

May 31, 2010

ACCUMULATE

Price	Target Price
Rs 545	Rs 680
Sensex	16,863

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	14	7	71
Rel. to Sensex	7	10	6	45

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	MAHM.BO
Bloomberg	MM@IN
Equity Capital (Rs mn)	2892
Face Value(Rs)	5
No of shares o/s (mn)	578
52 Week H/L	598/313
Market Cap (Rs bn/USD mn)	315/6,787
Daily Avg Volume (No of sh)	2381415
Daily Avg Turnover (US\$m)	27.5

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	26.3	27.2	27.4
FII/NRI	32.4	29.1	28.4
Institutions	24.9	27.1	28.0
Private Corp	7.7	7.6	6.9
Public	8.8	8.9	9.3

Source: Capitaline

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M&M's 4QFY10 standalone net profit at Rs 5.7bn was above our estimates of Rs 4.6bn driven by higher net sales (Rs 53bn vs estimate of Rs 51bn) and higher EBITDA margins (15.9% vs estimate of 14.6%). Higher net sales are largely due to sharp increase in sales of FES (QoQ avg realization are up by 4%). Balance sheet surprised positively with strong cash balance Rs 17.5bn vs estimate of Rs 13bn).

We upgrade our FY11 volume estimates by 2% to 468618 units but lower our EPS to Rs 33.9. **We are factoring in EBITDA margin compression of 130bps to 13.4% in FY11, the most in our auto universe.** We introduce our FY12 estimates with volume growth of 7.4% and EPS of Rs 37.7. We have upgraded our SOTP based target to Rs 680 (from Rs 630). We have upgraded the standalone business value to Rs 540 (from Rs 470) and lowered value of subsidiaries to Rs 140 (from Rs 160). We maintain our ACCUMULATE rating. **The continuous shortage of components (tyres, fuel injection equipments and castings) and the M&A activity can act as risks to our call.**

Net sales – Average realization improves 2% QoQ

Sales at Rs 53bn was above expectation of Rs 51bn driven by 2% increase in average realisations driven by FES segment. Average realisation improved by 2% QoQ to Rs 411, 036 in 4QFY10.

Product mix %	4QFY10	4QFY09	3QFY10
Uvs	46.3	55.2	45.3
Three wheelers (inc Gio)	17.1	11.9	12.3
Tractors	34.3	30.8	36.6
Export	2.3	2.1	5.8
Units sold	128,428	86,256	111,741

Segmental performance – Strong show across segments

Both FES and automotive segment reported strong performance QoQ and YoY both on profitability as well as balance sheet front. While average realization for FES declined YoY 12.7%, it increased 4% QoQ.

Segmental details (Rs mn)	4QFY10	4QFY09	3QFY10
Farm Equipment			
Net Sales (Rs mn)	21,763	14,485	19,282
Avg realizations	463,416	530,898	440,194
Results (Rs mn)	4,358	1,605	3,523
Margins %	20.0	11.1	18.3
Capital Employed (Rs mn)	11,147	12,820	12,273
ROCE %	39.1	12.5	28.7
Automotive			
Net Sales (Rs mn)	31,139	21,896	25,568
Avg realizations	363,535	371,289	376,345
Results (Rs mn)	4,065	1,753	2,868
Margins %	13.1	8.0	11.2
Extraordinary inc/(exp)	0	0	0
Capital Employed (Rs mn)	20,755	18,007	20,483
ROCE %	19.6	9.7	14.0

Financial Snapshot

Y/E, Mar	Net Sales	EBITDA	EBITDA (%)	APAT	Adj DEPS	AROCE (%)	AOE (%)	PE (x)	EV/EBITDA (x)
FY09	129,215	9,205	7.1	7,407	12.6	13.3	18.1	43.2	12.9
FY10P	183,388	26,918	14.7	18,796	32.0	27.6	32.0	17.0	3.9
FY11E	203,649	27,387	13.4	19,923	33.9	24.2	23.1	16.1	3.6
FY12E	222,209	30,038	13.5	22,137	37.7	24.0	21.8	14.5	2.9

EBIDTA at Rs 8.5bn above expectation of 7.4Rs bn

Strong topline performance filtered in EBIDTA level. Also lower staff cost Rs 2.6bn (Rs 2.7bn in 4QFY09 and Rs 3.3bn in 3QFY10) aided EBIDTA outperformance. EBIDTA margins at 15.9% were above our expectation of 14.6%.

Valuations and View

We upgrade our FY11 volume estimates by 2% to 468618 units but lower our EPS to Rs 33.9. We are factoring in EBIDTA margin compression of 130bsp to 13.4% in FY11, the most in our auto universe. We introduce our FY12 estimates with volume growth of 7.4% to 503086 units and EPS of Rs 37.7. We have upgraded our SOTP based target to Rs 680 (from Rs 630). We have upgraded the standalone business value to Rs 540(from Rs 470) and lowered value of subsidiaries to Rs 140 (from Rs 160). We maintain our ACCUMULATE rating. The continuous shortage of components (tyres, fuel injection equipments and castings) and the M&A activity can act as risks to our call.

Revision in FY11 estimates and introduction of FY12 estimates

Volumes (units)	FY11E			FY12E	
	Old	New	% chg	New	YoY chg (%)
Uvs	232,758	236,213	1.5	254,528	7.8
Three wheelers	48,752	54,800	12.4	60,262	10.0
Tractors	162,461	162,461	0.0	172,209	6.0
Exports	15,144	15,144	0.0	16,087	6.2
Total	459,114	468,618	2.1	503,086	7.4
Sales	197,842	203,649	2.9	222,209	9.1
EBIDTA	27,415	27,387	-0.1	30,038	9.7
EBIDTA margins (%)	13.9	13.4		13.5	
APAT	20,574	19,923	-3.2	22,137	11.1

Valuation Summary

Particulars	Basis	Discount	Value per share (Rs)
M&M	EV/EBIDTA		540
Listed Subsidiaries			
Mahindra Finance	CMP	20	29
Mahindra Forgings	CMP	20	2
Mahindra Life	CMP	20	12
Mahindra Ugine	CMP	20	1
Tech Mahindra	CMP	20	51
Mahindra Resort	CMP	20	45
Total			680

Key analyst meet extracts

- Demand outlook for FY11 – Can expect growth of around 11% to 14%
- Price hikes – Tractors – 1% in January 2010 and 2% in April 2010, UVs- ~ Rs 12000 per vehicle
- Raw material contracts – Has entered in to 6 monthly contracts which are expiring in September 2010. Henceforth, would prefer quarterly contracts given the volatility in the metal prices
- Availability of components – There is a shortage of tyres (recent government decision to allow imports should address some of the issue), fuel injection equipments (for diesel vehicles) and casting. Expected product loss due to this of ~5% to 7%.
- Capacity – Adequate capacity in UVs, three wheelers, CVs but capacity addition will be required in Tractors
- Tractors – Has launched Yuvraj, a 115HP tractor, priced at Rs 1.62 lacs. The target is small and marginal farmers. There exists a huge demand potential and eventually expect competition to follow the suit.
- Increasingly focus on agriculture applications like rice plants, harvesters, etc in addition to existing tractor business
- There is increasing use of tractors for non farm purpose (in case of high HP tractors, it is only used for non farm purpose)
- Lower staff cost in 4QFY10 – largely due to retirement benefits revaluations and that ex-gratia provision is made in 3QFY10
- Increasingly focusing on improving customer service and customer experience which has resulted in higher rankings in JD Power survey.
- Ssangyong acquisition – M&M has given an expression of interest and not a bid. It will now be allowed to inspect books of accounts and then it will decide on the bid. The key interest is technology and not cost savings as South Korea is a developed nation.
- Capex – During FY10-FY13, total capex would be around Rs 45bn

Quarterly Result Summary

Rs mn	4QFY09	4QFY10	% change	FY09	FY10	% change
Net Sales	36,365	53,046	45.9	125,603	185,296	47.5
Operating Expenses						
Raw Materials	25,518	35,845	40.5	88,594	123,329	39.2
<i>% of Sales</i>	70.2	67.6		70.5	66.6	
Staff Costs	2,724	2,661	-2.3	9,819	11,985	22.1
<i>% of Sales</i>	7.5	5.0		7.8	6.5	
Other Expenses	4,095	6,084	48.6	15,158	20,901	37.9
<i>% of Sales</i>	11.3	11.5		12.1	11.3	
<i>Forex loss/(gain)</i>	-1,405	0		802	0	
EBIDTA	5,433	8,456	55.6	11,229	29,082	159.0
EBIDTA %	14.9	15.9		8.9	15.7	
Adj EBIDTA	4,028	8,456	109.9	12,031	29,081	141.7
Adj EBIDTA %	11.1	15.9		9.6	15.7	
Depreciation	932	947	1.7	2,844	3,708	30.4
EBIT	4,501	7,508	66.8	8,385	25,374	202.6
Other Income	274	181	-33.9	2,237	1,994	-10.9
Interest	209	9	-95.7	600	278	-53.7
PBT	4,566	7,680	68.2	10,022	27,090	170.3
Extraordinary inc/(exp)	520	0		1,203	0	
Tax	905	1,978	118.6	1,811	2,597	43.4
Net Profit	4,181	5,702	36.4	9,413	24,492	160.2
<i>Net Margin %</i>	11.5	10.8		7.5	13.2	
Adj Net Profit	2,577	5,703	121.3	9,093	19,867	118.5
<i>Net Margin %</i>	7.1	10.8		7.2	10.7	
EPS	14.4	9.9		33.7	87.7	
Adj EPS	9.5	20.4		32.8	71.1	

Key Financials

Profit & Loss Account - Standalone

Mar ending (Rs mn)	FY09	FY10P	FY11E	FY12E
Net Sales	129,215	183,388	203,649	222,209
Growth YoY %	14.1	41.9	11.0	9.1
Operating Expenses				
Raw Materials	92,419	123,330	140,622	153,536
% of sales	71.5	67.3	69.1	69.1
Staff Costs	10,246	11,985	13,224	14,590
% of sales	7.9	6.5	6.5	6.6
Other Expenses	17,345	21,155	22,415	24,044
% of sales	13.4	11.5	11.0	10.8
EBIDTA	9,205	26,918	27,387	30,038
Growth %	(21.3)	192.4	1.7	9.7
EBIDTA %	7.1	14.7	13.4	13.5
Depreciation	2,915	3,807	4,333	4,858
EBIT	6,290	23,111	23,054	25,180
Other Income	4,521	4,751	5,385	6,475
Interest	1,341	1,027	1,148	1,330
PBT	9,469	26,835	27,291	30,325
Extraordinary inc/(exp)	1,203	1,633	0	0
Tax	1,997	7,590	7,369	8,188
Net Profit	8,675	20,878	19,923	22,137
NPM %	6.7	11.4	9.8	10.0
Adj Net Profits	7,407	18,796	19,923	22,137
NPM %	5.7	10.2	9.8	10.0
EPS	26.5	64.6	34.7	38.6
Adj DEPS	12.6	32.0	33.9	37.7

Cash Flow- Standalone

Mar ending (Rs mn)	FY09	FY10P	FY11E	FY12E
Net Profit before tax	9,469	28,468	27,291	30,325
Add: Depreciation	2,915	3,807	4,333	4,858
Add: Interest exp	1,341	1,027	1,148	1,330
Less: Other income	4,521	4,751	5,385	6,475
Dec/ (Inc) in Working capital	6,684	(4,002)	(4,184)	368
Other non operating items	(1,427)	1,633		
Less: Tax paid	1,003	5,590	7,369	8,188
Cash from operations	16,313	20,593	15,834	22,219
Capex	(9,152)	(8,691)	(9,842)	(8,000)
Investments and Others	(9,229)	(6,116)	(6,000)	(3,000)
Other income	(1,030)	6,702	5,385	6,475
Cash from Investing activities	(19,410)	(8,105)	(10,457)	(4,525)
Borrowings/Equity raising	11,123	(3,173)	2,730	(2,100)
Interest paid	(952)	(1,027)	(1,148)	(1,330)
Dividend paid	(3,203)	(6,019)	(6,692)	(7,435)
Cash from financing activities	6,969	(10,219)	(5,110)	(10,866)
Cash generation during the year	3,872	2,269	267	6,828
Opening Balance	8,612	15,744	17,432	17,699
Forex (loss) / gain	3,290			
Closing balance	15,774	18,014	17,699	24,528

Balance Sheet - Standalone

Mar ending (Rs mn)	FY09	FY10P	FY11E	FY12E
Share Capital	2,792	2,910	5,739	5,739
Reserves	49,765	75,393	88,624	103,325
Misc Exp	(126)	(41)	(41)	(41)
Owned Funds	52,431	78,261	94,322	109,023
Secured Loans	9,810	9,810	9,810	9,810
Unsecured Loans	30,718	18,992	18,892	16,792
Loan Funds	40,528	28,802	28,702	26,602
Deferred Tax Liability	(183)	2,403	2,403	2,403
Total	92,776	109,466	125,426	138,028
Gross Fixed Assets	48,939	57,939	65,939	73,939
Acc. Depreciation	23,263	27,070	31,403	36,261
Net Fixed Assets	25,676	30,869	34,536	37,678
Capital WIP	6,467	6,158	8,000	8,000
Net Block	32,143	37,027	42,536	45,678
Investments	57,864	63,980	69,980	72,980
Sundry Debtors	10,437	12,581	13,752	15,024
Inventory	10,607	11,888	15,898	17,369
Cash & Bank	15,744	17,432	17,699	24,528
Advances	13,826	18,014	19,692	21,513
Other Current Assets	133	509	509	509
Current Assets	50,746	60,424	67,551	78,943
Liabilities	35,202	34,000	38,301	41,758
Provisions	12,776	17,965	16,340	17,815
Current Liabilities	47,978	51,965	54,641	59,573
Net Current Assets	2,769	8,458	12,910	19,370
Total	92,776	109,466	125,426	138,028

Ratios - Standalone

Mar ending	FY09	FY10P	FY11E	FY12E
Per Share Data				
EPS*	12.6	32.0	33.9	37.7
Cash EPS*	17.6	38.5	41.3	46.0
BVPS*	89.3	133.3	160.7	185.7
Net cash per share*	(27.4)	(2.9)	1.2	19.8
*based on diluted share capital of 289 mn shares				
Valuation ratios				
P/E	43.2	17.0	16.1	14.5
Cash P/E	31.0	14.2	13.2	11.9
P/BV	6.1	4.1	3.4	2.9
EV/EBIDTA	12.9	3.9	3.6	2.9
Return Ratios (%)				
AROE	18.1	32.0	23.1	21.8
AROCE	13.3	27.6	24.2	24.0
DuPont				
NPM (%)	6.7	11.4	9.8	10.0
Sales/TA	0.9	1.1	1.1	1.1
TA/Equity	2.7	2.1	1.9	1.8
Other key ratios				
D/E	0.5	0.1	0.1	0.0
NCA/Sales (%)	2.1	4.6	6.3	8.7

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