

Expanding in commercial vehicles

Bank of America 
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Raise PO to Rs1,330

We expect commercial vehicles (part of the auto business) to be a key growth driver, contributing around 50% of incremental sales over FY10-12E. We expect the segment to contribute 29% of sales and about 20% of EBITDA by FY12E. We raise our PO from Rs1,180 to Rs1,330, reflecting (1) increased profit forecasts of 7-8% over FY11-12, and (2) higher core multiple of 12.5x FY11E EPS (from 12x).

Strong track record in small vehicles

M&M's franchise in sub-3.5T *Maxx* pick-ups has enabled it to deliver a five-year CAGR of 16%, without being present in mass market small cargo carriers, while also having a weak light-vehicle portfolio. In FY09-12E, we see CV business registering 37% CAGR (up from 26%), driven by new products such as (1) the *Gio* and *Maxximo*, both sub-1T carriers, and (2) light vehicles from the Navistar JV. We thus expect light-vehicle domestic share to rise around 10% to 29%.

Navistar JV to contribute over long term

Mahindra Navistar Automotives, M&M's JV with Navistar Inc, US, introduced 25T and 31T heavy trucks from its facility in India. The company plans to develop into a full-line CV maker (3.5-49T), which, until now, has been absent from M&M's portfolio. Our consolidated forecasts do not include contributions from this JV.

Front-end businesses continues to do well

M&M has performed strongly in the key segments of farm equipment, including tractors (about 36% of sales), and utility vehicles (40%). With minimal competition, we remain positive on its prospects. Sales assumptions for FY09-12E are unaltered, with farm equipment at 10% CAGR and utility vehicles at 29%.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	17,998	14,698	25,845	30,090	34,083
EPS	75.28	55.41	97.43	113.44	128.49
EPS Change (YoY)	14.2%	-26.4%	75.8%	16.4%	13.3%
Dividend / Share	12.00	10.00	15.00	18.00	20.00
Free Cash Flow / Share	(120.17)	(34.88)	10.52	38.31	43.13
GDR EPS (US\$)	1.87	1.20	2.14	2.49	2.82
GDR Dividend / Share (US\$)	0.298	0.217	0.329	0.395	0.439

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	15.32x	20.82x	11.84x	10.17x	8.98x
Dividend Yield	1.04%	0.867%	1.30%	1.56%	1.73%
EV / EBITDA*	11.18x	10.10x	7.22x	6.30x	5.59x
Free Cash Flow Yield*	-9.39%	-3.02%	0.912%	3.32%	3.74%

* For full definitions of *iQmethod*SM measures, see page 5.

Stock Data

Price (Common / GDR)	Rs1,154 / US\$25.25
Price Objective	Rs1,330 / US\$25.50
Date Established	14-Jan-2010 / 14-Jan-2010
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs258.60-Rs1,199
Market Value (mn)	US\$6,710
Shares Outstanding (mn)	265.3 / 265.3
Average Daily Volume	986,768
BofAML Ticker / Exchange	MAHMF / BSE
BofAML Ticker / Exchange	MAHMF / LIN
Bloomberg / Reuters	MM IN / MAHM.BO
ROE (2010E)	29.6%
Net Dbt to Eqty (Mar-2009A)	97.4%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	73.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	1,180.00	1,330.00
2010E Rev (m)	307,568.3	317,032.3
2011E Rev (m)	350,279.7	365,956.5
2012E Rev (m)	393,630.3	415,973.0
2010E EPS	92.27	97.43
2011E EPS	107.47	113.44
2012E EPS	120.82	128.49
2010E EBITDA (m)	49,611.3	51,280.8
2011E EBITDA (m)	56,601.2	58,758.7
2012E EBITDA (m)	64,064.0	66,293.8

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iQprofileSM Mahindra & Mahindra

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	237,744	267,564	317,032	365,956	415,973
Gross Profit	85,315	94,177	107,791	128,085	145,591
Sell General & Admin Expense	(52,187)	(57,512)	(56,510)	(69,326)	(79,297)
Operating Profit	27,306	29,172	42,061	48,532	55,092
Net Interest & Other Income	814	(5,867)	(2,164)	(1,910)	(2,393)
Associates	100	113	280	280	280
Pretax Income	28,220	23,418	40,177	46,901	52,979
Tax (expense) / Benefit	(7,387)	(5,605)	(10,448)	(12,274)	(13,621)
Net Income (Adjusted)	17,998	14,698	25,845	30,090	34,083
Average Fully Diluted Shares Outstanding	239	265	265	265	265

Key Cash Flow Statement Data

Net Income	17,998	14,698	25,845	30,090	34,083
Depreciation & Amortization	5,822	7,493	9,219	10,227	11,202
Change in Working Capital	(15,646)	(12,008)	(15,978)	(14,656)	(18,846)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(2,238)	(998)	1,205	0	0
Cash Flow from Operations	5,936	9,186	20,292	25,661	26,439
Capital Expenditure	(34,665)	(18,437)	(17,500)	(15,500)	(15,000)
(Acquisition) / Disposal of Investments	(3,514)	(15,714)	(11,500)	(12,500)	(10,000)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(38,179)	(34,150)	(29,000)	(28,000)	(25,000)
Shares Issue / (Repurchase)	(202)	3,133	0	0	0
Cost of Dividends Paid	(2,869)	(2,653)	(3,979)	(4,244)	(4,509)
Cash Flow from Financing	29,072	30,210	14,160	13,588	17,863
Free Cash Flow	(28,729)	(9,251)	2,792	10,161	11,439
Net Debt	81,530	103,441	112,244	114,289	112,084
Change in Net Debt	23,691	21,911	8,803	2,045	(2,205)

Key Balance Sheet Data

Property, Plant & Equipment	76,255	87,199	95,479	100,752	104,550
Other Non-Current Assets	13,723	30,004	41,504	54,004	64,004
Trade Receivables	37,678	36,653	43,429	50,131	56,983
Cash & Equivalents	17,280	22,526	27,978	39,227	58,529
Other Current Assets	114,327	145,004	165,132	184,004	206,541
Total Assets	259,263	321,385	373,522	428,118	490,606
Long-Term Debt	98,810	125,967	140,222	153,516	170,613
Other Non-Current Liabilities	4,780	4,780	4,780	4,780	4,780
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	66,823	84,467	95,393	106,311	116,854
Total Liabilities	170,412	215,213	240,395	264,607	292,247
Total Equity	88,851	106,172	133,127	163,511	198,360
Total Equity & Liabilities	259,263	321,385	373,522	428,118	490,606

iQmethodSM - Bus Performance*

Return On Capital Employed	14.8%	10.9%	14.5%	14.4%	14.0%
Return On Equity	32.8%	21.4%	29.6%	26.9%	24.4%
Operating Margin	11.5%	10.9%	13.3%	13.3%	13.2%
EBITDA Margin	13.9%	13.7%	16.2%	16.1%	15.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.3x	0.6x	0.8x	0.9x	0.8x
Asset Replacement Ratio	6.0x	2.5x	1.9x	1.5x	1.3x
Tax Rate (Reported)	26.2%	23.9%	26.0%	26.2%	25.7%
Net Debt-to-Equity Ratio	91.8%	97.4%	84.3%	69.9%	56.5%
Interest Cover	4.6x	3.9x	4.0x	4.1x	4.2x

Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

Company Description

Mahindra & Mahindra (M&M) is the flagship company of the Mahindra Group. It has two main operating divisions, autos and farm equipment. Autos includes Utility vehicles, light commercial vehicles and three-wheelers, and farm equipment includes tractors and agricultural implements. The company also has investments in standalone entities operating in the areas of hospitality, trade & financial services, auto components, IT, telecom and infrastructure development

Investment Thesis

We expect M&M's core business, mainly autos, to see faster growth over the next two years, thanks to product success in Utility vehicles. We also estimate higher margins as the company retain full benefit of lower commodity prices.

Stock Data

Shares / GDR	1.00
Price to Book Value	3.1x

Key Changes (GDR)

(US\$)	Previous	Current
Price Obj.	20.50	25.50
2010E EPS	2.02	2.14
2011E EPS	2.36	2.49
2012E EPS	2.65	2.82

Table 1: Sum of parts valuation

	Basis	Imputed Multiple (x)	Current value/share	Previous value/share
Core business			1,083	915
Standalone			1,039	915
Subsidiaries			259	265
Tech Mahindra	P/E	11.0	199	204
M&M Financial Services	P/ Adj BV	1.0	40	41
Mahindra Life Space Dev	Book value		26	26
Mahindra Holidays	DCF	84%	58	60
Less: Holding co. discount		20%	(65)	(66)
Cons value/share (Rs)			1,330	1,180

Source: BofA-Merrill Lynch Research

Price objective basis & risk

M & M (MAHHF / MAHMF)

Our PO of Rs1,330(US\$25.5 for GDR) is based on our estimate of the sum-of-the-parts of constituent businesses. We value the core business at 12.5x FY11E EPS, up from earlier 12x on stronger growth. We have imputed a holding company discount of 20pct to subsidiaries. Downside Risks: Slowdown in the economy that would adversely affect volume growth, and increasing competition as well as rise in input costs.

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14 January 2010

India - Autos Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY				
	Bajaj Auto	XBJBF	BJAUT IN	S.Arun
	Eicher Motors	XEICF	EIM IN	S.Arun
	M & M	MAHHF	MM IN	S.Arun
	M & M -G	MAHMF	MHID LI	S.Arun
	Maruti Suzuki India	MUDGF	MSIL IN	S.Arun
	Tata Motors Ltd.	TTM	TTM US	S.Arun
	Tata Motors Ltd.	TENJF	TTMT IN	S.Arun
	TVS Motor	XFKMF	TVSL IN	S.Arun
NEUTRAL				
	Hero Honda	HRHDF	HH IN	S.Arun
UNDERPERFORM				
	Ashok Leyland	XDBVF	AL IN	S.Arun
RVW				
	Bharat Forge	XUUVF	BHFC IN	S.Arun

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

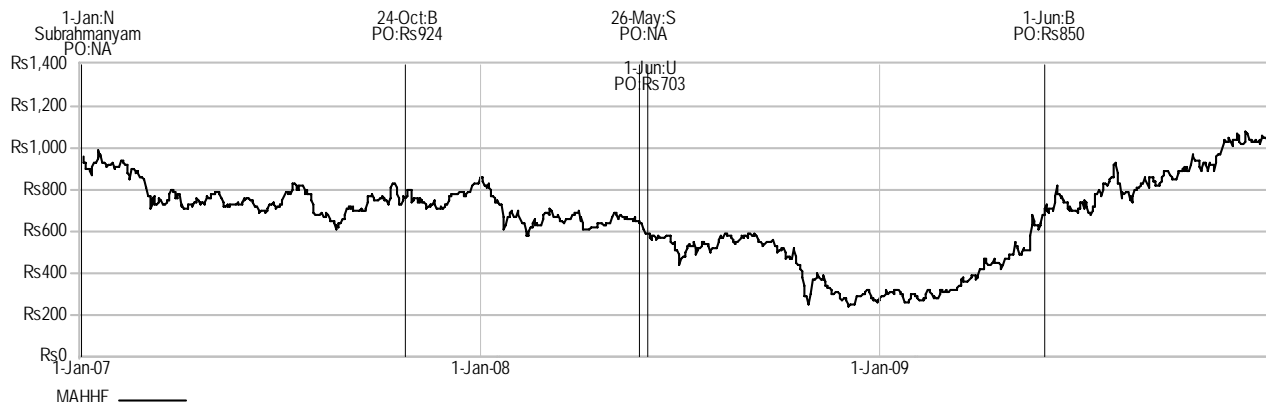
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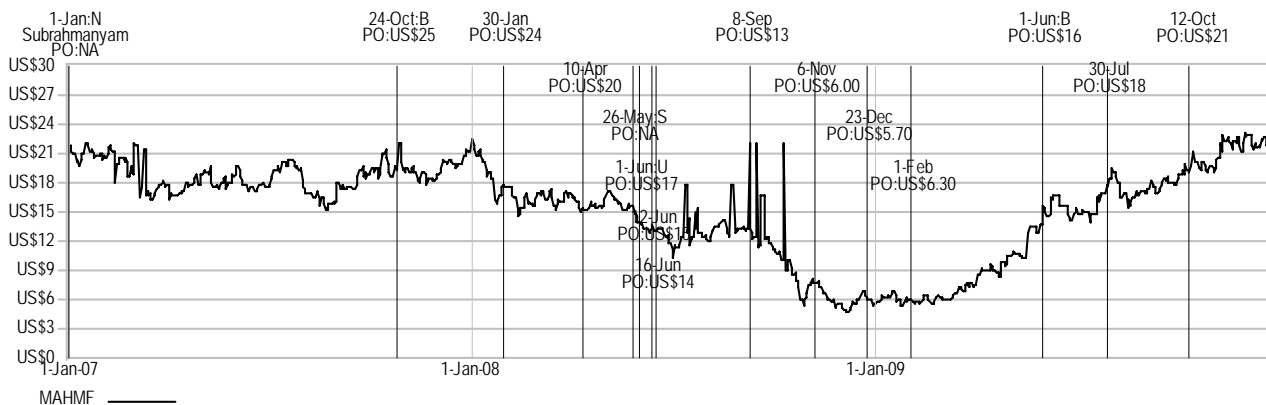


B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2009 or such later date as indicated.

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B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	45	59.21%	Buy	26	70.27%
Neutral	17	22.37%	Neutral	8	61.54%
Sell	14	18.42%	Sell	9	75.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1699	50.78%	Buy	904	58.82%
Neutral	841	25.13%	Neutral	491	65.03%
Sell	806	24.09%	Sell	368	49.80%

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