tech Mahindra and in the financial services business through M&M Financial Services) should

provide downside support (especially with increasing dividends from key subsidiaries). Given recent initiatives to unlock value in subsidiaries – MMFSL and Tech Mahindra being the primary examples – we incorporate the value of

key subsidiaries within our sum-of-parts valuation.

Valuation

Our target price of Rs865 is based on a sum-of-parts methodology. We value M&M's core business at Rs468 (9x FY09E core CEPS). We also incorporate value for M&M's listed subsidiaries (Rs222/share), its auto component business (Rs57/share) and M&M's investments in other subsidiaries (including Mahindra Holidays at Rs102/share). Our core multiple of 9x, is supported by an 11% CAGR in core cash earnings (excluding dividends from group companies) for M&M over FY07E-09E. We value the key subsidiaries / associates / auto component initiatives at Rs397/share. At our core target price (of Rs468) the

stock would trade at around 10.2x FY08E core EPS (excluding dividends from subsidiaries) and should be supported by 11% CAGR in earnings over FY07E-09E. We have chosen to use P/CEPS as our primary valuation metric to ensure proper comparison with historical trading bands — the company is undertaking a significant product development and capital expenditure program, and also undertook a restructuring of the balance sheet in FY02. We believe valuations

will also be supported by: a) management's continued efforts to unleash value from investments in group concerns (we believe that the listing of the group's hotel / resorts venture is next on the anvil); and b) new initiatives announced in the passenger cars, commercial vehicles and auto components segments, which should fructify over the next 2-3 years.

Risks

We rate M&M shares Low Risk, in line with our quantitative model which tracks 260-day historical share price volatility. Key Risk factors to our investment thesis which could prevent the shares from reaching our target price include:

Any substantial rise in interest rates that could curb demand for farm equipment and utility vehicles. Given M&M's strong dependence on the rural economy (a substantial part of the demand for their products emanates herein), any weak trend in the prices of agricultural commodities could also impact demand and sales. Escalating competition within the UV segment, which might lead to an increase in discounts and result in margin pressure.

Appendix A-1

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Ratings and Target Price History - Fundamental Research

Analyst: Jamshed Dadabhoy (covered since March 1 2006)



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