

January 12, 2011

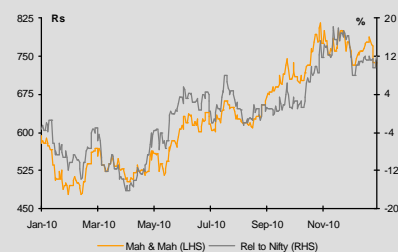
| Reco | Previous Reco |
|--------------------------|---------------|
| Buy | Buy |
| CMP | Target Price |
| Rs 736 | Rs 880 |
| EPS change FY11E/12E (%) | -/- |
| Target Price change (%) | - |
| Nifty | 5,754 |
| Sensex | 19,196 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|---------------|-----|----|----|-----|
| Absolute | (5) | 4 | 16 | 27 |
| Rel. to Nifty | (4) | 11 | 9 | 16 |

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

| | |
|-----------------------------|-------------|
| Sector | Automobiles |
| Bloomberg | MM@IN |
| Equity Capital (Rs mn) | 2983 |
| Face Value(Rs) | 5 |
| No of shares o/s (mn) | 597 |
| 52 Week H/L | 826/475 |
| Market Cap (Rs bn/USD mn) | 439/9,713 |
| Daily Avg Volume (No of sh) | 2112286 |
| Daily Avg Turnover (US\$mn) | 26.8 |

Shareholding Pattern (%)

| | S'10 | J'10 | M'10 |
|--------------|------|------|------|
| Promoters | 25.8 | 26.3 | 26.3 |
| FII/NRI | 32.2 | 32.1 | 32.4 |
| Institutions | 24.6 | 25.0 | 24.9 |
| Private Corp | 8.2 | 7.9 | 7.7 |
| Public | 9.2 | 8.7 | 8.8 |

Source: Capitaline

Chirag Shah

chirag.shah@emkayglobal.com
+91 22 612 1252

- **Tractor industry can grow by 11%, Auto sector growth of 15% to 18% is a possibility in 2011. Capacity concerns addressed, M&M well placed to capitalize on expected demand**
- **Ssangyong's EBIDTA margins in 9MFY10 at 2%. Volumes in CY10 ~82,000 vs 35,000 in CY09. Volumes to improve due to new products and higher focus on domestic market**
- **Unlike 2010, cost pressure will have to be passed on by industry. Margins to be under pressure due to inflationary pressures though profit per unit may not be affected**
- **Expect upgrades in FY12 volumes est. as capacity concerns are addressed. Retain buy rating on the stock with a TP of Rs 880**

2010 hits and misses

Successes of 2010 included 'Maximmo' (touched run rate of 4000 units p.m.), continued positive surprise from 'Bolero' (10 year old product) and 'Scorpio' (9 year old product), tractor demand for industry (~20%), 'Yuvraaj' series of tractors and China JV (turned profitable). Disappointments for 2010 include 'Gio', delay in launch of M&HCVs, capacity constraints both for UVs and tractors.

2011 outlook

Expect tractor industry growth of 11%. Auto industry growth of 15% to 18% is a possibility. However, there are concerns with respect to rising inflation and interest rates. Also liquidity squeeze can impact growth estimates. M&M has addressed the capacity constraint issues (castings, tyres and fuel injection pumps) and is prepared to capitalize on expected demand

Commodity prices and margins

2010 witnessed commodity price increase of 7% to 8%. Expect similar inflationary pressure in 2011. In 2010 not much of the cost pressures were passed on due to benefits of operating leverage. Cost pressure will have to be passed by industry in 2011. Margins will remain under pressure, though profitability per unit may not be affected.

Product launches

Multiple product launches in auto space. The immediate launch is a premium SUV (code name – W201). Product launches will be in form of variants in the low tonnage segment. In the M&HCV space launch of tipper and other higher tonnage vehicles. Busses will not be launched this year. In tractors M&M is working on two new platforms. Also focus on variants. Focusing on providing application like rice transplantors, harvesters, rotavators. Entering in to construction equipment business with two backhoe loaders.

Financial Snapshot

| YE- | Net | EBITDA | | EPS | EPS | RoE | EV/ | | | |
|-------|---------|--------|------|--------|------|--------|------|------|--------|------|
| Mar | Sales | (Core) | (%) | APAT | (Rs) | % chg | (%) | P/E | EBITDA | P/BV |
| FY09 | 130,488 | 10,477 | 8.0 | 7,933 | 13.2 | (10.0) | 16.6 | 55.5 | 38.8 | 8.4 |
| FY10 | 185,296 | 28,828 | 15.6 | 19,459 | 32.4 | 145.3 | 29.8 | 22.6 | 13.4 | 5.6 |
| FY11E | 223,799 | 35,374 | 15.8 | 26,036 | 43.3 | 33.8 | 28.5 | 16.9 | 10.4 | 4.2 |
| FY12E | 249,351 | 39,140 | 15.7 | 28,760 | 47.8 | 10.5 | 25.2 | 15.3 | 9.0 | 3.6 |

Source: Company. Emkay Research

Wage negotiations

Only Zaheerabad plant is due to wage contract renewals. However, it is difficult to find qualified people in various skill areas. Employee retention is a key issue in the current scenario.

Ssangyong

Ssangyong has sold 82,000 units in CY10 as compared to 35,000 units in CY09. Expect volumes to improve further with the launch of 'Korando' (recently launched) and introduction of new variants of 'Chariman'. Focus will be to improve brand equity in domestic market as brand equity has not suffered in the exports markets. Ssangyong has reported EBIDTA margins of 2% in 9MFY11.

Valuations and View

At CMP of Rs 736, the stock trades at PER of 17x and 15.4x and EV/EBIDTA of 10.5x and 9.1x our FY11 and FY12 standalone estimates respectively. While we expect volume upgrades for FY12 as management has addressed capacity constraints, we would prefer to see the January 2011 monthly volumes before upgrading our volume estimates for FY12. We have valued the standalone business at Rs 710 (FY12E EV/EBIDTA of 9x). We have valued the listed subsidiaries and Tech Mahindra at Rs 170

Valuation Summary

| Particulars | Basis | Discount | Value per share (Rs) | |
|----------------------------|----------------|----------|----------------------|------------|
| | | | FY11E | FY12E |
| M&M | EV/EBIDTA (9x) | | 626 | 710 |
| Listed Subsidiaries | | | | |
| Mahindra Finance | CMP | 20 | 56 | 56 |
| Mahindra Forgings | CMP | 20 | 6 | 6 |
| Mahindra Life | CMP | 20 | 14 | 14 |
| Mahindra Holidays | CMP | 20 | 40 | 40 |
| Mahindra Ugine | CMP | 20 | 2 | 2 |
| Tech Mahindra | CMP | 20 | 53 | 53 |
| Total | | | 796 | 880 |

Source: Emkay Research

Financials

Income Statement

| Y/E, Mar (Rs. mn) | FY09 | FY10 | FY11E | FY12E |
|--------------------------------|----------------|----------------|----------------|----------------|
| Net Sales | 130,488 | 185,296 | 223,799 | 249,351 |
| <i>Growth (%)</i> | (2.2) | 42.0 | 20.8 | 11.4 |
| Expenditure | 120,011 | 156,469 | 188,425 | 210,211 |
| Materials Consumed | 92,419 | 123,462 | 153,708 | 171,270 |
| Employee Cost | 10,246 | 11,985 | 13,223 | 15,253 |
| Other Exp | 17,345 | 21,022 | 21,494 | 23,687 |
| EBITDA | 10,477 | 28,828 | 35,374 | 39,140 |
| <i>Growth (%)</i> | (5.2) | 175.1 | 22.7 | 10.6 |
| EBITDA margin (%) | 8.0 | 15.6 | 15.8 | 15.7 |
| Depreciation | 2,915 | 3,708 | 4,200 | 4,812 |
| EBIT | 7,562 | 25,120 | 31,174 | 34,328 |
| EBIT margin (%) | 5.8 | 13.6 | 13.9 | 13.8 |
| Other Income | 2,703 | 1,994 | 2,696 | 3,078 |
| Interest expenses | 453 | 278 | (535) | (435) |
| PBT | 9,813 | 26,835 | 34,406 | 37,842 |
| Tax | 1,880 | 7,376 | 8,257 | 9,082 |
| <i>Effective tax rate (%)</i> | 19.2 | 27.5 | 24.0 | 24.0 |
| Adjusted PAT | 7,933 | 19,459 | 26,148 | 28,760 |
| <i>Growth (%)</i> | (9.9) | 145.3 | 34.4 | 10.0 |
| Net Margin (%) | 6.1 | 10.5 | 11.7 | 11.5 |
| (Profit)/loss from JV's/Ass/MI | - | - | - | - |
| Adj. PAT after MI | 7,933 | 19,459 | 26,148 | 28,760 |
| E/O items | 435 | 1,418 | - | - |
| Reported PAT | 8,368 | 20,878 | 26,148 | 28,760 |
| <i>Growth (%)</i> | (9.9) | 145.3 | 34.4 | 10.0 |

Cash Flow Statement

| Y/E, Mar (Rs. mn) | FY09 | FY10 | FY11E | FY12E |
|------------------------------|----------------|----------------|----------------|----------------|
| PBT (Ex-Other income) | 7,110 | 24,842 | 31,709 | 34,764 |
| Depreciation | 2,915 | 3,708 | 4,200 | 4,812 |
| Interest Provided | 453 | 278 | (535) | (435) |
| Other Non-Cash items | (808) | 6,032 | - | - |
| Chg in working cap | 8,524 | (4,119) | (3,110) | 787 |
| Tax paid | (1,880) | (7,376) | (8,369) | (9,082) |
| Operating Cashflow | 16,313 | 23,365 | 23,895 | 30,845 |
| Capital expenditure | (13,380) | (6,999) | (9,358) | (8,000) |
| Free Cash Flow | 2,933 | 16,366 | 14,537 | 22,845 |
| Other income | 2,703 | 1,994 | 3,164 | 3,078 |
| Investments | (8,733) | (8,449) | (11,000) | (9,000) |
| Investing Cashflow | (6,030) | (6,456) | (7,836) | (5,922) |
| Equity Capital Raised | 361 | 118 | - | - |
| Loans Taken / (Repaid) | 14,657 | (11,726) | - | - |
| Interest Paid | (453) | (278) | 535 | 435 |
| Dividend paid (incl tax) | (3,111) | (6,238) | (8,902) | (9,660) |
| Income from investments | - | - | - | - |
| Others | (1,978) | 10,103 | - | - |
| Financing Cashflow | 9,477 | (8,021) | (8,367) | (9,225) |
| Net chg in cash | 6,380 | 1,890 | (1,666) | 7,699 |
| Opening cash position | 9,239 | 15,618 | 17,432 | 15,766 |
| Closing cash position | 15,744 | 17,432 | 15,766 | 23,465 |

* Including unrealised forex (gain) /loss, and M&A activities

Balance Sheet

| Y/E, Mar (Rs. mn) | FY09 | FY10 | FY11E | FY12E |
|-------------------------------|---------------|----------------|----------------|----------------|
| Equity share capital | 2,792 | 2,910 | 3,006 | 3,006 |
| Reserves & surplus | 49,648 | 75,393 | 101,406 | 120,506 |
| Net worth | 52,440 | 78,302 | 104,412 | 123,512 |
| Minority Interest | - | - | - | - |
| Secured Loans | 9,810 | 6,025 | 6,025 | 6,025 |
| Unsecured Loans | 30,718 | 22,777 | 14,269 | 14,269 |
| Loan Funds | 40,528 | 28,802 | 20,293 | 20,293 |
| Net deferred tax liability | (183) | 2,403 | 2,403 | 2,403 |
| Total Liabilities | 92,785 | 109,507 | 127,108 | 146,208 |
| Gross Block | 48,939 | 52,763 | 61,763 | 70,763 |
| Less: Depreciation | 23,263 | 25,378 | 29,578 | 34,389 |
| Net block | 25,676 | 27,385 | 32,185 | 36,373 |
| Capital work in progress | 6,467 | 9,642 | 10,000 | 9,000 |
| Investment | 57,864 | 63,980 | 74,980 | 83,980 |
| Current Assets | 50,629 | 60,424 | 71,344 | 85,330 |
| Inventories | 10,607 | 11,888 | 17,859 | 19,898 |
| Sundry debtors | 10,437 | 12,581 | 15,301 | 17,048 |
| Cash & bank balance | 15,744 | 17,432 | 15,766 | 23,465 |
| Loans & advances | 13,826 | 18,014 | 21,909 | 24,411 |
| Other current assets | 16 | 509 | 509 | 509 |
| Current lia & Prov | 47,978 | 51,965 | 61,442 | 68,517 |
| Current liabilities | 35,202 | 34,000 | 41,299 | 46,074 |
| Provisions | 12,776 | 17,965 | 20,143 | 22,443 |
| Net current assets | 2,652 | 8,458 | 9,902 | 16,814 |
| Misc. exp | 126 | 41 | 41 | 41 |
| Total Assets | 92,785 | 109,507 | 127,108 | 146,208 |

Key Ratios

| Y/E, Mar | FY09 | FY10 | FY11E | FY12E |
|----------------------------|--------|--------|--------|--------|
| Profitability (%) | | | | |
| EBITDA Margin | 8.0 | 15.6 | 15.8 | 15.7 |
| Net Margin | 6.1 | 10.5 | 11.6 | 11.5 |
| ROCE | 12.6 | 26.8 | 28.6 | 27.4 |
| ROE | 16.6 | 29.8 | 28.5 | 25.2 |
| RoIC | 57.8 | 162.1 | 139.4 | 122.5 |
| Per Share Data (Rs) | | | | |
| DEPS | 13.2 | 32.4 | 43.3 | 47.8 |
| CEPS | 18.0 | 38.5 | 50.3 | 55.8 |
| BVPS | 87.0 | 130.2 | 173.6 | 205.4 |
| DPS | 5.0 | 9.4 | 13.2 | 14.4 |
| Valuations (x) | | | | |
| PER | 55.8 | 22.7 | 17.0 | 15.4 |
| P/CEPS | 40.8 | 19.1 | 14.6 | 13.2 |
| P/BV | 8.5 | 5.7 | 4.2 | 3.6 |
| EV / Sales | 3.1 | 2.1 | 1.7 | 1.4 |
| EV / EBITDA | 39.1 | 13.5 | 10.5 | 9.1 |
| Dividend Yield (%) | 0.7 | 1.3 | 1.8 | 2.0 |
| Gearing Ratio (x) | | | | |
| Net Debt/ Equity | 0.3 | 0.0 | (0.1) | (0.2) |
| Net Debt/EBITDA | 1.5 | 0.0 | (0.3) | (0.5) |
| Working Cap Cycle (days) | (39.6) | (18.8) | (13.3) | (13.4) |

Recommendation History: Mahindra and Mahindra – MM IN

| Date | Reports | Reco | CMP | Target |
|------------|--|------------|-------|--------|
| 29/10/2010 | M&M Q2FY11 Result Update | Buy | 732 | 880 |
| 29/07/2010 | M&M Q1FY11 Result Update | Buy | 644 | 775 |
| 01/06/2010 | M&M Q4FY10 Result Update | Buy | 545 | 725 |
| 27/01/2010 | M&M 3QFY10 Result Update | Accumulate | 1,072 | 1,265 |

Recent Research Reports

| Date | Reports | Reco | CMP | Target |
|------------|---|-----------|-------|--------|
| 16/12/2010 | Hero Honda Event Update | Hold | 1,679 | 1,720 |
| 11/11/2010 | Apollo Tyres Q2FY11 Conso Result Update | Hold | 70 | 70 |
| 10/11/2010 | Tata Motors Q2FY11 Conso Result Update | Buy | 1,271 | 1,550 |
| 09/11/2010 | Eicher Motor Q3CY10 Result Update | Not Rated | 1,423 | NR |

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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