Detailed Report
SECTOR: AUTOMOBILES

Mahindra & Mahindra

STOCK INFO. BSE Sensex: 12,274	BLOOMBERG MM IN	21 September 2006	Buy
S&P CNX: 3,553	REUTERS CODE MAHM.BO	*Previous Recommendation: Buy*	Rs650

Precious clutch

Core businesses – from strength to strength

Subsidiaries & associates – adding substantial value

JVs – potential blockbusters

MS – taking the inorganic growth route

Potential upside of 28% – we recommend Buy

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(RS MILLION)	2005	2006	2007E	2008E
Total Income	66,606	81,412	90,966	100,284
EBITDA	7,709	8,865	11,130	12,473
NP	5,040	6,479	7,651	8,638
Adj. EPS (Rs)	21.0	26.4	31.1	35.2
EPS Growth (%)	25.2	26.2	18.1	12.9
Cons.Income	93,943	123,353	144,769	167,738
Cons. Adj. PAT	6,200	9,668	13,360	15,862
Cons. EPS (%)	25.4	39.6	54.7	65.0
BV/Share (Rs)	91.7	124.6	147.9	169.6
P/E (x)	30.8	24.5	20.7	18.4
Cons. P/E (x)	25.4	16.3	11.8	9.9
P/BV (x)	7.0	5.2	4.4	3.8
EV/EBITDA (x)	18.5	15.3	11.2	9.8
EV/Sales (x)	2.2	1.7	1.4	1.2
RoE (%)	23.7	22.3	22.2	21.8
RoCE (%)	20.6	22.1	23.4	23.7

KEY FINANCIALS	
Shares Outstanding (m)	233.4
Market Cap. (Rs b)	150.8
Market Cap. (US$ b)	3.3
Past 3 yrs Sales Growth (%)	34.8
Past 3 yrs PAT Growth (%)	109.1
Dividend Payout (%)	59.6
Dividend Yield (%)	1.0

STOCK DATA	
52-Week Range (Rs)	719/345
Major Shareholders (as of June 2006)	(%)
Promoters	23.0
Domestic Institutions	21.8
FII/FDIs	41.7
Public	13.5
Average Daily Turnover	
Volume ('000 shares)	1,112.1
Value (Rs million)	613.8
1/6/12 Month Rel. Performance (%)	-8/-7/33
1/6/12 Month Abs. Performance (%)	-3/4/76

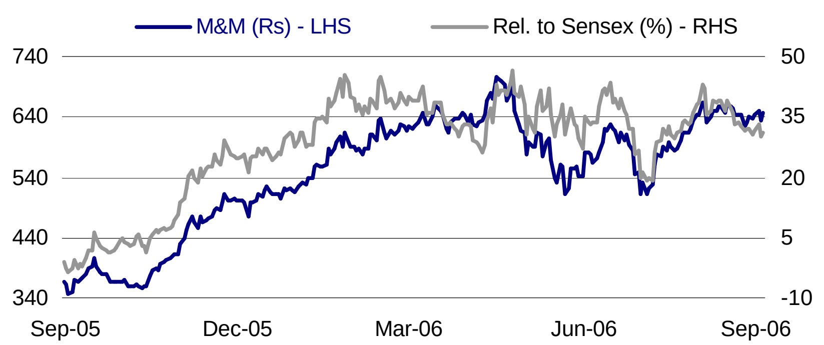
While Mahindra & Mahindra's (M&M) core business continues to do well, its non-automotive subsidiaries – especially Tech Mahindra, MMFSL and Mahindra Gesco – are adding substantially to its valuations. Its JVs with Renault and ITEC, which would enable it to enter the passenger car and commercial vehicle segments, are potential blockbusters in our opinion. Besides, the company's acquisition-led strategy is fuelling growth of its automotive parts division, Mahindra Systech. Our SOTP valuation for M&M works out to Rs830.

Core business – from strength to strength: M&M enjoys market leadership in both utility vehicles (UVs) and tractors. Given the rural bias in its product mix, we expect the company to benefit significantly from the government's thrust on the development of the rural economy. We believe that M&M would witness robust volume growth and maintain its market share in both UVs and tractors for the next two years.

Subsidiaries and associates – adding substantial value: M&M's non-automotive subsidiaries like the recently listed Tech Mahindra and MMFSL would continue to add significantly to M&M's consolidated financials and along with Mahindra Gesco also add to its valuations. We estimate the value of its non-automotive subsidiaries at Rs197/share of M&M – 40% of the value of its core business.

Potential upside of 28% – recommend Buy: Despite exciting growth prospects, the stock trades at a discount to most of its peers. It quotes at 11.8x FY07E and 9.9x FY08E consolidated earnings. Our SOTP valuation of Rs830 indicates a 28% upside from current levels. **Buy**.

STOCK PERFORMANCE (ONE YEAR)



Core business – from strength to strength

M&M enjoys market leadership in both tractors and utility vehicles (UVs). Given the rural bias in its product mix, we expect the company to benefit significantly from the government's thrust on the development of the rural economy. We believe that the company would witness robust volume growth over the next couple of years and maintain its market share in both UVs and tractors.

Tractors – outlook remains positive

India's tractor industry has grown at 19.4% CAGR over FY03-06, driven by good monsoons and the government's thrust on the development of the rural economy. Given that the monsoons have been normal for the fourth consecutive year, we expect the expansion in tractor volumes to continue.

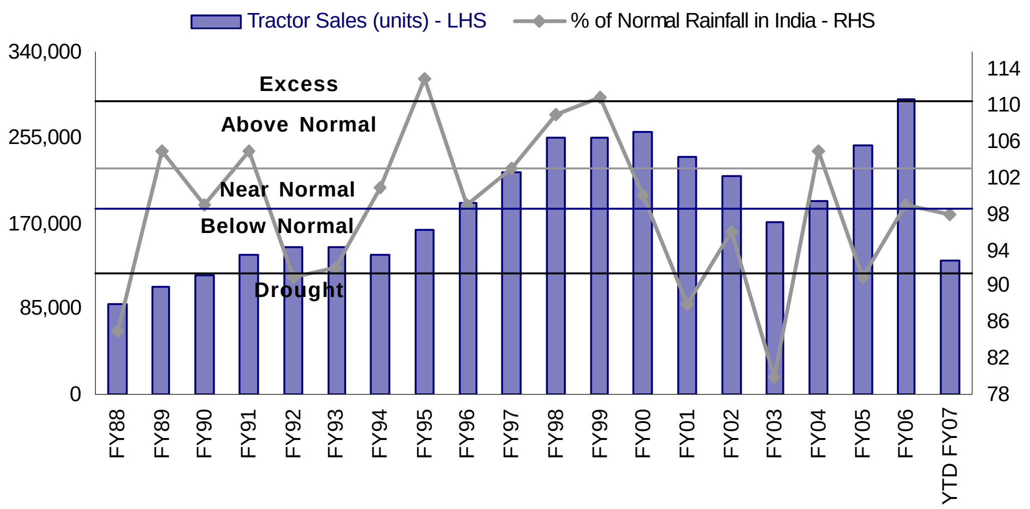
India has had normal monsoons for the fourth consecutive year…

- **Normal monsoons for the fourth consecutive year**

  The actual rainfall for the 2006 south-west monsoon (1 June - 13 September 2006) was 792mm according to the Indian Meteorological Department (IMD) against a normal of 804.9mm. This falls within the definition of "near normal" monsoon given by the IMD.

  India has received adequate rainfall for the fourth consecutive year (+/- 10% of normal rainfall may be called adequate). Tractors volumes have shown a positive correlation in years of normal rainfall. Adequacy of rainfall combined with a buoyant economy is a big positive for the agricultural sector. Agricultural GDP growth was 3.9% in FY06 and is likely to be 3% in FY07.

GOOD MONSOONS REFLECT IN HIGHER TRACTOR SALES



Source: Company/Motilal Oswal Securities

The general long-term trend that has been observed for the tractor industry is that for every two consecutive years of adequate rainfall, tractor sales are able to maintain their growth cycle for four years. With four consecutive years of normal rainfall, the tractor industry growth cycle may be sustained over a longer period.

…and the government is committed to improving the terms of trade for the rural economy…

- **Government policies support tractor growth**

  The current UPA government is highly committed to improving the terms of trade for the rural economy. Amongst the steps that it has taken towards the development of the rural economy are:
  - Increased thrust on rural water supply
  - Increase in farm credit (from Rs1,253b in FY05 to Rs1,750b in FY07; 5m more farmers to be covered under institutionalized credit)
  - Crop loans upto Rs100,000 at the rate of 7%

…indicating a favorable outlook for tractor demand

- **Other macroeconomic and demographic factors**

  Land values have appreciated significantly over the past few years. As a result, a farmer is able to obtain higher loans by pledging his land. These funds can be used to increase the productivity of land and increase the mechanization of farming by purchasing tractors, etc.

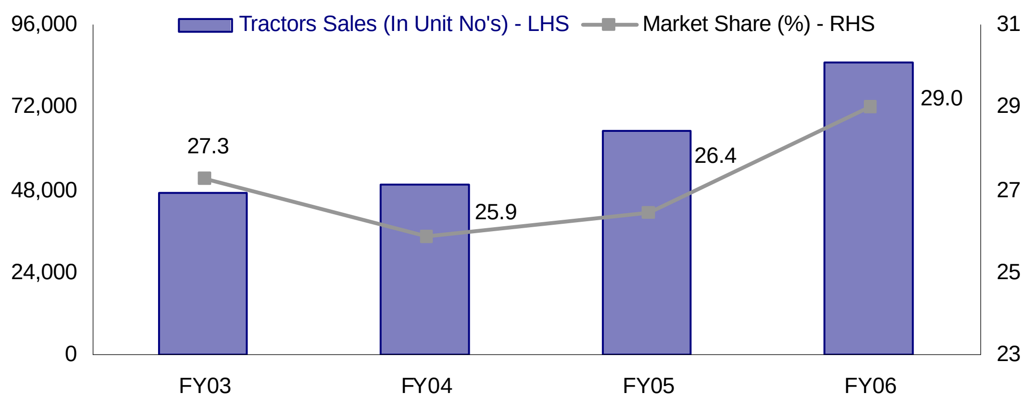
  Alternative uses of tractors are also contributing to higher sales. Tractors do not require gate pass, hence, it is easier to transport goods as compared to trucks (as excise and other taxation issues come into play). Further, tractors are also finding increasing application as a means for public transport in rural areas.

M&M is consistently improving its market share

Being the industry leader, M&M would benefit the most

M&M's strong distribution network and position as a market leader has ensured that it has been one of the biggest beneficiaries of the favorable tractor market scenario. As a result, M&M has steadily gained market share over the past two years.

M&M'S SHARE IN THE TRACTOR MARKET HAS BEEN RISING



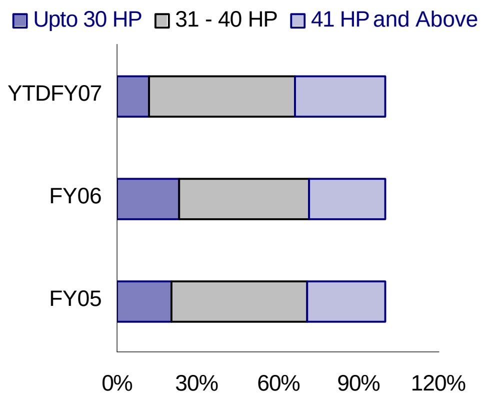
Source: Company/Motilal Oswal Securities

We expect the company's realization per tractor sold to increase…

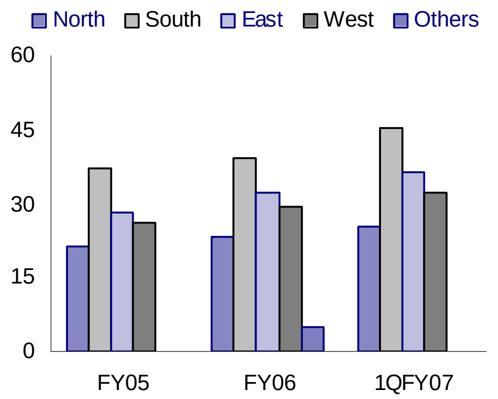
Recent trends in tractor sales mix also indicate a shift towards higher HP tractors. Share of tractors in the 41HP and above category has increased from 28.8% in FY06 to 33.5% during the period April-July 2006 (27.5% during April-July 2005). The share of tractors in the 31-40HP range has also increased in M&M's product mix. These changes have been at the cost of the below 30HP category. This will improve the per tractor realizations for M&M, in our opinion.

M&M TRACTORS (%)

SALES MIX SHIFTING IN FAVOR OF HIGHER HP



MARKET SHARE IMPROVING ACROSS REGIONS



Source: Company/Motilal Oswal Securities

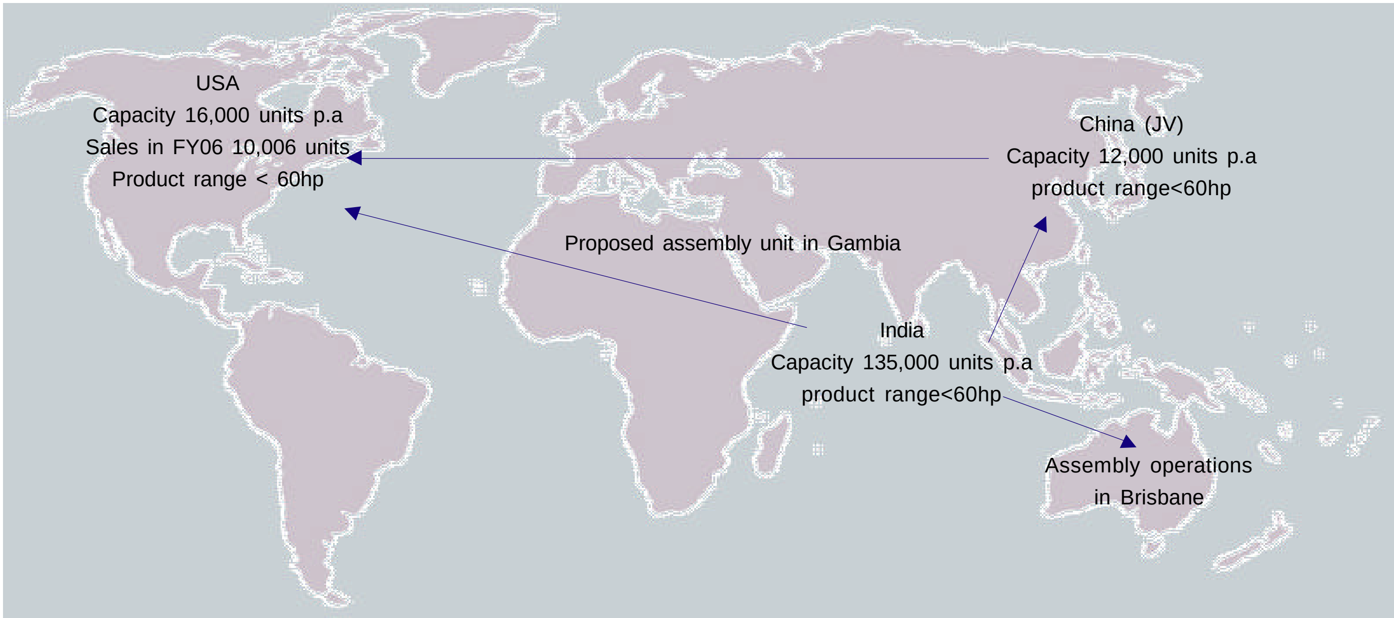
Overseas JVs to boost exports

…and exports to grow considerably, boosted by its overseas JVs

M&M's Chinese JV, which commenced production in June 2005, has enabled it to enter the rapidly growing Chinese market and would help increase its exports to the US, going forward. The management has indicated that pilot exports from its Chinese venture to the US market has already commenced and this would help improve the overall capacity utilization of the plant.

Further, M&M has also recently proposed an assembly unit in Gambia in Africa to tap the market there. M&M's other assembly plants include its assembly operations in Australia and the US. The US assembly plant capacity is 16,000 units per annum, while sales in FY06 were 10,006 units. M&M has, thus, been able to break into the US - a very lucrative, but intensively competitive market.

M&M TRACTORS: EMERGING AS A DOMINANT GLOBAL PLAYER



Source: Company/Motilal Oswal Securities

Positive volume growth outlook

We believe M&M's tractor volumes would grow 17% in FY07 and 9% in FY08

We remain positive on India's tractor industry as well as the prospects of M&M in the tractor business. We estimate 12.9% CAGR in tractor volumes over FY06-08, supported by the government's Bharat Nirman initiative. Being the industry leader, with a market share of 29%, we expect M&M's tractor volumes to grow 17% in FY07 and 9% in FY08. As its YTD tractor volumes have grown by a robust 27.7%, the residual growth requirement to achieve our estimated 17% growth for FY07 is 10.5%.

M&M: TREND IN TRACTOR VOLUMES

	FY04	FY05	FY06	FY07E	FY08E
Tractor Sales	49,554	65,387	85,029	99,483	108,436
Growth Rate (%)	*5.4*	*32.0*	*30.0*	*17.0*	*9.0*

	FY07	FY06	GR. (%)
Tractor Sales - YTD FY07 (August)	41,202	32,272	27.7
Tractor Sales - FY07 Estimate	99,483	85,028	17.0
Residual Growth Req.	58,281	52,756	10.5

Source: Company/Motilal Oswal Securities

UVs – expect double-digit volume growth

Passenger vehicle demand in India is likely to grow at 12% CAGR over FY06-08…

We expect passenger vehicle demand in India to grow at 12% CAGR over FY06-08, driven by changing lifestyles, rapid growth in high-income households and vibrancy in the service sector. Lower vehicle ownership cost resulting from cheap finance rates (even after considering the recent hike in interest rates) and easy financing solutions will continue to be the catalyst for demand growth.

Expect UVs to outperform passenger cars

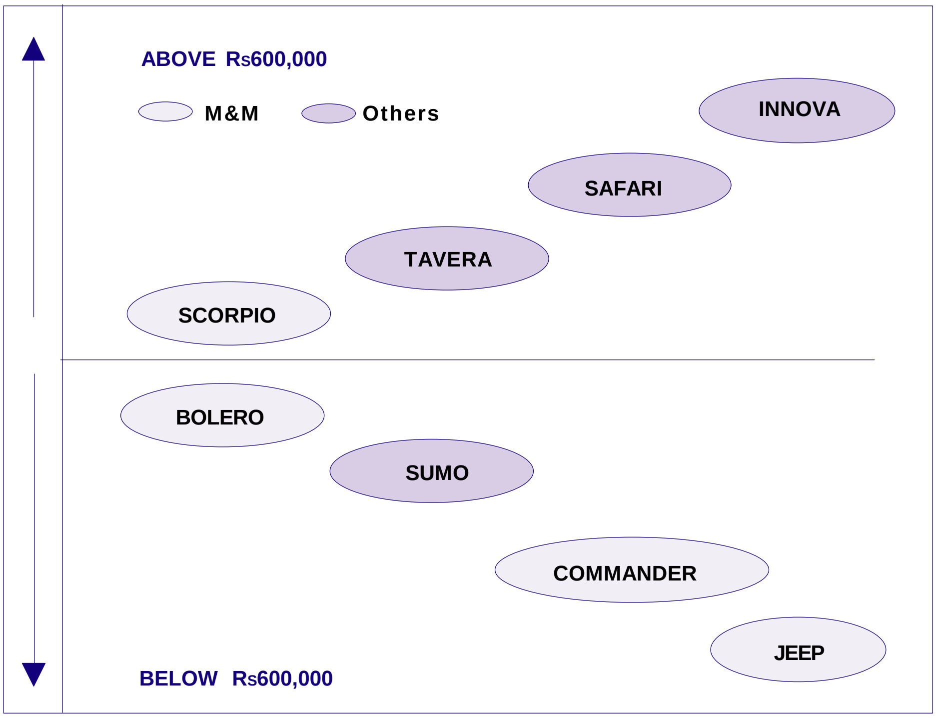
…and UVs should outperform the growth in passenger vehicle volumes

- Expect CAGR of 10-12% in passenger vehicle volumes over FY06-08
- Given their low penetration and improvement in road infrastructure, we expect UVs to outperform the passenger vehicle segment. Expect UVs to grow at 14% CAGR over FY06-08
- UV volume as a proportion of PVs is increasing; up from 17% in FY02 to 20.3% in FY05; expect further rise to 25% in FY08

M&M is best positioned in the UV segment, given its wide product range

In our opinion, M&M is best positioned in the UV segment. It provides the full range of UVs across user segments – taxi, semi-urban, rural and urban.

M&M: OFFERING A FULL RANGE OF UVs



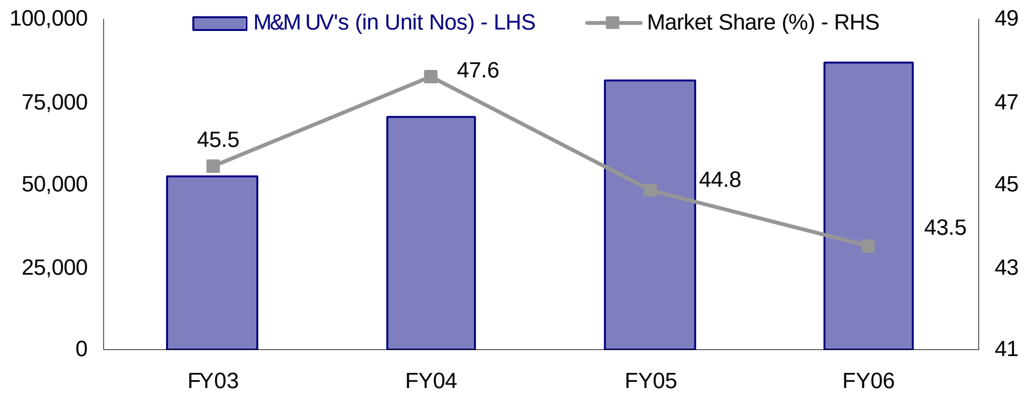
Source: Company/Motilal Oswal Securities

We expect M&M to retain its market leadership in UVs…

M&M is also developing an all-new MPV dubbed *Ingenio*, scheduled for launch in 2008, for which the company intends to build a new manufacturing unit at Nashik. M&M is also looking at capex at its existing Uttaranchal plant. The total capex for these two projects will be nearly Rs10b.

M&M's popular UV model, *Scorpio*, is witnessing some pressure on volume growth due to competition from newer models like Toyota's *Innova* and General Motors' *Tavera*. Its market share in UVs has declined by over 4 percentage points between FY04 and FY06.

M&M COMMANDS ALMOST HALF THE UV MARKET IN INDIA



Source: Company/Motilal Oswal Securities

...and achieve double-digit volume growth in FY07 and FY08

However, we believe that M&M would maintain market leadership and achieve double digit volume growth in FY07 and FY08, given its wide range of offerings. We expect M&M's UV volumes to increase by 12.5% in FY07 and by 11% in FY08, driven mainly by *Scorpio* demand. In FY07, UVs have seen 8.3% YTD growth; a residual growth of 14.8% is required to meet our full-year growth estimate.

M&M: TREND IN UV VOLUMES

	FY04	FY05	FY06	FY07E	FY08E
Utility Vehicles	93,043	114,184	120,222	135,227	150,102
Growth Rate (%)	*35.1*	*22.7*	*5.3*	*12.5*	*11.0*
Scorpio	23,976	26,837	31,661	36,455	41,923
Growth Rate (%)	*108.5*	*11.9*	*18.0*	*15.1*	*15.0*

	FY07	FY06	GR. (%)
UV Sales - YTD FY07	46,741	43,175	8.3
UV Sales - FY07 Estimate	135,227	120,222	12.5
Residual Growth Req.	88,586	77,047	14.8

Source: Company/Motilal Oswal Securities

Three-wheelers – competitive pressure to limit growth

In three-wheelers, however, M&M's growth would be limited

M&M entered the large three-wheeler segment (above one ton) in FY02, with overall investment of Rs135m and did extremely well by achieving 49% market share in FY06. However, we expect M&M to show limited growth in the segment hereon, as competition has intensified with Bajaj Auto's entry in three-wheeler goods segment and with Tata Motors' launch of *ACE* (a 750 kg payload vehicle).

M&M: TREND IN THREE-WHEELER VOLUMES

	FY04	FY05	FY06E	FY07E	FY08E
3-wheelers	17,347	22,943	22,419	25,109	27,369
Growth Rate (%)	*73.0*	*32.3*	*-2.3*	*12.0*	*9.0*

Source: Company/Motilal Oswal Securities

Exports – to contribute significantly to growth

With exports contributing significantly to M&M's volume growth…

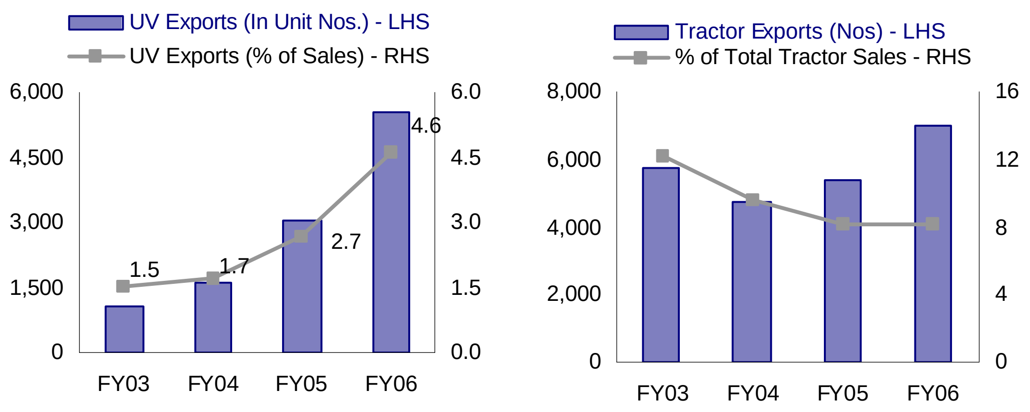
M&M has recorded strong growth in exports (both tractors and UVs) over the last four years. Exports contributed 5% of M&M's volumes in FY06, as compared to 3% in FY02. M&M also plans to set up assembly units in Russia and Malaysia for the *Scorpio* pick-up truck. We believe that exports would continue to contribute significantly to volume growth, going forward.

Tractors: Exports contributed 8% of tractor sales in FY06. The company is aggressively moving to new geographies like Europe, Australia, New Zealand, South Africa and Spain. M&M is setting up two new assembly plants in Texas and Georgia. Also, the China JV will provide M&M with a strong manufacturing base, an existing distribution network and a complementary product range, driving tractor volumes over the next two years.

UVs: M&M's UV exports increased by over 90% in FY06 (though on a low base). The company is planning to set up an assembly plant in Uruguay, and is aggressively pursuing export opportunities for *Scorpio* in the Middle East, China, Eastern Europe, CIS, Africa and Latin America.

M&M: UV EXPORTS

TRACTOR EXPORTS



Source: Company/Motilal Oswal Securities

Strong overall volume growth

…we expect its overall volumes to grow 16.8% in FY07

We expect M&M to register overall sales volume growth of 16.8% in FY07, as compared to YTD growth of 21.3%. The residual growth rate for the rest of the year works out to be 14.2%.

M&M: OVERALL SALES (UNITS)

	FY07	FY06	GR. (%)
Overall Sales - YTD FY07	103,429	85,271	21.3
Overall - FY07 Estimate	273,819	234,447	16.8
Residual Growth Req.	170,284	149,176	14.2

Source: Company/Motilal Oswal Securities

M&M's core business performance remains robust

M&M: SEGMENT-WISE PERFORMANCE BREAK-UP (RS M)

	FY03	FY04	FY05	FY06	1QFY07
Revenue					
Automotive	25,113	36,147	45,682	52,198	12,248
Tractors	11,848	13,022	20,298	28,538	9,463
Others	912	1,390	1,881	3,071	926
EBIT					
Automotive	1,466	2,995	4,669	5,148	1,040
Tractors	870	1,154	1,891	3,192	1,274
Others	-18	27	82	125	35
EBIT Margin (%)					
Automotive	5.8	8.3	10.2	9.9	8.5
Tractors	7.3	8.9	9.3	11.2	13.5
Capital Employed					
Automotive	10,284	8,657	10,320	11,490	10,909
Tractors	5,867	5,110	5,612	5,991	6,250
Others	410	270	182	219	198
RoCE (%) - On EBIT Basis					
Automotive	14.3	34.6	45.2	44.8	9.5*
Tractors	14.8	22.6	33.7	53.3	20.4*

** Not Annualised*

Source: Motilal Oswal Securities

Subsidiaries & associates – adding substantial value

M&M's non-automotive subsidiaries are adding significantly to its valuations

M&M has invested in other Mahindra group companies, a number of which we believe offer substantial value. We value three of its non-automotive subsidiaries (Tech Mahindra, MMFSL and Mahindra Gesco) at Rs197/share of M&M – 40% of the value of its core business.

Tech Mahindra

Tech Mahindra, formerly Mahindra British Telecom, is a software services company in which M&M has a 46.4% stake. A JV with British Telecom (BT), it is the 8th largest software exporter from India, providing IT solutions to telecom service providers, network equipment manufacturers, and product & utilities companies. It was re-christened following the acquisition of Axes Technologies in November 2005. It has over 12,000 employees and its revenues for FY07 are estimated at US$500m.

Estimate the value of holding in Tech Mahindra at Rs107 per share of M&M

TECH MAHINDRA: VALUE ACCRETION FOR M&M (RS M)

	FY05	FY06	FY07E	FY08E
Revenue	9,456	12,427	23,453	28,848
EBITDA	1,350	2,679	4,963	5,835
EBITDA Margins (%)	*14.3*	*21.6*	*21.2*	*20.2*
PAT	1,024	2,354	4,124	4,704
NPM (%)	*10.8*	*18.9*	*17.6*	*16.3*
No of Shares Held (Million)		53.8	53.8	53.8
Target Price (Rs) *		609	609	609
Value of M&M's Holding		32,752	32,752	32,752
Value of M&M's Holding at 20% discount (Rs/share)		107	107	107

** We value Tech Mahindra at 15x FY08E EPS of Rs40.6* *Source: Company/Motilal Oswal Securities*

New service offerings to enable greater wallet share within BT

- Tech Mahindra claims that 55-60% market share in BT's offshore IT budget is in BSS/OSS space (largely nondiscretionary), at which, it is the largest offshore vendor.
- Further penetration into BT is expected to be gained through new service offerings such as ITO services, BPO and network testing. The company is also looking at gaining entry into BT's Global Services division (estimated revenue of US$9b), which is in initial stages of IT outsourcing.
- The management expects that BT would continue to grow in absolute terms over the coming quarters (however, earlier growth rates are not likely to sustain) due to increased IT budgets, Tech Mahindra's effort to target new services within BT and the proposed rollout of the 21CN network. However, it expects the contribution to revenue from BT to decline due to faster growth in non-BT accounts.

AT&T - strategic relationship to ensure growth momentum

- AT&T has been ramping up rapidly, with CQoQ growth rate of 43% over the past five quarters. The company currently offers services to the SDC and AT&T divisions of the consolidated AT&T business (addressing 1/4th of total AT&T pie), with no presence in BellSouth and Cingular.
- AT&T is in the early stages of outsourcing and currently has a large in-house team of around 6,000 employees for ITO services within SDC (for which Tech Mahindra is the largest offshore ITO vendor). AT&T has recently started its convergence initiative, which is expected to result in increased IT budgets and outsourcing. Tech Mahindra currently has a 1,000 member team on AT&T. Large part of the work for AT&T is from US.
- The MSA with AT&T includes an option of 9.9m shares to be vested over a period of five years depending on certain milestones in outsourcing from AT&T, with the final milestone at US$350m of outsourcing. Tech Mahindra is confident of achieving this milestone over the stipulated period, given the pace of growth in the account, implying a CAGR of around 60% over FY06-FY10.

Investment in TEM offerings to help penetration in Alcatel - pace could be slower

- The Axes acquisition in FY06 helped increase the revenue run rate from Alcatel from US$2m to over US$5m per quarter. As per the MSA, Tech Mahindra could receive 50% share of the volumes outsourced from Alcatel USA. However the IT budget of Alcatel, USA is small. Major outsourcing is happening from Europe, where Tech Mahindra's presence is small; however efforts are on to address this pie. With ongoing merger of Alcatel with Lucent, growth from Alcatel could be muted in the coming quarters.
- TEM (Telecom Equipment Manufacturers), where Wipro and HCL Tech are leading offshore vendors, is not a core competence for Tech Mahindra and the company would have to invest in building these competencies. Management is confident of leveraging Axes' competencies in the TEM space in order to gain deeper penetration into Alcatel, which would have a multi-billion dollar IT budget post merger with Lucent.

Focussing towards new offerings as well as new client addition

- The company expects that the technology transformation in the telecom industry would lead to increased demand for services such as ITO, BPO and Network Testing. These new service offerings are expected to gain momentum over the coming quarters.
- Tech Mahindra has recently forayed into end-to-end offerings within OSS/BSS with early success for Hutch Indonesia and an MVNO (Mobile Virtual Network Operator) in the US. This offering includes high-end network consulting, network implementation, BSS services and managed services for a TSP. The company plans to extend its framework to other operators, wherein it would be able to leverage its domain expertise to offer cost effective solutions to its clients in emerging markets and will reuse the platforms created earlier to improve the productivity.

- To derisk the business model, Tech Mahindra has started focussing on new client addition with active client base increasing to 62 in 2006 from 24 in 2004.

Widening employee pyramid is the biggest margin lever

- The fresher composition at end-FY06 stood at ~35% of total workforce, which offers room for improvement. Tech Mahindra plans to recruit around 1,200 freshers in FY07 (of an estimated addition of 4,000-5,000) and around 2,500 freshers in FY08.
- The company is currently putting in place various internal process to enable reuse of software components and domain expertise, which help reduce project delivery time and improve efficiency.
- The company is planning to invest US$10-12m in internal processes as well as creating training infrastructure, which would result in higher SG&A investment.

Net profit to grow at 41.4% CAGR during FY06-08: We expect Tech Mahindra's profits to grow at 41.4% CAGR over FY06-08 to touch US$106m. The company will report an EPS of Rs40.6 in FY08. Based on a 15x PER, we value Tech Mahindra at Rs609 per share. After applying a 20% discount, the per share value for M&M works to Rs107.

TECH MAHINDRA: PEER COMPARISON

	RS M				% YOY			
	FY05	FY06	FY07	FY08	FY05	FY06	FY07	FY08
REVENUE								
Tech Mahindra	9,456	12,427	23,453	28,848	27.5	31.4	88.7	23.0
Hexaware	5,459	6,787	8,513	11,285	61.0	24.3	25.4	32.6
Mphasis BFL	7,656	9,401	11,088	13,164	31.9	22.8	17.9	18.7
EBITDA								
Tech Mahindra	1,350	2,679	4,963	5,835	14.6	17.8	85.2	17.6
Hexaware	787	1,087	1,332	1,731	14.4	16.0	15.7	15.3
Mphasis BFL	1,410	1,981	1,882	2,351	18.4	21.1	17.0	17.9
NET PROFIT								
Tech Mahindra	1,024	2,354	4,124	4,704	10.4	13.7	75.2	14.1
Hexaware	637	915	1,243	1,577	11.7	13.5	14.6	14.0
Mphasis BFL	1,244	1,499	1,192	1,519	16.3	15.9	10.7	11.5

	EPS (RS)				P/E (X)			
Tech Mahindra	10.1	22.6	35.6	40.6	57.6	25.6	16.3	14.3
Hexaware	5.5	7.2	9.7	12.2	28.9	21.8	16.3	13.0
Mphasis BFL	8.2	9.3	7.5	9.6	23.1	20.3	25.3	19.6

Source: Company/Motilal Oswal Securities

Mahindra & Mahindra Financial Services (MMFSL)

MMFSL, a 67.7% subsidiary of M&M, is engaged in the financial services business. It provides loans to fund purchases of UVs, tractors and cars, with a focus on India's rural and semi-urban territories.

Estimate the value of holding in MMFSL at Rs56 per share of M&M

MMFSL: VALUE ACCRETION FOR M&M (RS M)

	FY05	FY06	FY07E	FY08E
Net Sales (NII)	2,693	3,629	4,580	5,845
Operating Income	1,895	2,438	3,021	3,871
Operating Margins (%)	*70.4*	*67.2*	*66.0*	*66.2*
PAT	823	1,083	1,380	1,799
NPM (%)	*30.5*	*29.8*	*30.1*	*30.8*
No of Shares Held (Million)		58	58	58
Target Price (Rs) *		296	296	296
Value of M&M's Holding		17,239	17,239	17,239
Value of M&M's Holding at 20% discount (Rs/share)		56	56	56

** We value MMFSL at 2.75x FY08E BV* *Source: Company/Motilal Oswal Securities*

Strong branch network: MMFSL has a strong branch network, with 356 branches situated across India and over 500,000 customer contracts. The branches are located in rural and semi urban areas. Hence, MMFSL is competing for a share of the rural economy.

Robust growth: MMFSL has reported strong growth over the past three years, with its loan book growing at 56% CAGR. Its aggressive growth is on the back of higher vehicle sales. As this trend is likely to continue in the future as well, we expect its loan book to grow at 34% CAGR during FY06-08. MMFSL's NII in FY06 was Rs3.6b and PAT was Rs1.1b. We expect NII to grow at 32% CAGR during FY06-08 to Rs6.4b and earnings at 27% CAGR to Rs1.7b.

High margins, strong RoA and RoE: Owing to MMFSL's niche focus, better service delivery and strict control over cost of funds, it has been able to take away share from banks in rural and semi-urban areas. It enjoys high profitability, with RoA in excess of 2.5%, RoE at 30% and NIM in excess of 9%. Though margins may not sustain at these high levels over the next 2-3 years, we expect MMFSL's margins to remain amongst the best in the industry.

Steady asset quality: The company's collection and enforcement procedures, designed to maximize recoveries following any payment default, have ensured that eventual write-offs (due to non-recovery) have remained below 2% of average total assets in the last three years.

Earnings to grow at 27% CAGR during FY06-08: We expect MMFSLs earnings to grow at 27% CAGR over FY06-08 to touch Rs1.7b. The company will report a book value of Rs107 in FY08. Based on a 2.75x P/Book, we value MMFSL at Rs275 per share. After applying a 20% discount, the per share value for M&M works to Rs56.

Infrastructure development division

The Mahindra group has six entities under this division:
(1) Mahindra Gesco Developers
(2) Mahindra Holiday & Resorts
(3) Mahindra World City Developers
(4) Mahindra Water Utilities
(5) Mahindra Acres Consulting Engineers
(6) Mahindra Infrastructure

M&M's INFRASTRUCTURE DEVELOPMENT DIVISION FINANCIAL PERFORMANCE (RS M)

	FY05	FY06	FY07E	FY08E
Infrastructure Development Division				
Revenue	2,420	3,816	5,220	7,105
EBITDA	436	840	1,151	1,571
EBITDA Margins (%)	*18.0*	*22.0*	*22.0*	*22.1*
PAT	40	381	854	1,182
NPM (%)	*1.6*	*10.0*	*16.4*	*16.6*
Mahindra Gesco				
Revenue	915	1,211	1,756	2,459
EBITDA	184	211	369	516
EBITDA Margins (%)	*20.1*	*17.4*	*21.0*	*21.0*
PAT	79	110	500	700
NPM (%)	*8.6*	*9.1*	*28.5*	*28.5*
Mahindra Holiday and Resorts				
Revenue	1,062	1,567	1,959	2,449
EBITDA	273	446	509	637
EBITDA Margins (%)	*25.7*	*28.4*	*26.0*	*26.0*
PAT	92	208	255	318
NPM (%)	*8.7*	*13.3*	*13.0*	*13.0*
Mahindra World City Developers				
Revenue	368	883	1,236	1,730
EBITDA	-41	119	167	234
EBITDA Margins (%)	*-11.1*	*13.5*	*13.5*	*13.5*
PAT	-143	21	31	43
NPM (%)	*-38.9*	*2.4*	*2.5*	*2.5*
Mahindra Water Utilities				
Revenue	47	151	264	461
EBITDA	19	64	105	184
EBITDA Margins (%)	*39.9*	*42.4*	*40.0*	*40.0*
PAT	11	41	69	120
NPM (%)	*24.2*	*27.0*	*26.0*	*26.0*
Others				
Revenue	29	40	46	53
EBITDA	2	8	9	11
EBITDA Margins (%)	*5.5*	*19.5*	*20.0*	*20.0*
PAT	1	5	5	6
NPM (%)	*2.4*	*11.2*	*11.0*	*11.0*

Source: Company/Motilal Oswal Securities

Mahindra Gesco Developers

Mahindra Gesco Developers, a 55% subsidiary of M&M, is engaged in the business of property development. The market value of M&M's holdings in the company works out to about Rs10b.

Estimate the value of holding in Mahindra Gesco at Rs33 per share of M&M

MAHINDRA GESCO: VALUE ACCRETION FOR M&M (RS M)

	FY05	FY06	FY07E	FY08E
Revenue	915	1,211	1,756	2,459
EBITDA	184	211	369	516
EBITDA Margins (%)	*20.1*	*17.4*	*21.0*	*21.0*
PAT	79	110	500	700
NPM (%)	*8.6*	*9.1*	*28.5*	*28.5*
No of Shares Held (Million)		12.5	12.5	12.5
Market Price (Rs)		798	798	798
Value of M&M's Holding		10,034	10,034	10,034
M&M's Value at 20% discount (Rs/share)		33	33	33

Source: Company/Motilal Oswal Securities

Enviable land bank: During the last three years, Mahindra Gesco has acquired a sizeable land bank across India. Besides three SEZs in Chennai (South India), Jaipur (North India) and Pune (West India), it is developing residential and commercial projects in cities like Mumbai, Pune, Chennai, Faridabad, Bangalore and Delhi. It also has land at Murud and Nashik in Maharashtra and in Goa, the development plans for which it has not yet announced. The company is likely to develop 75 acres in Thane and intends to acquire land in cities across India, with plot sizes ranging from 50-100 acres. Its land acquisition strategy is based on the premise that as cities grow, their outskirts would become more important. Therefore, it is looking for land in the outskirts of large cities.

MAHINDRA GESCO: PROPOSED SEZs

LOCATION	SIZE (ACRES)	INTENDED USE
Chennai (Tamil Nadu)	1,400	SEZ
Jaipur (Rajasthan)	3,000	SEZ
Pune (Maharashtra)	3,000	SEZ
Murud (Maharashtra)	1,400	Not Announced
Goa	50	Not Announced
Nashik (Maharashtra)	10	Not Announced

Note: This is not a comprehensive list; The size of the SEZ may vary *Source: Company/MOSL*

Three SEZs under the belt: Mahindra Gesco is developing a 1,400 acre SEZ in Chennai. Two SEZs of 3,000 acres each in Jaipur and Pune are also on the drawing board.

DETAILS OF THE THREE SEZs

CHENNAI SEZ	JAIPUR SEZ	PUNE SEZ
1,400 Acres	3,000 Acres	3,000 Acres
11% Govt. Ownership	26% Govt. Ownership	26% Govt. Ownership
Already Under Development	Land Acquisition by End CY06	Land Acquisition by Mid CY07

Source: Company/Motilal Oswal Securities

1. **Chennai SEZ:** Mahindra Gesco has entered into a JV with the Tamil Nadu government to develop an SEZ with 1,400 acres of land. Of the 1,400 acres of land, 700 acres will be used for software, auto and other industrial SEZs, 350 acres for residential purposes, and the balance 400 acres for roads, sewage and open spaces.

AREA WISE UTILIZATION OF THE CHENNAI SEZ

CHENNAI SEZ	ACRES
Software, Auto and Other SEZ (Already Sold Out)	700 acres
Residential Area (22 Acres Under Development)	300 acres
Roads, Open Space, DTE, etc.	400 acres
Total Area	**1,400 acres**

Source: Company/Motilal Oswal Securities

2. **Jaipur SEZ:** Mahindra Gesco has entered into a JV with the Rajasthan government to develop an SEZ with 3,000 acres of land. The development of the SEZ will be on the same lines as the Chennai SEZ (although the participating industries will be different). Gesco had signed the deal with the government in mid-CY05, but the company will get possession of the land only by end-CY06. The government will have a 26% stake in the SEZ.

3. **Pune SEZ:** The Pune SEZ will also be on similar lines as above. It is a JV between Mahindra Gesco and the Maharashtra government, which will hold 26%. The process of the land acquisition will happen by mid-CY07.

Numerous residential & commercial projects: Currently, Mahindra Gesco has around 2.2m sq ft under development in various cities such as Mumbai, Gurgaon, Chennai and Delhi. Of this, 700,000 sq ft in Delhi is being developed under project management (for which Gesco gets a consultancy fee). Excluding the Delhi project, the other properties under development would be around 1.5m sq ft. Most of these projects are already pre-sold and deliveries would be completed over the next 1-2 years.

DETAILS OF EXISTING RESIDENTIAL/COMMERCIAL PROJECTS

AREA	SIZE
Delhi	700,000 sq ft (under project management fee basis)
Pune	530,000 sq ft
Chennai (Commercial) SEZ	100,000 sq ft
Chennai SEZ	520,000 sq ft
Mumbai – Goregaon	270,000 sq ft
Mumbai – Kanjurmarg	70,000 sq ft

Source: Company/Motilal Oswal Securities

The company would be commencing construction of another 2m sq ft of land. This includes construction in various cities such as Mumbai, Pune, Chennai and Faridabad. The new projects would be entirely owned and developed by Mahindra Gesco. These projects are likely to commence in the next 12-24 months.

DETAILS OF NEW PROJECTS

LOCATION	AREA
Faridabad	400,000 sq ft
Pune – Pimpri residential area	600,000 sq ft
Pune – Pimpri commercial area	300,000 sq ft
Mumbai – Bhandup	400,000 sq ft

Note: The area for the proposed projects may vary *Source: Company/Motilal Oswal Securities*

JVs – potential blockbusters

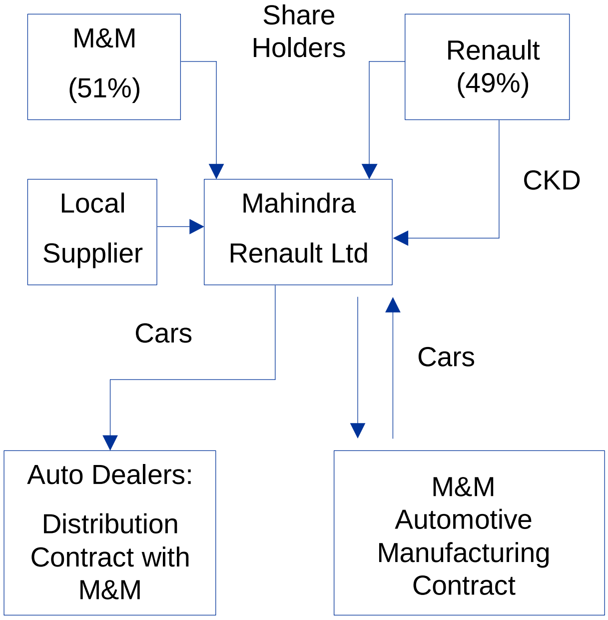
M&M has entered into a JV with Renault to manufacture passenger cars and with ITEC to manufacture commercial vehicles (CVs) in India. Both these JVs, in which M&M has the majority shareholding, are potential blockbusters in our opinion. M&M would use its existing facilities to manufacture cars and CVs for the JVs on a contract basis, for which it would receive a contract fee from them. Also, the cars and CVs produced by the JVs would be sold through M&M's existing dealer network. We expect the JVs to begin contributing to earnings post FY08 and value them at Rs36 per share of M&M.

Mahindra-Renault JV: first launch in fast-growing 'C' segment

M&M will be entering the passenger car segment through its JV with Renault…

Mahindra-Renault's first product launch – *The Logan* – would be in the fast-growing 'C' (mid-size) segment. The car sells in Europe as a low cost sedan, with the lower-end model priced at US$6,100. Renault has target sales of 1m units per year by 2010 in seven regions across Eastern and Central Europe, Russia, the Middle East, Latin America, Africa, and Asia. In India, it would compete against Maruti's *Esteem* and *Baleno*, Hyundai's *Accent*, Ford's *Ikon* and Tata Motors' *Indigo*. M&M will use its Nashik plant to manufacture *The Logan* starting from FY07, with 50% localization.

MAHINDRA RENAULT JV



Salient features

- Project amount Rs7b
- Capacity 50,000 units
- Start of production 2HFY07
- Localization: 50%
- Supply kits and CBUs to South Africa and some SAARC countries

The car will be co-branded with Renault and will be positioned in the highly competitive A3 segment. Pricing would be important in our opinion.

We have valued the share of M&M in this venture at Rs22.6, applying a P/B mutiple of 1.5x.

Source: Company/Motilal Oswal Securities

The JV would start contributing positively to M&M's consolidated earnings post FY08. Presently, in our SOTP valuation, we have considered the investment at 1.5x book value. However, we believe that the potential upside is immense.

MAHINDRA-RENAULT JV: VALUE ACCRETION FOR M&M (RS M)

JV Structure	
Equity - M&M (51%)	1,785
Equity - Renault (49%)	1,715
Debt	3,500
Total investment	7,000
Industry Size - C Segment in FY06 (Units)	2,21,000

	FY07	FY08	FY09	FY10	FY11
Total Volume (nos)	13,000	23,600	27,192	30,595	33,655
Utilization (%)	*26.0*	*47.2*	*54.4*	*61.2*	*67.3*
Average Selling Price (Rs)	450,000	450,000	450,000	450,000	450,000
Sales (Rs m)	5,850	10,620	12,236	13,768	15,145
EBITDA	351	637	979	1,377	1,514
EBITDA Margin (%)	*6.0*	*6.0*	*8.0*	*10.0*	*10.0*
NOPLAT	106	124	426	709	816
Add: Depreciation	60	180	90	84	69
Gross Cash Flow	166	304	516	793	885
Working Capital	488	885	1,020	1,147	1,262
Increase in Working Capital	341	278	94	89	80
Capex	2,500	500	500	400	150
Free Cash Flow	-2,675	-593	-118	265	620
EPS Accretion on a/c of Contract mfg. Fees	0.6	1.1	1.2	1.3	1.5
JV EPS Accretive to M&M from Year 1	0.2	0.3	0.9	1.6	1.8
Total EPS Accretion	0.8	1.3	2.2	2.9	3.3

Source: Company/Motilal Oswal Securities

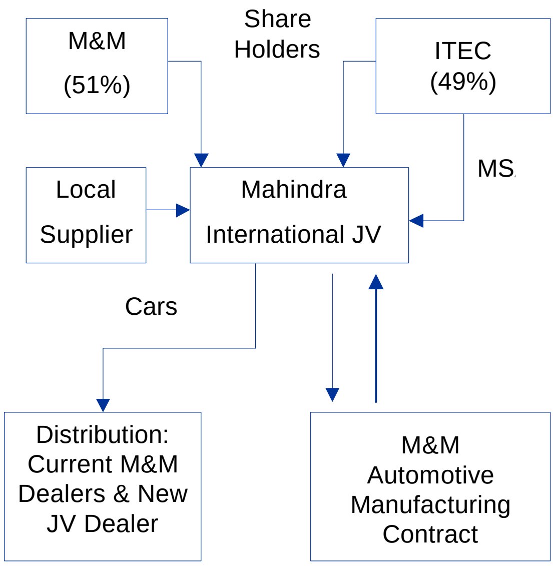
Mahindra–ITEC JV: to be present across CV segments

…and will establish a presence across the CV market through its JV with ITEC

Under this JV pact, M&M has spun-off its LCV business into the new JV. M&M's LCV portfolio was incomplete and it was losing market share. The JV would manufacture the complete range of CVs, including the cab and the body. Thus, M&M's product offerings in the CV segment would improve and open up opportunities for export.

The JV would start contributing positively to M&M's consolidated earnings post FY08. Presently, in our SOTP valuation, we have considered the investment at 1.5x book value. However, we believe that the potential upside is immense.

MAHINDRA INTERNATIONAL JV



Salient features

- Spin off M&M's LCV business into JV
- Investment Rs4.5b
- Start of production CY07
- Localization 90% at start
- Vehicles up to 40 ton
- Sourcing of auto components to exceed US$100m per annum by the third year

We have valued M&Ms stake at Rs13 per share, applying a P/B of 1.5x.

Source: Company/Motilal Oswal Securities

MAHINDRA-ITEC JV: VALUE ACCRETION FOR M&M (RS M)

JV Structure	
Equity - M&M (51%)	1,148
Equity - ITEC (49%)	1,102
Debt	2,250
Total investment	4,500
Industry Size - CV Segment in FY06 (Units)	391,000

	FY07	FY08	FY09	FY10	FY11
Capacity (nos)	40,000	40,000	40,000	40,000	40,000
Production (nos)	15,000	17,250	19,838	22,813	26,235
Volumes (nos)	15,000	17,250	19,838	22,813	26,235
Utilization (%)	*37.5*	*43.1*	*49.6*	*57.0*	*65.6*
Average Realization Price (Rs)	550,000	550,000	550,000	550,000	550,000
Sales (Rs m)	8,250	9,488	10,911	12,547	14,429
EBITDA	413	569	764	941	1,154
EBITDA Margin (%)	*5.0*	*6.0*	*7.0*	*7.5*	*8.0*
Net Profit	175.5	262.0	373.6	497.7	647.0
EPS Accretion on a/c of Contract mfg. Fees	0.7	0.8	0.9	1.0	1.1
JV EPS Accretive to M&M from Year 1	0.4	0.6	0.8	1.1	1.4
Total EPS Accretion to M&M	1.1	1.3	1.7	2.1	2.5

Source: Company/Motilal Oswal Securities

Mahindra Systech (MS) – taking the inorganic growth route

M&M's automotive parts division, MS, targets revenues of US$1b by FY10

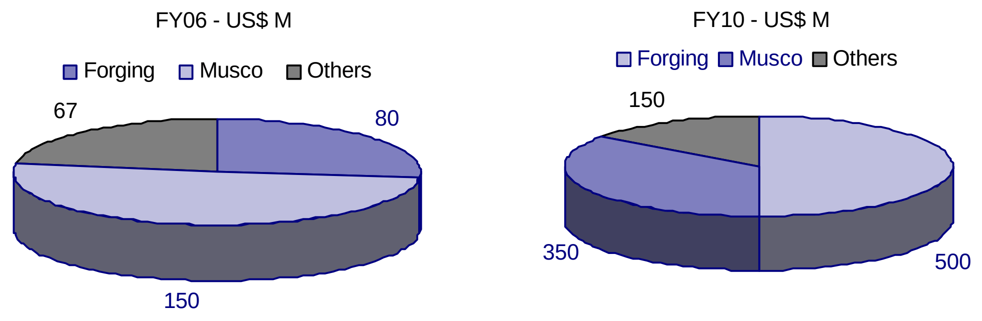
Mahindra Systech (MS), M&M's automotive parts division, targets revenues of US$1b by FY10. Over the past 12-18 months, the company has made strong headway in positioning MS as a fully equipped arts-to-parts auto component entity, with capabilities ranging from material supplies to finished assembly products and designing services. The company has adopted the inorganic route to growth and has recently acquired Amforge's Chakan plant and UK-based Stokes Group in the forgings space, and Plexion Technologies in the engineering services space. It is scouting for possible acquisitions both domestically and overseas in the gears space, as well. We believe that MS will achieve its revenue target and value the division at Rs53/share of M&M.

The management has guided for revenues of US$1b by 2010 from US$250-260m now. This target is premised on inorganic as well organic initiatives besides leveraging on newly-acquired relationships with Renault and ITEC. The management has indicated potential deployment of about US$250m (US$150m by way of equity and the balance by way of debt) in inorganic initiatives. After acquiring Plexion and Stokes, MS is looking at quite a few other acquisitions ranging from engineering services companies to high-end foundry.

MS' operations can be classified as follows:

1. **Forgings:** MS targets revenues of US$500m from this activity (constituting 50% of its overall revenues) by FY10. Forgings and forged machined components yield high margins, and we expect this to be MS' most profitable activity.
2. **Mahindra Ugine Steel (Musco):** We expect Musco to have revenues of US$350m (35% of MS' overall revenues) by FY10. Musco has a presence in two businesses – alloy steel manufacturing and automotive stampings. Steel accounts for 80% of Musco's revenues while stampings account for the balance 20%.
3. **Others:** Other businesses such as gears, composites, and engineering services would account for revenues of about US$150m by FY10.

MS: REVENUE BREAK-UP



Source: Company/Motilal Oswal Securities

Forgings: Target revenues of US$500m by FY10

It has established a presence in forgings by acquiring Amforge's Chakan plant and UK-based Stokes Group

Till its recent acquisitions of Amforge's Chakan plant through associate company Mahindra Automotive Steels (MASL) and UK-based Stokes Group, M&M did not have any presence in forgings. MASL, in which M&M holds 47% and Amforge (shareholders) holds 53%, posted sales of Rs2b and PAT of Rs140m in FY06. Stokes, which has a forging capacity of 35,000 ton per year, posted a turnover of US$42m (Rs2b) in CY04. From a combined turnover of US$65m in forgings in FY06, MS intends to grow to US$500m by FY10.

About MASL: MASL is the entity jointly formed by Amforge and M&M, which has taken over Amforge's Chakan plant. The unit has an annual capacity of 36,000 ton, making MASL the third largest forgings company in India. MASL has an equity base of Rs280m (28m shares of Rs10 each), of which 53% are held by Amforge (promoters and shareholders) and 47% by M&M. Over the next few years, M&M intends to increase its stake to 74% in MASL. On current sales of Rs2b, MASL's EV/Sales is 1.8x.

MASL: AMFORGE CHAKAN PLANT (RS M)

	FY05	FY06	FY07E	FY08E
Revenue	2,000	2,000	2,360	3,186
EBITDA	240	250	330	478
EBITDA margins (%)	*12.0*	*12.5*	*14.0*	*15.0*
PAT	140	140	236	319
NPM (%)	*7.0*	*7.0*	*10.0*	*10.0*

Source: Company/Motilal Oswal Securities

About Stokes: M&M has acquired 98.6% in UK's Stokes Group. It is the largest automotive forgings company in UK, with an annual capacity of 35,000 ton. The company has a rejection rate of less than 2%, reflecting its superior product quality. Its major clients include Ford, Jaguar, Bosch and ZF among others.

STOKES FORGING (RS M)

	FY05	FY06	FY07E	FY08E
Revenue	1,849	1,911	2,484	3,353
EBITDA	129	172	174	235
EBITDA Margins (%)	*7.0*	*9.0*	*7.0*	*7.0*
PAT	37	-38	75	134
NPM (%)	*2.0*	*2.0*	*3.0*	*4.0*

Source: Company/Motilal Oswal Securities

Probable business strategy: We expect M&M to use MASL as the growth driver for its forgings business. It could become the global outsourcing unit for its overseas acquisitions, including Stokes.

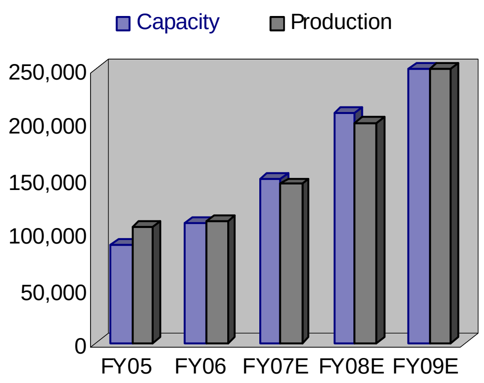
Musco: play on alloy steel and stampings

Musco, one of M&M's listed subsidiaries, is in alloy steel and automotive stampings

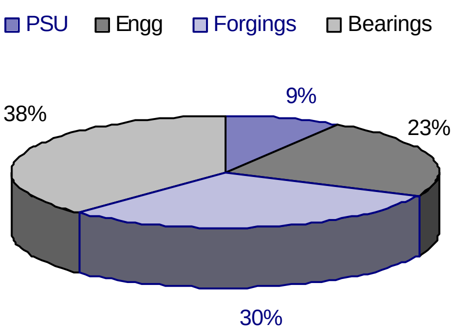
Musco, a listed subsidiary of M&M, is an integral part of MS. Almost 35% of MS' targeted revenues in FY10 would come from Musco. It has a presence in two businesses – alloy steel and automotive stampings. Musco's turnover for FY06 was Rs6.2b, which would go up to Rs9.6b in FY08. Mahindra group companies account for about 35% of Musco's turnover.

Alloy steel: Musco supplies special grade steel to the automotive and engineering segments. It currently uses the electric arc furnace (EAC) process to manufacture 110,000 ton of steel per year. It intends to expand capacity to 250,000 ton by FY08. Alloy steel accounts for about 80% of Musco's revenues. Musco supplies steel to Amforge, a leading crankshaft manufacturer for the passenger car industry. Post the recent acquisition of Amforge's Chakan plant, 11% of Musco's steel production goes to the Mahindra group entity, MASL. M&M has entered into a JV with Renault for passenger cars. This JV is likely to source forgings from MASL.

ALLOY STEEL CAPACITY AND PRODUCTION (TON)



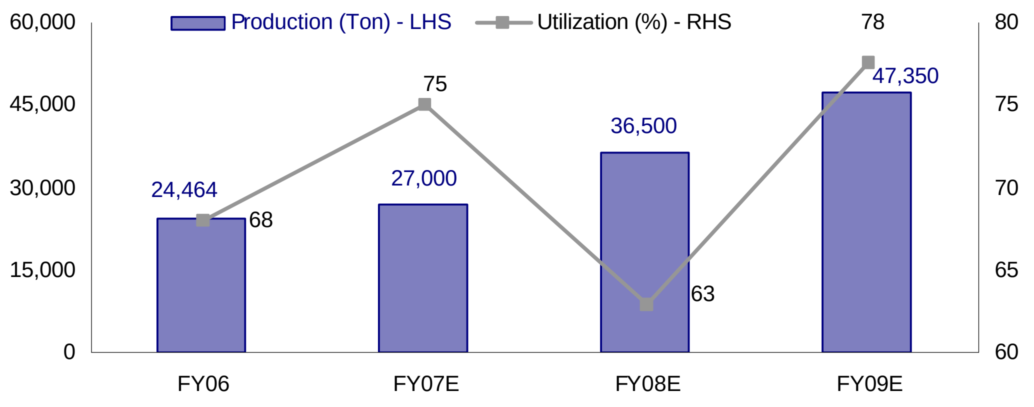
REVENUE BREAK-UP



Source: Company/ Motilal Oswal Securities

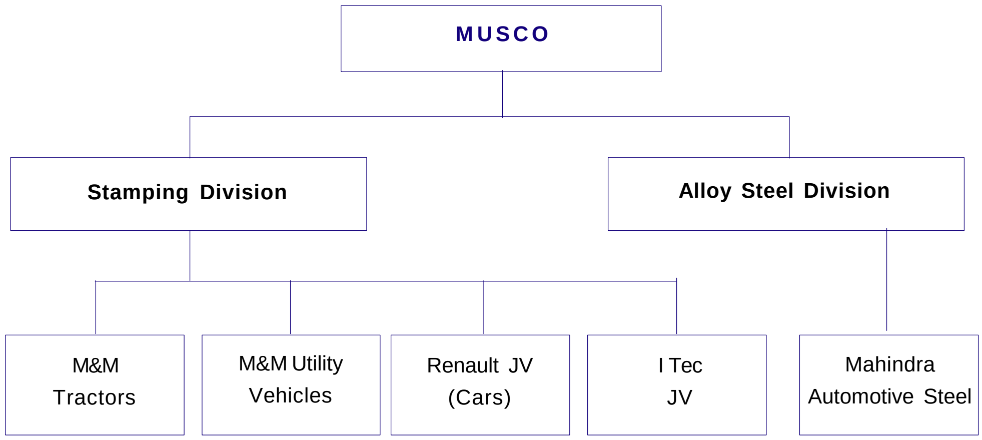
Stampings: Musco has a stamping division at Kanhe near Pune, with a capacity of 18,000 ton per year. It has recently merged Pranay Sheet Metals, Nashik, following which its stamping capacity has doubled to 36,000 ton per year. In the stampings space, Musco currently acts as a convertor – the OE player buys the material and Musco converts the material to the finished product. EBITDA margins are high at 25%. Post the merger of Pranay, stampings would account for 20% of Musco's earnings and 30% of its EBITDA. Stampings for M&M's *Scorpio*, *Bolero* and *Marshall* are done at Pranay while stampings for M&M's tractors and other automobile companies are done at Kanhe. Post consolidation, Pranay would be dedicated for *Scorpio* and the proposed Renault JV (passenger cars), while Kanhe would be dedicated for M&M's other products and for the I Tec JV (HCVs). Musco also intends to set up additional stamping units in Rudrapur, UP for its new tractors unit and in Zaheerabad, AP once its I Tec JV comes up.

STAMPING CAPACITY (TON)



Source: Company/Motilal Oswal Securities

MUSCO'S BUSINESS MODEL



Source: Company/Motilal Oswal Securities

MUSCO (RS M)

	FY05	FY06	FY07E	FY08E
Revenue	5,648	6,248	6,872	8,247
EBITDA	1,127	1,241	1,241	1,241
EBITDA Margins (%)	*19.9*	*19.9*	*19.0*	*19.0*
PAT	618	651	756	907
NPM (%)	*10.9*	*10.4*	*11.0*	*11.0*

Source: Company/Motilal Oswal Securities

Others: gears, composites and engineering services

Among the other ancillary businesses in which MS is present are gears, composites, and engineering services.

Among the other ancillary businesses M&M operates in are gears, composites and engineering services

Gears: MS' gears unit, SAR Transmission is a 'one source' facility from concept to delivery. It has 250 employees and had posted revenues of Rs409m in FY06. M&M plans to grow this unit by acquiring domestic as well as foreign companies.

Composites: MS' presence in composites is through group company, Siroplast, which provides high quality engineered plastic composites. It has tied up with Menzolit GmbH of Germany, the largest manufacturer of composites in Europe. This has given it access to world-class technology in mould design cycles.

Engineering services: Mahindra Engineering Services (MES) is a new division, catering to engineering design services and embedded systems. With increased outsourcing opportunities emerging in this segment from western countries, MES intends to offer engineering design services in the auto and aerospace segments and services in embedded systems. M&M is targeting a turnover of US$100m from this business by FY10. It will use the inorganic route to grow this division. As a first step in this direction, M&M has acquired 88.4% stake in Plexion Technologies, a JP Morgan group company in India. Plexion is engaged in the business of Computer Aided Engineering Services. It has operations in Asia, Germany, UK and USA. It is focused on Aerospace & Automotive Engineering Business verticals and its delivery model includes offshore and onsite services. M&M acquired the company for an estimated US$10m in an all-cash deal.

Strategic business outsourcing: This unit will source components for OE and Tier 1 players in India and USA. M&M will use its expertise in identifying vendors who are technically capable but lack the scale to be direct suppliers to OEMs. MS will help in supplier selection and development, part quality certification and supply contract management. Several global OEMs are looking at India for sourcing their requirements, and MS will serve as the link between them and the vendors in India. The unit will help ITec to source components worth US$100 by FY10 and intends to have a gross turnover of US$300m by FY10 (excluding the target of US$1b). M&M will earn a margin of 1-2% for its efforts.

Valuations attractive; Buy

Given the positive business outlook for M&M, we recommend Buy

The business outlook for M&M remains positive, given the focus of the government on the development of the rural economy. We also remain bullish on the macro picture for growth of passenger cars in India and believe that within passenger cars, UVs will improve their market share over the next few years.

Though M&M offers a relatively low risk exposure to India's automotive industry, it trades at a discount to most of its peers. While we have a positive outlook on its core business, its investments in other Mahindra group companies like the recently listed Tech Mahindra and MMFSL would continue to add significantly to M&M's consolidated financials and along with Mahindra Gesco also add to its valuations.

Besides, the company's acquisition-led strategy is fuelling growth of its automotive parts division, Mahindra Systech. Its recent JVs with Renault and ITEC, enabling it to enter the passenger car and commercial vehicle segment, are potential blockbusters in our opinion.

Our SOTP valuation of Rs830/share indicates an upside of 28%

The stock trades at 11.8x FY07E consolidated EPS of Rs54.7 and 9.9x FY08E consolidated EPS of Rs65. Our SOTP-based valuation of Rs830 indicates an upside of 28% from current levels. We recommend **Buy**.

SUM OF THE PARTS (SOTP) VALUATION

	FY07E	FY08E	RATIONALE FOR VALUATION
Mahindra & Mahindra			
Core Operations	441	494	Target P/E 15x
Mahindra Automotive Steels	10.5	10.5	20% discount to market price
MS (excl MASL)	32.0	42.8	P/E of 15x
Total Value of MS	**42.5**	**53.3**	
Non-automotive Subsidiaries			
Listed Entities			
Mahindra Gesco	32.9	32.9	20% discount to market price
MFSL	56.5	56.5	20% discount to fair value of Rs296 based on 2.75x BV FY08E
Tech Mahindra	107.3	107.3	20% discount to fair value of Rs609 based on 15x FY08 EPS
Total Value of Listed entities	**197**	**197**	
Mahindra Holding and Finance *	23.7	23.7	Value of investments
Joint Ventures			
M&M-Renault	22.6	22.6	1.5x Book Value
M&M-ITEC	13.0	13.0	1.5x Book Value
Other Invest. (in books as of FY06)	26.7	26.7	Book Value
SOTP Value (Rs)	**765**	**830**	
Consolidated EPS (Rs)	54.7	65.0	
Target P/E (x)		12.8	

** Book value of unquoted investments plus 80% market value of quoted investments.*

Concerns

- **Decline in soft top volumes:** Numerous launches in the UV space have led to an increase in competitive intensity. Further, soft-top UV segment volumes have declined by 22% YTD FY07, and the eventual launch of *Tata ACE's* passenger vehicle version could lead to a further decline. However, we believe that despite competitive pressures, M&M is in a strong position to leverage on the success of its *Scorpio* model.
- **Raw-material price increase:** Despite having a strong volume growth of 18.5% over FY04-06 and constant efforts at cost reduction and value engineering initiatives; M&M's EBITDA margin expanded only 60bps over the same period due to higher raw material cost. Any significant increase in raw material cost from current level could hurt EBITDA margin and profitability. Over FY06-08E, we have assumed 50bps improvement in the EBITDA margin.
- **Slowdown in rural development programs:** Any slowdown in the rural development programs initiated by the government could hurt the prospects of the tractor industry, thereby hurting the growth of M&M's tractor volumes as well.

INCOME STATEMENT						(RS MILLION)
Y/E MARCH	2003	2004	2005	2006	2007E	2008E
Net Sales	**36,672**	**48,855**	**65,307**	**79,888**	**90,154**	**99,572**
Change (%)	*14.2*	*33.2*	*33.7*	*22.3*	*12.9*	*10.4*
Operating Other Income	0	542	1,299	1,524	812	712
Total Income	**36,672**	**49,397**	**66,606**	**81,412**	**90,966**	**100,284**
Total Expenditure	34,083	44,285	58,897	72,546	79,836	87,810
EBITDA	**2,589**	**5,111**	**7,709**	**8,865**	**11,130**	**12,473**
Change (%)	*16.4*	*97.5*	*50.8*	*15.0*	*25.5*	*12.1*
% of Net Sales	*7.1*	*10.3*	*11.6*	*10.9*	*12.2*	*12.4*
Depreciation	1,654	1,652	1,840	2,000	2,109	2,307
EBIT	**934**	**3,459**	**5,869**	**6,865**	**9,021**	**10,166**
Interest & Finance Charges	869	516	-56	-184	-70	-70
Other Income	1,441	1,178	1,084	1,854	1,462	1,678
Non-recurring Expense	118	34	3	8	0	0
Non-recurring Income	577	295	136	2,100	1,250	0
Profit before Tax	**1,966**	**4,381**	**7,141**	**10,995**	**11,803**	**11,915**
Tax	515	897	2,015	2,424	2,902	3,277
Effective Rate (%)	*26.2*	*20.5*	*28.2*	*22.0*	*24.6*	*27.5*
Profit after Tax	**1,451**	**3,485**	**5,126**	**8,571**	**8,901**	**8,638**
% of Net Sales	*4.0*	*7.1*	*7.7*	*10.5*	*9.8*	*8.6*
Adj. Profit after Tax	**1,152**	**3,316**	**5,040**	**6,479**	**7,651**	**8,638**
Change (%)	*61.1*	*187.8*	*52.0*	*28.6*	*18.1*	*12.9*

E: MOSt Estimates

BALANCE SHEET (RS MILLION)

Y/E MARCH	2003	2004	2005	2006	2007E	2008E
Share Capital	2,320	2,320	2,320	2,334	2,334	2,334
Reserves	14,538	16,590	18,962	26,755	32,174	37,245
Net Worth	**16,858**	**18,910**	**21,283**	**29,089**	**34,508**	**39,579**
Deferred tax	1,771	2,033	1,898	1,468	1,468	1,468
Loans	11,398	7,298	10,526	8,834	8,834	8,834
Capital Employed	**30,028**	**28,241**	**33,706**	**39,390**	**44,810**	**49,880**
Gross Fixed Assets	24,368	25,209	26,997	28,855	33,355	37,855
Less: Depreciation	10,230	11,677	13,356	15,103	17,212	19,519
Net Fixed Assets	**14,138**	**13,532**	**13,642**	**13,753**	**16,144**	**18,336**
Capital WIP	523	384	1,107	1,792	502	503
Investments	8,623	11,112	11,898	16,691	12,898	13,398
Curr.Assets, L & Adv.	**17,295**	**15,984**	**24,334**	**27,614**	**41,685**	**46,342**
Inventory	4,567	4,997	7,294	8,419	9,872	11,100
Sundry Debtors	5,171	4,005	5,115	6,380	6,992	7,738
Cash & Bank Balances	2,409	2,333	6,240	7,303	21,910	24,583
Loans & Advances	3,277	2,885	4,197	5,112	2,501	2,502
Others	1,870	1,764	1,488	400	410	420
Current Liab. & Prov.	**10,948**	**13,069**	**17,518**	**20,640**	**26,418**	**28,699**
Sundry Creditors	8,517	9,902	10,948	13,707	18,420	20,252
Other Liabilities	398	197	1,572	1,502	1,552	1,602
Provisions	2,033	2,970	4,997	5,431	6,447	6,845
Net Current Assets	**6,347**	**2,915**	**6,816**	**6,974**	**15,267**	**17,644**
Misc. Expenditures	397	96	244	181	0	0
Application of Funds	**30,028**	**28,241**	**33,706**	**39,390**	**44,810**	**49,880**

E: MOSt Estimates

RATIOS

Y/E MARCH	2003	2004	2005	2006	2007E	2008E
Basic (Rs)						
Adjusted EPS	**5.0**	**14.3**	**21.0**	**26.4**	**31.1**	**35.2**
Consolidated EPS		**17.4**	**25.4**	**39.6**	**54.7**	**65.0**
Cash EPS	12.1	21.4	29.7	36.3	41.8	46.9
Book Value per Share	72.7	81.5	91.7	124.6	147.9	169.6
DPS	2.8	4.5	6.5	5.0	7.5	7.6
Payout % (Incl. Div. Tax)	49.6	60.7	59.6	27.6	39.8	41.3
Valuation (x)						
P/E			30.8	24.5	20.7	18.4
Consolidated P/E			25.4	16.3	11.8	9.9
Cash P/E			21.8	17.8	15.4	13.8
EV/EBITDA			18.5	15.3	11.2	9.8
EV/Sales			2.2	1.7	1.4	1.2
Price to Book Value			7.0	5.2	4.4	3.8
Dividend Yield (%)			1.0	0.8	1.2	1.2
Profitability Ratios (%)						
RoE	6.8	17.5	23.7	22.3	22.2	21.8
RoCE	7.9	16.4	20.6	22.1	23.4	23.7
Turnover Ratios						
Debtors (Days)	42	25	25	26	25	25
Asset Turnover (x)	1.2	1.7	1.9	2.0	2.0	2.0
Leverage Ratio						
Debt/Equity (x)	0.7	0.4	0.5	0.3	0.3	0.2

E: MOSt Estimates

CASH FLOW STATEMENT						(RS MILLION)
Y/E MARCH	2003	2004	2005	2006	2007E	2008E
OP/(Loss) before Tax	934	3,459	5,869	6,865	9,021	10,166
Int./Dividends Received	1,441	1,178	1,084	1,854	1,462	1,678
Depreciation & Amort.	1,654	1,652	1,840	2,000	2,109	2,307
Direct Taxes Paid	-123	-635	-2,150	-2,854	-2,902	-3,277
(Inc)/Dec in Wkg. Capital	972	3,356	6	905	6,314	296
CF from Oper.Activity	**4,879**	**9,011**	**6,649**	**8,770**	**16,004**	**11,171**
Extra-ordinary Items	459	261	132	2,092	1,250	0
Other Items	-397	301	-147	63	181	0
CF after EO Items	**4,941**	**9,572**	**6,634**	**10,926**	**17,435**	**11,171**
(Inc)/Dec in FA+CWIP	-943	-1,109	-2,471	-2,796	-3,210	-4,501
(Pur)/Sale of Invest.	-621	-2,489	-786	-4,793	3,793	-500
CF from Inv. Activity	**-1,564**	**-3,598**	**-3,257**	**-7,589**	**583**	**-5,001**
Change in Net Worth	1,087	681	300	1,598	64	3
Inc/(Dec) in Debt	-2,372	-4,100	3,228	-1,692	0	0
Interest Paid	-869	-516	56	184	70	70
Dividends Paid	-720	-2,114	-3,054	-2,363	-3,545	-3,568
CF from Fin. Activity	**-2,874**	**-6,050**	**530**	**-2,274**	**-3,411**	**-3,495**
Inc/(Dec) in Cash	**503**	**-76**	**3,907**	**1,063**	**14,607**	**2,675**
Add: Beginning Balance	1,906	2,409	2,333	6,240	7,303	21,910
Closing Balance	**2,409**	**2,333**	**6,240**	**7,303**	**21,910**	**24,585**

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Disclosure of Interest Statement	Mahindra & Mahindra
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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