

7th Nov 2006

**Gearing Ahead**
**Hold**
**SCRIP DETAILS**

Market Cap (Rs crores)	18,101.3
P/E (x)-FY07(E)	18.4
Market Cap/Sales (x) FY07(E)	1.8
EV/EBIDTA (x) FY07(E)	16.9
Dividend (Rs)/ Yield (%)	10/1.31

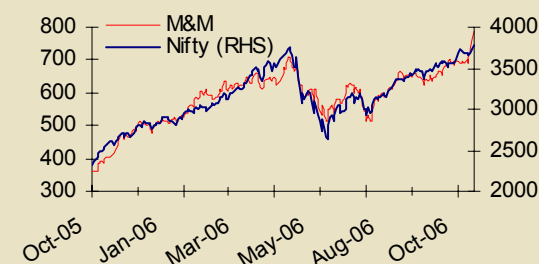
Equity Capital (Rs crores)	236.6
Face Value (Rs)	10.0
52 Week High/Low (Rs)	806.4/363

 Website: [www.mahindra.com](http://www.mahindra.com)

NSE Code	M&M
Sensex	13157
Nifty	3824

**SHARE HOLDING PATTERN  
(As on 30th Sept 2006)**

Promoters	23.06
Mutual Funds/ Banks/ FIs	6.43
FIIIs	34.46
Others	7.55
Public	28.49

**COMPARATIVE PRICE**


Mahindra & Mahindra (M&M) has reported excellent results for the quarter, with a magnificent growth in its revenues, on account of contribution from its Automotive Division (61%) and its Farm Equipment Division (35%).

**Volumes, coupled with realisations boost topline:** M&M's volumes for the quarter have grown by 24% YoY and 6.9% QoQ, to 66,708 units, while the realisations have gone up by 3% YoY and 2.5% QoQ. This has boosted its topline, which has posted a standalone growth of 28% YoY, to Rs 2,450 crores. Its consolidated revenues have accelerated by 46% YoY, to Rs 4,618 crores.

**Robust Performance led by margin expansion:** The Company has been able to improve its raw material cost/sales ratio from 69.6% in Q2FY06 to 66.2% (Q2FY07), which has pushed up operating profit by 51%. The operating profit is at Rs 329.3 crores, with an OPM of 13.4%, which indicates an expansion of 200 bps YoY and 140 bps QoQ.

The reported PAT has gone up by 145%, to Rs 386.5 crores, after factoring the exceptional items that include the octroi refund (Rs 40.3 crores) and the profit made on the sale of shares of its subsidiary, Tech Mahindra, (Rs 116 crores), while the adj PAT has jumped 71%, to Rs 271.2 crores. The adj PAT margin is at 11.1%, up by 280 bps YoY and 200 bps QoQ. The adj EPS is at Rs 11.5, in comparison with Rs 6.7 in Q2FY06.

**Enlargement across divisions:** The auto business has experienced a 15% growth in H1FY07 against the industry growth of 22%. The growth has been on account of its small 3-wheeler model, Champion Alfa, the H1FY07 volumes of which were 7,501 units as compared to 313 units in H1FY06, and its Scorpio model, which clocked volumes of 9,893 units during the quarter. The Farm Equipment Division has witnessed a good growth during the quarter, due to the growth in the revenues of domestic tractors, which posted a growth of 28% YoY, with an export growth of 64% YoY.

**Capex Plans:** M&M has planned an investment of over Rs 300 crores in the next two years in its existing plants and a capacity expansion of 25%. It also has plans of setting up a greenfield facility, at an investment of Rs 400 crores over the next two and a half years, for capacity expansion and product development of its farm equipment sector.

**New Initiatives:** The Company plans to launch two new variants of UVs in H2FY07. The Project Ingenio is on track for a 2008 launch, from a new facility at Nashik. Further, the Company plans to introduce its new products such as the Logan and some new commercial vehicles in FY08. Recently, the Company has entered into a strategic alliance with Iran Tractor Manufacturing Co., to sell tractors in Iran, as it is one of the largest tractor markets after India, the US and China.

**Valuation:** M&M's auto division and farm equipment division have reported strong growth during the quarter. The auto division is expected to maintain its growth at the same level for H2FY07. The farm equipment division, which has been growing more than the automotive division, is likely to contribute even more to its margins in the future as the growth in rural credit continue to support the robust outlook for tractor sales, for FY07. Going forward, the Company is expected to gain strong visibility in earnings, given its diversified revenue streams and joint venture initiatives. At the CMP of Rs 765, the stock is available at 18.4x its FY07 (E) EPS of 41.6 and EV/ EBITDA of 16.9x. We advise investors to Hold the stock.

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## Volumes, coupled with realisations, advance topline growth

M&M's volumes for the quarter have grown by 24% YoY and by 6.9% QoQ, to 66,708 units, while the realisations have gone up by 3% YoY and 2.5% QoQ. This has boosted its topline, which has posted a standalone growth of 28.1% YoY, to Rs 2,450 crores. Its consolidated revenues have accelerated by 46% YoY, to Rs 4,618 crores. This magnificent performance in its topline is on account of its automotive and farm equipment divisions, which have recorded a strong sales performance (mainly exports) during the quarter.

Divisional Performance	Q2FY07	Q2FY06	Chg (%)	Apr-Oct06	Apr-Oct05	Chg (%)
<b>Automotive Division</b>						
3-wheelers	8,887	5,269	68.6	19,095	11,355	68
Utility Vehicles (UVs)	29,505	26,601	10.9	66,454	63,697	4
LCV	1,991	1,883	5.7	4,678	4,267	10
<b>Total Domestic</b>	<b>40,383</b>	<b>33,753</b>	<b>19.6</b>	<b>90,227</b>	<b>79,319</b>	<b>14</b>
<b>Exports</b>	<b>2,761</b>	<b>1,822</b>	<b>51.5</b>	<b>5,026</b>	<b>3,194</b>	<b>57</b>
<b>Farm Equipment Division</b>						
Tractors (Domestic)	21,801	17,096	27.5	59,860	47,160	27
Tractors (Exports)	1,764	1,075	64.1	4,447	3,529	26
<b>Total</b>	<b>23,565</b>	<b>18,171</b>	<b>29.7</b>	<b>64,307</b>	<b>50,689</b>	<b>27</b>
<b>Engines</b>	<b>6,934</b>	<b>3,897</b>	<b>78.0</b>			

### Automotive Division

- The automotive division, which has contributed 61% to the revenues in Q2FY07, had a 22%-rise in sales, at Rs 1,556.6 crores. The PBIT showed an increase of 77%, to Rs 232 crores, while its PBIT margins increased by 470 bps, at 14.9%.
- The auto business has experienced a 15%-growth in H1FY07, against the industry growth of 22%, and this is expected to maintain at the same level for H2FY07. The growth has been on account of its small 3-wheeler Champion Alfa, the H1FY07 volumes of which were 7,501 units, as compared to 313 units in H1FY06. M&M has a market share of 10.8% (H1FY07) in this segment, as against 0.6% (H1FY06).
- The UV Segment has grown at 10.9%, against an industry growth rate of 13.5%. The sales growth was mainly account of the growth in demand for hard-top vehicles and for the Company's Scorpio model, which clocked volumes of 9,893 units during the quarter. (A growth of 20% YoY). The Company is the market leader in this segment, with a market share of 45.7% in Q2FY07 and 44.8% in H1FY07.
- In the LCV segment, the Company's revenues have gone up, compared to a 4.4%-decline in industry sales. M&M has a market share of 19.3% (in Q2FY07), as compared 17.4% in Q2FY06; in H1FY07, it has attained a market share of 19.4%, as compared to 18.4% in H1FY06.
- M&M has an extensive distribution network, with 380 dealers across the country.

### Farm Equipment Division

- The farm equipment division, which has the widest product range, from 20 hp-65 hp engine tractors, has contributed 35% to the revenues in Q2FY07 and posted a 45% increase in its sales, at Rs 883 crores. The PBIT margins increased by 240 bps, to 14.2%, with a 75% increase in the PBIT for the quarter.
- The farm equipment division has witnessed a good growth during the quarter, due to the growth in revenues of its domestic tractors and its exports. The normal monsoons during Jun-Sep06, the increase in minimum support prices for agricultural-products, and the growth in rural credit continue to support the robust outlook for tractor sales, for FY07.
- The Engine business during the quarter also witnessed a healthy growth of 78%.
- The Company continued to be the market leader, with a market share of 28.7%, during the current quarter.

## Growth/ enlargement across group companies

The Company's major group companies such as Tech Mahindra, Mahindra Finance and Mahindra Gesco posted impressive results for the quarter. Tech Mahindra's top line grew by 183% (YoY) for Q2FY07, to Rs 698 crores, with a significant PAT growth of 386%, to Rs 177 crores. On the basis of half-yearly numbers, the Company has posted a 158% YoY-growth in its revenues, to Rs 1,296 crores in H1FY07, with a YoY PAT-growth of 299%, to Rs 284 crores. It has acquired Axes Technologies to enhance its offerings in the telecom equipment provider space. The number of clients has increased from 45 to 62, as of Aug06, and its headcount is over 12,000. Another group company, Mahindra Gesco, reported a 98% YoY-growth in its revenues, to Rs 45 crores, with a bottomline growth of 18% YoY, to Rs 3 crores for the quarter. In H1FY07, its revenues have grown by 64% YoY, to Rs 80 crores, while its PAT has jumped 34% YoY, to Rs 6 crores. M&M Financial Services has reported a 41% YoY revenue growth, to Rs 362 crores in H1FY07, while its PAT was Rs 50 crores, a growth of 10%.

## Growth Strategy

- M&M has planned an investment of over Rs 300 crores in the next two years, in its existing plants, and a capacity expansion of 25%. It also has plans of setting up a greenfield facility at an investment of Rs 400 crores over the next two and a half years, for capacity expansion and product development of its farm equipment sector.
- It continues to dominate the UV segment and plans to launch two new variants of UVs in H2FY07. The Project Ingenio is on track for a 2008 launch from a new facility at Nashik. Further, the Company plans to launch its new products such as the Logan and some new commercial vehicles in FY08 or in FY09. The two joint ventures of the Company, Mahindra Renault and Mahindra International, are well on track.
- Mahindra has a presence in many African countries like Nigeria, Ghana, Mozambique, Tanzania, Madagascar, DR Congo, Rwanda, Burundi and Ethiopia and is also evaluating manufacturing opportunities in COMESA. It has a subsidiary in South Africa that distributes vehicles in South Africa, SACU member countries and in other Southern African countries. Last year, Mahindra sold over 3,000 vehicles in South Africa, with the figure expected to cross 5,000 vehicles this year.
- In Oct06, M&M struck a deal to buy-out the German forging company, Jeco Holdings, making it the largest overseas deal in auto component space. This acquisition would bring to the Company, a strong clientele comprising of Volvo, Scania Renault and Daimler Chrysler, and a forging capacity of 1,00,000 tonnes across three locations in Germany. That, together with the product capabilities and technology, would help M&M tap other markets in Europe.
- M&M is now consolidating its forgings businesses under one umbrella, to facilitate synergies and raise funds. It has plans of transferring the recently acquired Jeco Holding and UK-based Stokes Forging to Mahindra Forgings, enabling the company to service markets across the globe at a cost advantage.
- Recently, the Company has entered into a strategic alliance with Iran Tractor Manufacturing Co., to sell tractors in Iran, as Iran is one of the largest tractor markets in the world, after India, the US and China

## Financials

Standalone (YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)
<b>Net Sales</b>	<b>2,450.2</b>	<b>1,914.8</b>	<b>28</b>	<b>4,726.7</b>	<b>3,726.7</b>	<b>26.8</b>
Total Expenditure	2,120.9	1,696.6	<b>25.0</b>	4,086.9	3,315.6	<b>23.3</b>
<b>Operating Profit</b>	<b>329.3</b>	<b>218.2</b>	<b>50.9</b>	<b>639.8</b>	<b>411.1</b>	<b>55.6</b>
OPM (%)	13.4	11.4		13.5	11.0	
<b>PBT before extra-ord</b>	367.6	205.8	78.6	691.9	377.9	83.1
PBT (%)	15.0	10.8		14.6	10.1	
<b>PBT</b>	523.9	204.4	156.4	806.4	374.9	115.1
PAT	386.5	157.2	145.8	590.7	302.5	95.3
PAT (%)	15.8	8.2		12.5	8.1	
<b>PAT (adj for extraord)</b>	<b>271.2</b>	<b>158.4</b>	<b>71.3</b>	<b>506.8</b>	<b>304.9</b>	<b>66.2</b>
<b>Equity Share Capital</b>	236.6	236.6		236.6	236.6	
<b>EPS (Rs)</b>	16.3	6.6		25	12.8	
Adj EPS (Rs)	11.5	6.7		21.4	12.9	

## Valuation and Conclusion

The Company has reported excellent results for the quarter, with strong growth in its revenues on account of its automotive and farm equipment divisions. The auto division has experienced a 15% growth in H1FY07, against the industry growth of 22%, and this is expected to maintain at the same level for H2FY07. The growth has been on account of its small 3-wheeler model, Champion Alfa and its Scorpio model, which have been given an impressive performance. The farm equipment division has also witnessed a good growth during the quarter, due to its tractor revenues and exports, and the engine business grew by 78%. The increase in minimum support prices for agricultural-products and the growth in rural credit continue to support the robust outlook for tractor sales, for FY07. The farm equipment division, which has been growing more than the automotive division, is likely to contribute even more to its margins in the future.

M&M's major group companies such as Tech Mahindra, Mahindra Finance and Mahindra Gesco also posted impressive results for the quarter. Going forward, the Company is expected to gain strong visibility in earnings, given its diversified revenue streams and joint venture initiatives. At the CMP of Rs 765, the stock is available at 18.4x its FY07(E) EPS of 41.6 and EV/ EBITDA of 16.9x. We advise investors to Hold the stock.

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