

## Mahindra & Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,398	MM IN
	REUTERS CODE
S&P CNX: 4,257	MAHM.BO

28 May 2007

Buy

Previous Recommendation: Buy

Rs740

	YEAR	NET SALES	S/A PAT	ADJ.EPS	CONS.	P/E	CONS,	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Eq. Shares (m)	255.9										
52-Week Range	1,002/488										
1,6,12 Rel.Perf.(%)	-9/-16/-8										
M.Cap. (Rs b)	172.8										
M.Cap. (US\$ b)	4.7										
	3/07A	99,874	9,198	35.9	55.1	20.6	13.4	24.8	24.5	1.4	12.1
	3/08E	110,963	9,951	38.9	66.3	19.0	11.2	22.6	23.0	1.3	10.6
	3/09E	122,985	10,408	40.7	76.8	18.2	9.6	20.4	22.2	1.1	9.2

### M&M standalone results

- 4QFY07 standalone results were in line with expectations. Adj. PAT grew 49% to Rs2.4b v/s our estimate of Rs2.5b.
- M&M has reported overall volume growth of 18.9% for the quarter, while net sales grew 23.2% to Rs27.4b (adjusted for octroi refund of Rs35m) boosted by realization growth of 3.6% YoY.
- EBITDA margin at 11.3% (+180bp YoY and -70bp QoQ) were lower than estimates of 12%, primarily on account of higher RM/sales QoQ (70.3% v/s 68.3% in 3QFY07).
- For the full year FY07, M&M registered 22.7% growth in net sales to Rs99.9b. EBITDA margin was 12% (+110bp YoY), as EBITDA increased 35.4% to Rs12b. Adj. PAT increased 42% to Rs9.2b.

### Consolidated results

- Total revenues increased 41.7% to Rs178b, due to the strong performance of the parent as well as most group companies, particularly the IT services and the Systech divisions. Adj. PAT after minority interest increased 43.2% to Rs14.1b, boosted by strong profitability growth in the farm equipment, IT services, hospitality, and Systech divisions.
- We remain positive on the growth prospects of M&M's core business. We expect overall volume growth of 10.6% in FY08 (9% in tractors and 10.5% in UVs), with stable margins at 11.8% in FY08 and 11.8% in FY09. With several growth drivers for the company from its other subsidiaries and JVs, M&M remains one of our top bets in auto sector. M&M trades at 11.2x FY08E consolidated EPS of Rs66.3, and 9.6x FY09E cons EPS of Rs76.8. Reiterate **Buy**.

Y/E MARCH	QUARTERLY PERFORMANCE									
	FY06				FY07				(Rs Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY06	FY07
Total Volumes (nos)	52,463	53,746	62,845	65,393	62,426	66,649	73,971	77,720	234,447	280,766
<b>Total Income</b>	<b>18,119</b>	<b>19,148</b>	<b>21,867</b>	<b>22,278</b>	<b>22,172</b>	<b>24,501</b>	<b>25,761</b>	<b>27,439</b>	<b>81,412</b>	<b>99,874</b>
Change (%)	27.3	23.2	23.4	16.6	22.4	28.0	17.8	23.2	22.2	22.7
Total Cost	16,190	16,966	19,231	20,159	19,660	21,209	22,664	24,340	72,546	87,874
<b>EBITDA</b>	<b>1,929</b>	<b>2,182</b>	<b>2,636</b>	<b>2,119</b>	<b>2,512</b>	<b>3,292</b>	<b>3,096</b>	<b>3,099</b>	<b>8,865</b>	<b>12,000</b>
As % of Sales	10.6	11.4	12.1	9.5	11.3	13.4	12.0	11.3	10.9	12.0
Change (%)	19.9	16.4	24.5	0.5	30.2	50.9	17.5	46.3	15.0	35.4
Non-Operating Income	204	294	403	953	454	478	412	354	1,854	1,698
Extraordinary Income	0	0	689	1,411	190	1,393	0	116	2,100	1,699
Extraordinary Expense	15	15	15	-37	15	0	6	192	8	213
Interest	-54	-48	-21	-61	-147	-155	-168	-205	-184	-675
<b>Gross Profit</b>	<b>2,171</b>	<b>2,509</b>	<b>3,734</b>	<b>4,581</b>	<b>3,288</b>	<b>5,318</b>	<b>3,670</b>	<b>3,582</b>	<b>12,995</b>	<b>15,859</b>
Less: Depreciation	466	466	558	509	463	501	522	609	2,000	2,096
<b>PBT</b>	<b>1,705</b>	<b>2,043</b>	<b>3,175</b>	<b>4,071</b>	<b>2,825</b>	<b>4,817</b>	<b>3,148</b>	<b>2,973</b>	<b>10,995</b>	<b>13,763</b>
Tax	253	472	841	859	784	952	731	613	2,424	3,079
Effective Tax Rate (%)	14.8	23.1	26.5	21.1	27.7	19.8	23.2	20.6	22.0	22.4
<b>PAT</b>	<b>1,453</b>	<b>1,572</b>	<b>2,334</b>	<b>3,212</b>	<b>2,042</b>	<b>3,865</b>	<b>2,417</b>	<b>2,360</b>	<b>8,570</b>	<b>10,684</b>
Change (%)	39.8	27.8	75.3	110.7	40.6	145.9	3.5	-26.5	47.1	24.7
<b>Adj PAT</b>	<b>1,468</b>	<b>1,587</b>	<b>1,790</b>	<b>1,634</b>	<b>1,867</b>	<b>2,472</b>	<b>2,423</b>	<b>2,436</b>	<b>6,479</b>	<b>9,198</b>
Change (%)	61.5	27.9	33.0	4.6	27.2	55.8	35.3	49.0	28.6	42.0

M&M's net revenues grew 23.2% YoY to Rs27.4b in 4QFY07, on the back of 18.9% volume growth and 3.6% increase in realizations. Net sales have been adjusted for an octroi refund of Rs35m in 4Q. Volume growth was driven by UVs (+19.3% YoY) and three-wheelers (+37.7% YoY). Tractors (+8.5% YoY) have displayed relatively lower growth rate. For the full year FY07, M&M registered 19.8% volume growth, with strong growth across segments.

### Farm equipment segment (FES) performance

M&M has been able to increase its share in the tractor industry by 100bp in FY07, which takes its market share to ~30%. However, in view of Punjab Tractors being the biggest loser of market share during the year, the share gain is immaterial. Together with PTL, M&M controls ~40% of the tractor market in India. Both companies have complementary product portfolios, and PTL's established presence and strong brand in North Indian states like Punjab and Haryana will help M&M boost its sales in that region.

We expect M&M's tractor volumes to increase by 9% in FY08 and FY09, while PTL's volumes are expected to increase by 6% and 5% in FY08 and FY09. Considering PTL's poor performance in 4Q, on consolidation, M&M's EPS is likely to be negatively impacted by 0.8% in FY08 and by 0.4% in FY09 (previous estimate -0.1% in FY08 and +0.4% in FY09).

EBIT margins for the tractor division contracted 320bp QoQ owing to raw material cost pressures. The segmental EBIT margin for FY07 was 13.7% (+250bp).

### Automotive segment performance

**Utility vehicles:** Scorpio sales bounced back in 4Q, after sluggish growth in 3Q. UV sales growth was driven by the *Scorpio*, while the relaunched *Bolero* also witnessed robust demand. M&M's UVs are facing competition from GM's *Tavera* and Toyota *Innova*. Nevertheless, M&M continues to be the leader in the segment, with a domestic market share of 40.8% (down 240bp YoY). We expect UV volumes to increase by 10.5% in FY08 and FY09, in line with industry growth.

**Three-wheelers:** M&M has been performing strongly in the 3-wheeler segment, as volumes have increased by 37.7% YoY in 4Q, while volume growth in FY07 has been 50.3%. Growth is being driven by conversion to CNG for 3-wheelers, leading to higher demand in cities such as Ahmedabad, and the introduction of the small 0.5 tonne carrier. M&M has increased its domestic 3-wheeler market share by 210bp in FY07 to 8.3%. Its market share gain in the goods segment is higher at 560bp to 18.3%. We expect volumes to increase by 15% in FY08 and by 10% in FY09.

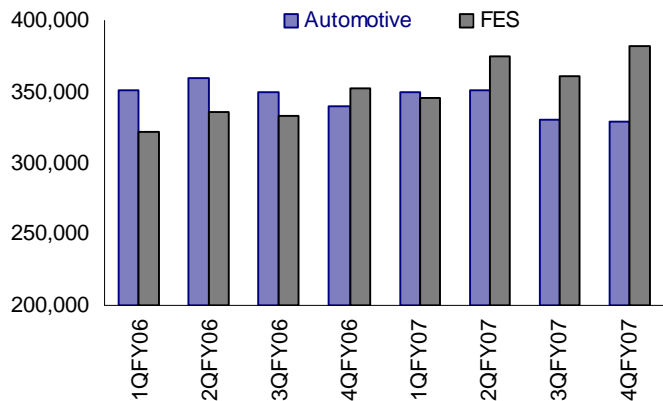
EBIT margins for the automotive division contracted 30bp QoQ and by 10bp YoY. The segmental EBIT margin for FY07 was 10.3% (+40bp).

#### VOLUME BREAK-UP (UNITS NOS)

	4QFY07	4QFY06	CH. (%)	3QFY07	CH. (%)	FY07	FY06	CH. (%)
<b>Utility Vehicle</b>	<b>41,856</b>	<b>35,072</b>	<b>19.3</b>	<b>35,267</b>	<b>18.7</b>	<b>135,877</b>	<b>120,222</b>	<b>13.0</b>
Scorpio	11,341	8,552	32.6	8,702	30.3	38,006	31,661	20.0
UVs w/o Scorpio	28,538	25,096	13.7	24,611	16.0	89,848	83,027	8.2
LCVs	2,565	1,545	66.0	2,166	18.4	8,652	6,777	27.7
Three Wheelers	9,823	7,136	37.7	8,408	16.8	33,700	22,419	50.3
<b>Total Automotive</b>	<b>54,244</b>	<b>43,753</b>	<b>24.0</b>	<b>45,841</b>	<b>18.3</b>	<b>178,229</b>	<b>149,418</b>	<b>19.3</b>
Tractors	23,476	21,640	8.5	28,130	-16.5	102,537	85,028	20.6
<b>Total</b>	<b>77,720</b>	<b>65,393</b>	<b>18.9</b>	<b>73,971</b>	<b>5.1</b>	<b>280,766</b>	<b>234,446</b>	<b>19.8</b>
Exports - UVs	1,977	1,424	38.8	1,954	1.2	8,023	5,534	45.0
Exports - Tractors	1,959	2,266	-13.5	1,486	31.8	7,534	8,671	-13.1
<b>Total Exports</b>	<b>3,936</b>	<b>3,690</b>	<b>6.7</b>	<b>3,440</b>	<b>14.4</b>	<b>15,557</b>	<b>14,205</b>	<b>9.5</b>

Source: Company/Motilal Oswal Securities

REALIZATION FOR FES IMPROVES (RS/UNIT)



Source: Company/Motilal Oswal Securities

EBITDA margin declines

EBITDA margin at 11.3% (+180bp YoY and -70bp QoQ) was lower than estimates of 12%. EBITDA margin was lower on a QoQ basis primarily on account of higher RM/sales QoQ (70.3% v/s 68.3% in 3QFY07). On a QoQ basis, margins of both the farm equipment segment and the automotive segment declined 320bp and 30bp respectively to 11.8% and 9.7%.

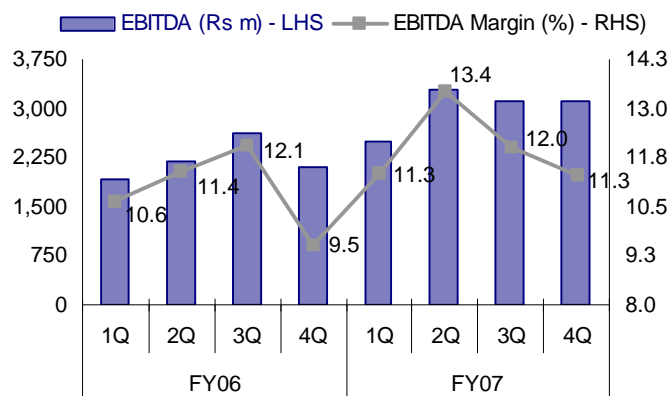
Depreciation was higher than expectation at Rs609m. There was also an extraordinary gain on sale of investments of Rs81m, an extraordinary loss of Rs192m due to one-time staff cost expensing. As a result, the adjusted PAT increased 49% to Rs2.4b.

For the full year FY07, M&M registered 22.7% growth in net sales to Rs99.9b. EBITDA margin was 12% (+110bp YoY), as EBITDA increased 35.4% to Rs12b. Adj. PAT increased 42% to Rs9.2b. The segmental EBITDA margin for the automotive segment was 10.3% (+40bp YoY), while that for the farm equipment segment was 13.7% (+250bp YoY).

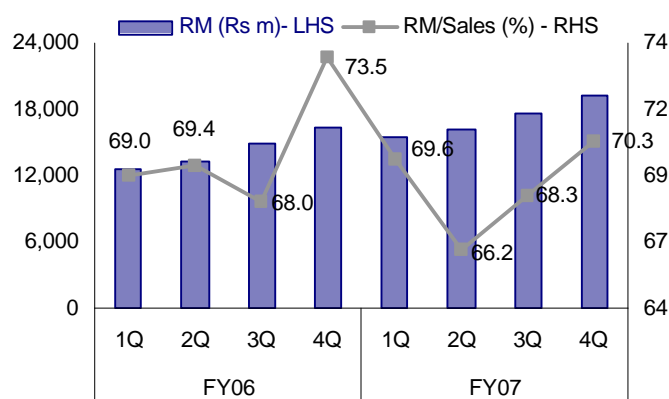
M&M has also been jointly sourcing material for both the tractor and automotive divisions for some time – synergies in sourcing may help M&M maintain margins at current levels, going forward. Mahindra Systech will serve as the sourcing partner. Further synergies in the automotive

segment may be derived by jointly sourcing by M&M and the M&M-Renault-Nissan JV.

EBITDA MARGIN DECLINES



AS RAW MATERIAL COSTS INCREASE



Source: Company/Motilal Oswal Securities

SEGMENT-WISE BREAK-UP (RS M)

	4QFY07	4QFY06	3QFY07	FY07	FY06
<b>Revenue from Operations</b>					
Automotive Segment	17,820	14,848	15,103	60,332	52,198
Farm Equip. Segment	8,964	7,641	10,145	37,405	28,538
Other Segments	1,398	891	1,215	4,691	3,071
<b>Total</b>	<b>28,182</b>	<b>23,380</b>	<b>26,463</b>	<b>102,427</b>	<b>83,808</b>
<b>Profit/Loss before Interest and Tax</b>					
Automotive Segment	1,727	1,455	1,513	6,207	5,148
Farm Equip.t Segment	1,054	802	1,522	5,122	3,192
Other Segments	122	35	68	264	125
<b>Total</b>	<b>2,903</b>	<b>2,292</b>	<b>3,102</b>	<b>11,592</b>	<b>8,465</b>
<b>Margins (%)</b>					
Automotive Segment	9.7	9.8	10.0	10.3	9.9
Farm Equipment Segment	11.8	10.5	15.0	13.7	11.2

Includes inter-segmental revenues

Source: Company/MOSL

## M&amp;M CONSOLIDATED SEGMENTAL RESULTS (RS M)

SEGMENTS	FY06		FY07		FY07 % GROWTH	
	REVENUE	PROFIT	REVENUE	PROFIT	REVENUE	PROFIT
Automotive	53,384	5,393	64,801	6,560	21.4	21.6
Farm Equipment	34,266	3,105	43,308	5,031	26.4	62.0
<b>Total Core Business (A)</b>	<b>87,650</b>	<b>8,498</b>	<b>108,109</b>	<b>11,591</b>	<b>23.3</b>	<b>36.4</b>
Steel Trading and Processing	5,017	480	5,398	493	7.6	2.6
Financial Services	5,872	1,642	8,395	2,076	43.0	26.4
<b>Total Trade &amp; Financial Services (B)</b>	<b>10,889</b>	<b>2,122</b>	<b>13,792</b>	<b>2,568</b>	<b>26.7</b>	<b>21.0</b>
Infrastructure	1,753	187	1,315	96	-25.0	-48.5
Hospitality	1,527	320	2,325	640	52.2	99.7
<b>Total Infrastructure Development (C)</b>	<b>3,280</b>	<b>507</b>	<b>3,640</b>	<b>736</b>	<b>11.0</b>	<b>45.1</b>
<b>Total A + B + C</b>	<b>101,819</b>	<b>11,127</b>	<b>125,542</b>	<b>14,895</b>	<b>23.3</b>	<b>33.9</b>
IT Services	13,885	2,617	31,172	6,862	124.5	162.2
Systech	4,776	988	15,862	1,667	232.1	68.7
Others	5,400	1,129	5,843	307	8.2	-72.8
<b>Grand Total</b>	<b>125,881</b>	<b>15,860</b>	<b>178,419</b>	<b>23,730</b>	<b>41.7</b>	<b>49.6</b>
Unallocable Expenses (Net of Income)		508		724		42.7
Net Unallocable Interest Income (Net of Exp.)		-45		192		-526.7
Unallocable Exceptional Items		2,717		-1,173		-143.2
<b>PBT</b>		<b>18,025</b>		<b>22,024</b>		<b>22.2</b>
Tax		4,029		5,957		47.8
<b>PAT</b>		<b>13,996</b>		<b>16,067</b>		<b>14.8</b>
Prior Period Adjustments		2		-152		-6,700.0
Share of Associates		47		164		250.7
Minority Interest		1,343		1,411		5.1
<b>Reported Consolidated PAT</b>		<b>12,697</b>		<b>14,972</b>		<b>17.9</b>
<b>Adjusted Consolidated PAT</b>		<b>9,842</b>		<b>14,091</b>		<b>43.2</b>
<b>Adj Consolidated EPS (Rs)</b>		<b>38.5</b>		<b>55.1</b>		<b>43.2</b>

Source: Company/Motilal Oswal Securities

## BREAK-UP OF EXTRAORDINARY ITEMS (RS M)

	M&M'S SHARE
Reported PAT	14,972
Less: Extraordinary Items:	
Tech Mahindra One-time Charge	-5,249
Of Which 50% Attributable to M&M	-2,572
Gain on QIP of Mahindra Gesco	1,969
Slump Sale of Cable Joining Business	198
Sale of Investments	81
Stake Sale of Tech Mahindra	1,535
Others	290
Total Extraordinary	1,501
Add: Prior Period Items	-152
Less: Exceptional Items	-1,173
Less: Post-tax Octroi Refund	400
<b>Adjusted PAT</b>	<b>14,091</b>

Source: Company/Motilal Oswal Securities

**Consolidated results**

Total revenues increased by 41.7% to Rs178b, due to strong performance of the parent company as well as most group

companies, particularly the IT services and the Systech divisions. The company's adjusted PAT after minority interest increased by 43.2% to Rs14.1b, boosted by strong profitability growth in the farm equipment, IT services, hospitality, and Systech divisions.

**Analyst meet highlights****Core business**

- ✍ Aggressive cost reduction in the automotive division has helped M&M counter raw material cost increases in FY07. The company is also focusing on improving productivity and utilization levels at its existing plants. It is targeting to increase the vehicles manufactured per day from 800 in FY07 to 1,200 in FY08.
- ✍ The company is working on two new platforms for the automotive segment - a new SUV to be manufactured at the upcoming facility at Chennai, and the platform

for cargo and passenger vehicles straddling the 3-wheeler and LCV space at Chakan. This is in addition to the Ingenio MPV, scheduled for launch before December 2008.

- ✍ The company expects UV volume growth at between 8-12% in FY08, while for tractors it is 6-10%. High base effect, government policies, and higher interest rates may all lead to this relatively moderate growth long-term rate for tractors.
- ✍ In addition to maintaining its focus on adding new dealerships and franchisees, it is also adding new outlets for Mahindra Vishwas, which deals in second-hand tractors.
- ✍ In FY08, raw material costs for the farm equipment sector are expected to increase by 4-5% due to higher metal prices. Further due to interest costs increasing by 2%, EMIs are expected to increase by ~Rs5,300 per annum.
- ✍ M&M will retain the Swaraj brand of PTL, while using the surplus capacity at PTL's plant to manufacture M&M's tractors.

### Subsidiaries/Associates

- ✍ M&M plans an IPO of its subsidiary - Mahindra Holidays in 3QFY08 to unlock value.
- ✍ The Systech division is aiming to be amongst the top 2 component companies in India by 2010, and among the top 5 companies globally in 2015. Mahindra Systech is focusing on a D2D strategy of offering services from the design to delivery stage. This can be done through leveraging Mahindra Engineering Services with its auto component companies. On an annualized basis, the division can contribute revenue of US\$750m and PAT of US\$29m.
- ✍ The only leg left in the component strategy is to have a production facility in other LCCs like China, which could occur in FY08.
- ✍ Systech has completed its acquisitions and we believe FY08 will be the year of consolidation and integration of the acquired companies.
- ✍ Synergies between the operations of Systech's various companies can potentially improve margins by up to 2% over a period of time.

- ✍ Mahindra Renault: The Logan has been the first launch of this JV, and has received a good response. About 3,000 cars have been booked, and the car is witnessing a 2-week waiting period. Marketed as a value proposition in the A3 segment, it will give competition to the likes of Palio, Swift, Indigo, Getz, Esteem etc.
- ✍ Current localization levels are at 50%; these will increase once the greenfield facility at Chennai becomes operational.
- ✍ ITEC JV: LCVs have been showing robust growth following the increased focus accorded to the segment. M&M will attain complete presence across all the CV segments by FY09-end/early FY10 once the ITEC JV commences commercial operations.

### Investment arguments

**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 the company would witness robust volume growth in tractors (9% in FY08 and FY09) and UVs (10.5% in FY08 and FY09).

**UVs – expect 10.5% annual growth:** Driven by rising UV penetration and improvement in road infrastructure, we expect UVs to outperform the passenger vehicle segment. 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.

**Tractors estimate 9% growth over FY08-FY09:** The current UPA government is highly committed to improving the terms of trade for rural economy. Being the industry leader, with market share of 30%, we expect M&M's tractor volumes to grow at least in line with the industry.

**Subsidiaries and associates – adding substantial value:** M&M has invested in other Mahindra group companies. M&M's non-automotive subsidiaries like the recently listed Tech Mahindra and Mahindra Financial

Services (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 Rs393/share of M&M.

**Recent JVs – potential blockbusters:** Its recent JVs with Renault and ITEC, which would enable it to enter the passenger car and commercial vehicle segment, are potential blockbusters in our opinion. Besides, the company's acquisition-led strategy is fuelling growth of its automotive parts division, Mahindra Systech. MS, which has made a host of acquisitions in the past 12 months, including Stokes, Amforge's Chakan plant and Jeco Holdings, is targeting revenues of US\$1b by 2010. We believe that this target can be easily surpassed, since the company's revenues have already reached US\$750m in FY07.

#### Valuation and view

We remain positive on the growth prospects of M&M's core business. We expect volume growth of 10.6% in FY08

(9% in tractors and 10.5% in UVs), with margins being stable at 11.8% in FY08 and FY09.

M&M has successfully ventured into various businesses, unrelated to its core business, thereby making it a diversified conglomerate as opposed to a mere auto space play. Most of these ventures have strong growth prospects (like Mahindra Systech), or have already entered into the growth phase (like Tech Mahindra). With several growth drivers for the company over the next 3-4 years, coupled with cheap valuations, M&M remains one of our top bets in auto sector.

The company will continue on the value unlocking path, by announcing the IPO of Mahindra Holidays, scheduled for 3QFY08. Mahindra Holidays has displayed strong performance in FY08, and is the fastest growing vacation ownership company outside the US.

M&M trades at 11.2x FY08E consolidated EPS of Rs66.3, and 9.6x FY09E cons EPS of Rs76.8. Reiterate **Buy** with a price target of Rs1,062 (43.5% upside).

## Mahindra & Mahindra: an investment profile

### Company description

Mahindra & Mahindra, the leading UV and tractor manufacturer in the country, has gone from strength to strength during the quarter. Its market share in overall tractor sales stands at ~30%. It is also expected to benefit from the government's thrust on the development of the rural economy. In the UV segment, it is expected to maintain its market share even in the face of competition.

### Key investment arguments

- ✍ M&M has successfully ventured into various businesses, unrelated to its core business, thereby making it a diversified conglomerate.
- ✍ Most of these ventures have strong growth prospects (like Mahindra Systech), or have already entered into the growth phase (like Tech Mahindra).
- ✍ With several growth drivers for the company over the next 3-4 years, coupled with cheap valuations, M&M remains one of our top bets in auto sector.

### Key investments risks

- ✍ Numerous launches in the UV has led to an increase in the competitive scenario
- ✍ Susceptibility to monsoons remains a key threat in the tractors segment.

#### COMPARATIVE VALUATIONS

		M&M	TATA MOTORS	MARUTI
P/E (x)	FY08E	11.2	12.0	13.3
	FY09E	9.6	10.7	10.9
EPS Gr (%)	FY08E	20.5	11.0	15.4
	FY09E	15.8	11.6	22.2
RoE (%)	FY08E	22.6	25.4	21.2
	FY09E	20.4	23.7	21.0
EV/EBITDA (x)	FY08E	10.6	7.4	7.1
	FY09E	9.2	6.5	5.3

#### SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	23.0	23.1	22.8
Domestic Inst	21.1	21.2	21.5
Foreign	40.3	41.9	41.9
Others	15.6	13.8	13.8

### Recent developments

- ✍ Mahindra-Renault's first product launch – the Logan, is in the fast growing 'C' segment. The JV would start contributing positively to M&M's consolidated earnings post FY08.
- ✍ M&M has acquired Actis and the Burman family's 43.3% stake in Punjab Tractors, and has made an open offer for a further 20% stake.

### Valuation and view

- ✍ We remain positive on the growth prospects of M&M's core business. We expect volume growth of 10.6% in FY08 (9% in tractors and 10.5% in UVs), with stable margins at 11.8% in FY08 and FY09.
- ✍ M&M trades at 11.2x FY08E consolidated EPS of Rs66.3, and 9.6x FY09E cons EPS of Rs76.8. Reiterate **Buy** with a price target of Rs1,062 (43.5% upside).

### Sector view

- ✍ We remain bullish on the macro growth picture for passenger cars in India
- ✍ We also believe that within passenger vehicles, UVs will remain a strong performer.
- ✍ We maintain an overweight stance on the sector.

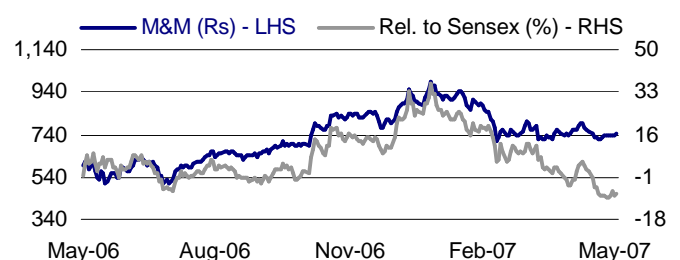
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY08	66.3	55.1	20.3
FY09	76.8	64.8	18.6

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
740	1,062	43.5	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
<b>Total Income</b>	<b>66,606</b>	<b>81,412</b>	<b>99,874</b>	<b>110,963</b>	<b>122,985</b>
Change (%)	34.8	22.2	22.7	11.1	10.8
Total Expenditure	58,897	72,546	87,874	97,765	108,459
<b>EBITDA</b>	<b>7,709</b>	<b>8,865</b>	<b>12,000</b>	<b>13,198</b>	<b>14,526</b>
Change (%)	50.8	5.0	35.4	10.0	10.1
% of Net Sales	11.6	10.9	2.0	11.9	11.8
Depreciation	1,840	2,000	2,096	2,492	2,807
<b>EBIT</b>	<b>5,869</b>	<b>6,865</b>	<b>9,904</b>	<b>10,706</b>	<b>11,719</b>
Deferred Revenue Exp.	0	0	0	0	0
Interest & Finance Charges	-56	-184	-675	-405	-283
Other Income	1,084	1,854	1,698	1,813	1,875
Non-recurring Expense	3	8	213	0	0
Non-recurring Income	136	2,100	1,699	0	0
<b>Profit before Tax</b>	<b>7,141</b>	<b>10,995</b>	<b>13,763</b>	<b>12,923</b>	<b>13,877</b>
Tax	2,015	2,424	3,079	2,972	3,469
Effective Rate (%)	28.2	22.0	22.4	23.0	25.0
<b>Profit after Tax</b>	<b>5,126</b>	<b>8,571</b>	<b>10,684</b>	<b>9,951</b>	<b>10,408</b>
Change (%)	47.1	67.2	24.6	-6.9	4.6
<b>Adj. Profit after Tax</b>	<b>5,040</b>	<b>6,479</b>	<b>9,198</b>	<b>9,951</b>	<b>10,408</b>
Change (%)	52.0	28.6	42.0	8.2	4.6

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	2,320	2,334	2,334	2,334	2,334
Reserves	18,962	26,755	34,785	41,775	48,629
<b>Net Worth</b>	<b>21,283</b>	<b>29,089</b>	<b>37,119</b>	<b>44,109</b>	<b>50,963</b>
Deferred tax	1,898	1,468	1,468	1,468	1,468
Loans	10,526	8,834	8,834	8,834	8,834
<b>Capital Employed</b>	<b>33,706</b>	<b>39,390</b>	<b>47,420</b>	<b>54,410</b>	<b>61,265</b>
Gross Fixed Assets	26,997	28,855	33,355	37,855	42,355
Less: Depreciation	13,356	15,103	17,199	19,691	22,498
<b>Net Fixed Assets</b>	<b>13,642</b>	<b>13,753</b>	<b>16,157</b>	<b>18,164</b>	<b>19,857</b>
Capital WIP	1,107	1,792	502	503	503
Investments	11,898	16,691	12,898	13,398	13,898
<b>Curr.Assets, L &amp; Adv.</b>	<b>24,334</b>	<b>27,614</b>	<b>45,466</b>	<b>52,353</b>	<b>60,733</b>
Inventory	7,294	8,419	10,834	12,358	13,710
Sundry Debtors	5,115	6,380	7,763	8,570	9,504
Cash & Bank Balances	6,240	7,303	23,958	28,503	34,587
Loans & Advances	4,197	5,112	2,501	2,502	2,502
Others	1,488	400	410	420	430
<b>Current Liab. &amp; Prov.</b>	<b>17,518</b>	<b>20,640</b>	<b>27,603</b>	<b>30,007</b>	<b>33,726</b>
Sundry Creditors	10,948	13,707	20,254	22,472	25,052
Other Liabilities	1,572	1,502	1,552	1,602	1,652
Provisions	4,997	5,431	5,797	5,934	7,023
<b>Net Current Assets</b>	<b>6,816</b>	<b>6,974</b>	<b>17,864</b>	<b>22,345</b>	<b>27,007</b>
Misc. Expenditures	244	181	0	0	0
<b>Application of Funds</b>	<b>33,706</b>	<b>39,390</b>	<b>47,420</b>	<b>54,410</b>	<b>61,265</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
<b>Basic (Rs)</b>					
<b>Adjusted EPS</b>	<b>19.7</b>	<b>25.3</b>	<b>35.9</b>	<b>38.9</b>	<b>40.7</b>
<b>Consolidated EPS</b>	<b>24.2</b>	<b>38.5</b>	<b>55.1</b>	<b>66.3</b>	<b>76.8</b>
Cash EPS	29.7	36.3	48.4	53.3	56.6
Book Value per Share	91.7	124.6	159.0	189.0	218.4
DPS	13.0	10.0	11.5	12.5	15.0
Payout (Incl. Div. Tax) %	59.6	28.5	25.4	29.8	34.1
<b>Valuation (x)</b>					
P/E		29.2	20.6	19.0	18.2
Consolidated P/E		19.2	13.4	11.2	9.6
Cash P/E		20.4	15.3	13.9	13.1
EV/EBITDA		17.8	12.1	10.6	9.2
EV/Sales		2.0	1.4	1.3	1.1
Price to Book Value		5.9	4.7	3.9	3.4
Dividend Yield (%)		14	16	17	2.0
<b>Profitability Ratios (%)</b>					
RoE	23.7	22.3	24.8	22.6	20.4
RoCE	20.6	22.1	24.5	23.0	22.2
<b>Turnover Ratios</b>					
Debtors (Days)	25	26	25	25	25
Asset Turnover (x)	19	2.0	2.1	2.0	2.0
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.5	0.3	0.2	0.2	0.2

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
OP/(Loss) before Tax	5,869	6,865	9,904	10,706	11,719
Int./Dividends Received	1,084	1,854	1,698	1,813	1,875
Depreciation & Amort.	1,840	2,000	2,096	2,492	2,807
Direct Taxes Paid	-2,150	-2,854	-3,079	-2,972	-3,469
(Inc)/Dec in Wkg. Capital	6	905	5,766	63	1,423
<b>CF from Oper. Activity</b>	<b>6,649</b>	<b>8,770</b>	<b>16,384</b>	<b>12,101</b>	<b>14,355</b>
Extra-ordinary Items	132	2,092	1,486	0	0
Other Items	-147	63	181	0	0
<b>CF after EO Items</b>	<b>6,634</b>	<b>10,926</b>	<b>18,051</b>	<b>12,101</b>	<b>14,355</b>
(Inc)/Dec in FA+CWIP	-2,471	-2,796	-3,210	-4,501	-4,500
(Pur)/Sale of Invest.	-786	-4,793	3,793	-500	-500
<b>CF from Inv. Activity</b>	<b>-3,257</b>	<b>-7,589</b>	<b>583</b>	<b>-5,001</b>	<b>-5,000</b>
Change in Net Worth	300	1,674	64	3	2
Inc/(Dec) in Debt	3,228	-1,692	0	0	0
Interest Paid	56	184	675	405	283
Dividends Paid	-3,054	-2,440	-2,718	-2,961	-3,554
<b>CF from Fin. Activity</b>	<b>530</b>	<b>-2,274</b>	<b>-1,979</b>	<b>-2,554</b>	<b>-3,268</b>
<b>Inc/(Dec) in Cash</b>	<b>3,907</b>	<b>1,063</b>	<b>16,655</b>	<b>4,545</b>	<b>6,086</b>
Add: Beginning Balance	2,333	6,240	7,303	23,958	28,503
<b>Closing Balance</b>	<b>6,240</b>	<b>7,303</b>	<b>23,958</b>	<b>28,503</b>	<b>34,589</b>

E: MOST Estimates



**N O T E S**



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**Mahindra & Mahindra**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
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