2012

COMPANY RESEARCH REPORT

INITIATING COVERAGE

MAHINDRA & MAHINDRA LIMITED

RECOMMENDATION: BUY

CMP: Rs. 762

BUY PRICE: < Rs.709

12 MONTH TARGET: Rs. 922

(SEE ANALYST NOTES)

RISK PROFILE: MODERATE

Hedge Equities

invest with an edge

Business Summary

Mahindra & Mahindra Limited (MML) is India's leading automobile and farm equipment manufacturer that enjoys leadership in the UV (Utility Vehicle) segment and the tractor segment (global leader). The company also derives value as a holding company.

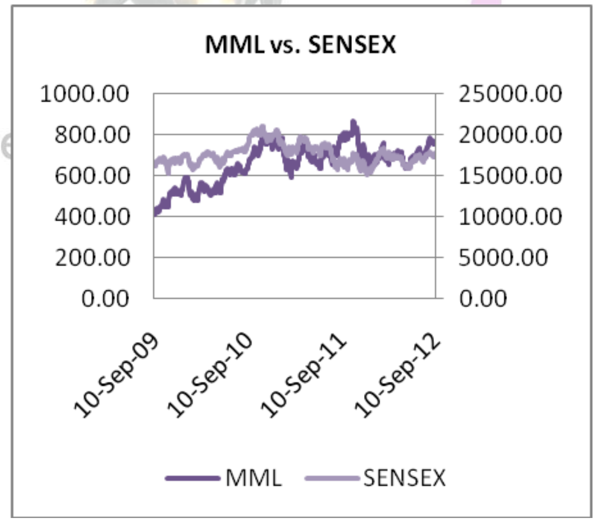
Investment Rationale

- MML is India's leading UV manufacturer and through its collaboration with its Korea based sub- Ssanyong Motors, is very well positioned to cater to global standards and demand for SUVs. Going forward, the company is developing its expertise in alternate fuel vehicles and its stake in electrical vehicle major- Reva puts it in a very enviable position to fulfill the inevitable demand for alternate fuel vehicles. In the near term MML has 4 new launches due to be released in FY13.
- MML enjoys world leadership in the tractor market and follows a more holistic and comprehensive strategy in servicing its farm equipment target market. This consequently results in deep and more loyal relationships with its clientele.
- MML's plants are strategically spread out over 5 states and in addition to logistical benefits this lack of concentration coupled with deep HR engagement practices reduces the risk of employee discordance and plant lockdowns.
- We have employed a weighted average valuation approach of determining our share target price of Rs.922. We have assigned 40% weights to our DCF and PE targets with a 20% weight for the EV target. Our buying level of <Rs.709 represents a 30% margin of safety on our weighted average target price.

Risks

- MML's near term tractor sales are a concern. Sales have been trending lower in the current fiscal. This is an industry wide issue that has been precipitated by weak monsoons, stalling of PSU bank credit and lack of rural buoyancy.
- More than 95% of MML's automobile portfolio are diesel oriented vehicles and potential diesel price hikes or tax hikes on diesel vehicles could adversely affect sales.
- MML has made significant investments to turn around its Korean sub-Ssanyong Motors. While the company has managed to positive figures at the operating level, it is yet to post profits. If it is unable to post profits in the next 1-2 years this could weigh heavily on MML's ROI and free cash flow levels.

NSE Code:	M&M
BSE Code:	500520
ISIN Code:	INE101A01026
Reuters Code:	MAHM.BO
Bloomberg Code:	MM IN
Website:	www.mahindra.com
Sector:	AUTOMOBILES
EPS (TTM):	Rs. 48.86
PE (TTM):	15.65
Industry PE:	15.05
Mkt. Cap (In crores):	Rs.46785cr.
52 Wk high:	Rs. 874
52 Wk low:	Rs.621
Latest Book Value:	Rs. 197
P/BV:	3.86
Beta:	0.93
Yield (%):	1.64%
Face Value:	5
Institutional Holding:	47.55%



Shareholding Pattern (%)

Total of Promoter and Promoter Group	**25.45%**
Public Shareholding:	
Institutions	*47.55%*
Non-Institutions	*21.26%*
Total Public Shareholding	**68.81%**

Source: Multiple sources

Contents

INDICES IN WHICH THE MML STOCK IS LISTED

-SENSEX

-BSE100

-BSE200

-BSE500

-AUTO

-NIFTY

-CNX100

-CNX200

-CNX500

-CNXAUTO

-CNXCONSUMP

BOARD OF DIRECTORS

Chairman& MD: Anand G Mahindra

Chairman Emeritus: Keshub Mahindra

Director: A K Nanda

Director: A S Ganguly

Director: Anupam Puri

Director: R K Kulkarni

Director: M M Muragappan

Director: Nadir Godrej

Director: Deepak Parekh

Director: Bharat Doshi

Director: Vikram Singh Mehta

Director: Narayanan Vaghul

BRIEF PROFILE

Mahindra and Mahindra Limited (MML) is the flagship brand of the $15.4 billion multinational group- the Mahindra Group that has over 132 companies and 144,000 employees in over 100 countries across the world. Today the group's operations span 18 key industries that form the foundation of every modern economy : aerospace, aftermarket, agribusiness, automotive components, construction equipment, consulting services, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail and two wheelers.

From a standalone perspective, MML's revenues mainly arises from two key segments- the Automotive segment and the Farm Equipment segment. MML is considered to be the fastest growing Indian auto OEM (Original Equipment Manufacture) in the last 10 years and enjoys UV (Utility Vehicles) leadership in the country with a 55% market share. It also enjoys top credentials in the farm equipment space as it is the number one tractor company in the world by volume, with annual sales of over 230,000. It has been the biggest tractor manufacturer in India for 29 years in a row and its current market share stands at 44%.

The company has manufacturing facilities at Kandivali, Nashik, Igatpuri, Nagpur, Zaheerabad, Jaipur, Rudrapur, Haridwar, Chakan and Mohali.

ADDRESS

Gateway Building,

Apollo Bunder,

Mumbai 400001,

BUSINESS

- *MML's standalone revenue broadly arises from two segments- the automotive segment which contributes 63% and the farm equipment segment which contributes 37%.*

- *MML is the number one UV (Utility Vehicles) manufacturer in India in terms of sales volume. It enjoys a market share of 55% in the domestic economy*

- *MMIL is the world's number one tractor manufacturer by sales. It has been the number one tractor manufacture in India for 29 successive years and currently enjoys a market share of 44%.*

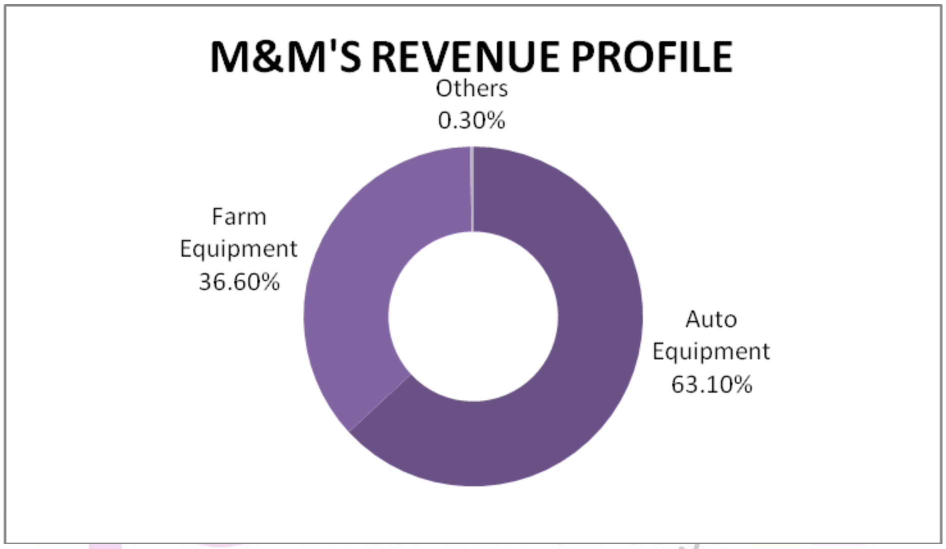
- *In addition to the standalone business, MML also derives value as a holding company through its stake in 117 subsidiaries, 5 associate companies and 4 joint ventures.*

- *In addition to the manufacture of tractors the company also provides more comprehensive services in the farm sector and is striving to stimulate farm tech prosperity and mechanization in the country.*

- *MML's key listed subsidiaries that enjoy leadership in their respective target markets are Mahindra Finance, Tech Mahindra, Mahindra Lifespace Developers and Mahindra Holidays and Resorts.*

BUSINESS

Mahindra and Mahindra Limited (MML) is the flagship company of the $15.4 billion Mahindra and Mahindra Group. On a standalone basis the company's revenues primarily arise from two key segments- The Automotive segment and the Farm Equipment segment.. At the end of FY12 sales from its Auto equipment space accounted for 63.1% of total sales while the Farm equipment space accounted for 36.6% of total sales.



Source: MML

In addition to the standalone business, MML also derives value as a holding company. At the end of FY12 MML had a controlling stake in 117 subsidiaries, 5 associate companies and 4 joint ventures (including 2 joint ventures of a subsidiary). In sum and substance, the M&M group has interests in some of the most important and opportunistic industries across the world. Aerospace, aftermarket, agribusiness, automotive components, construction equipment, consulting services, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail and two wheelers represent MML's key business interests.

M&M'S AUTOMOTIVE PRODUCT PORTFOLIO**

Passenger Vehicles	Commercial Vehicles
Bolero	Alfa
Reva Electric Cars	Gio
Scorpio	Mahindra Navistar Trucks
Thar	Bolero Maxi
Verito	Genio
Xylo	Loadking
Actyon	Maxximo
Actyon Sports	Tourister Buses
Chairman W	
Korando	
Kyron W	
Rexton II	
Rodius	
XUV500	

Source: MML

**This list also includes products manufactured by MML's automotive subsidiaries.

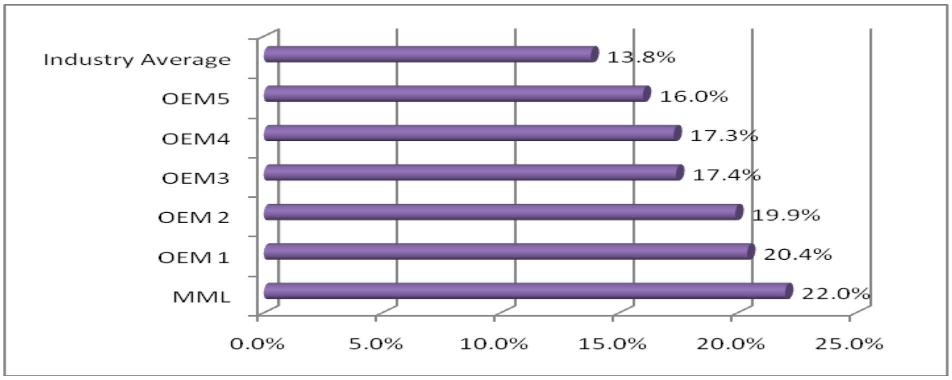
Auto Equipment segment

The auto equipment space is today the dominant contributor to MML's standalone business accounting for close to two-thirds of the total standalone revenue. It is a credit to the company's management that they have been able to gradually alter the profile of MML in the last two decades from a largely tractor oriented manufacturer to that of a diversified play with automotives contributing a far greater share. In FY12 this segment grew by 19% yoy. It must be noted that MML specializes in the manufacturing of diesel oriented vehicles which account for more than 95% of the total product portfolio. In addition to that is considered to be the undisputed market leader in the Utility Vehicle (UV) segment with a market share of 55.1% (FY12). Within its UV portfolio, the Bolero represents the most lucrative and popular product as it has been the number 1 selling SUV (Special Utility Vehicle) brand for six years in a row. It is also incidentally the first SUV to cross the sales landmark of 1 lakh units p.a.

M&M'S AUTO SEGMENT MARKET SHARE DATA		
SEGMENT	FY12	FY11
Utility Vehicles	55.10%	53.70%
Multi Purpose Vehicle	10.90%	0.50%
Small Commercial Vehicle	35.50%	38.20%
Passenger Vehicle	9.50%	7.10%
Three wheelers	13.10%	11.80%

Source: SIAM

MML HAS BEEN THE FASTEST GROWING DOMESTIC AUTO MANUFACTURER IN THE LAST 10 YEARS (FY02-FY12 CAGR)



Source: MML

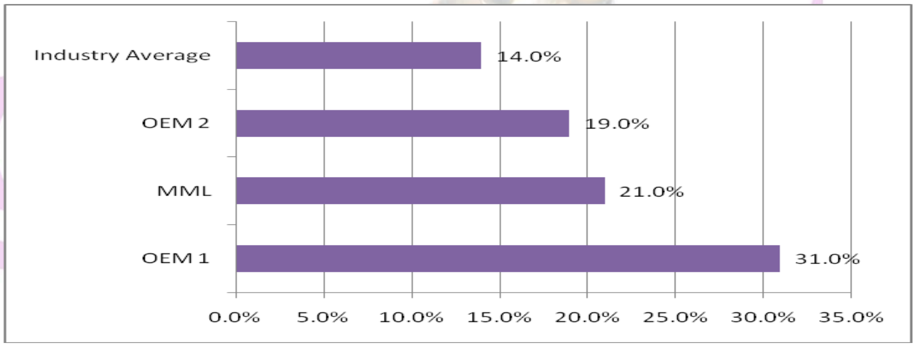
MAHINDRA SHUBHLABH

- *MML started its Shubhlabh services in 2000 in order to empower its rural base of farm equipment customers.*
- *Shubhlabh provides farmers with a single window to access products, services and knowledge and the company is present across the farming value chain.*
- *Before farming Shubhlabh provides farmers with high quality seeds to enhance the potential of improved farm productivity.*
- *During the growing stage the company supplies farmers with a wide range of crop care inputs like pesticides, fungicides, nutrients, insecticides,etc.*
- *At the time of harvest, Shubhlabh taps into its wide distribution network domestically as well as abroad and ensure that the fresh produce reaches the appropriate platforms.*

Farm Equipment Segment

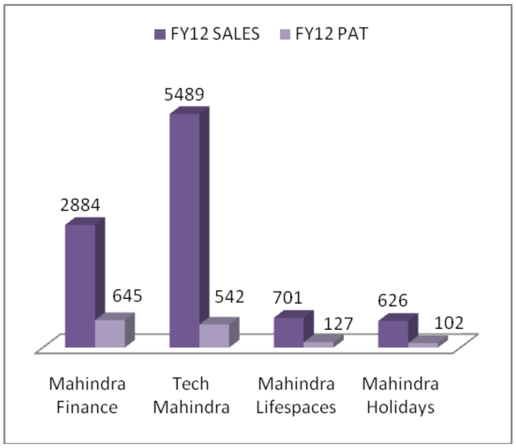
MML's farm equipment competence extends all the way back to the 1960s when the company first started manufacturing tractors. In fact till the 1990S MML was widely regarded to be a tractor manufacturer. While its share in the company's overall revenue has come down over the years it still enjoys market leadership in the segment (44%). It is the number one tractor producer in the world by sales volume (FY12 sales of 236666 units) and it is also very well positioned as it is based in the largest tractor market in the world-India. MML's make of tractors are spread across the entire value chain (from the power range of 15BHP to 90BHP) that include low cost tractors that are ideal for farmers with marginal land holdings to high performance tractors with superior features.

MML HAS BEEN THE 2nd FASTEST GROWING TRACTOR MANUFACTURER IN THE LAST 10 YEARS (FY02-FY12 CAGR)



Source: MML

MML's work in the farm equipment space is not just restricted to tractors and in fact involves a far more visionary and comprehensive plan of action. The company is committed to strengthening farm tech prosperity in its target markets by providing farm-support services, including agri-mechanization solutions (rendered under its Mahindra AppliTrac umbrella) as well as supplying high quality seeds, crop protection and facilitating market linkages distribution, agri-support information and counseling services (rendered under the Samriddhi initiative). These activities serve as a wonderful way to build relationships with the company's target markets.



Source: Hedge Research (figures in crores)

MML's SUBSIDIARIES HAVE CREATED SUPERIOR VALUE FOR SHAREHOLDERS

COMPANY	ROE%
Mahindra Finance	23.16%
Tech Mahindra	14.76%
Mahindra Lifespace Developers	11.61%
Mahindra Holidays and Resorts	19.25%

Source: Hedge Research

KEY LISTED SUBSIDIARIES OF MML

Mahindra and Mahindra Financial Services- Rural Financing

Mahindra Finance is an NBFC who is the leader in the rural financing industry (in terms of number of rural branches). While initially only financing vehicles of the Mahindra group the company has since expanded its portfolio to other vehicle manufacturers while also providing finance for construction equipment, home loans and insurance activities. At the end of Q1 FY13 the company had AUM (Assets Under Management) of Rs.21744 crores.

Tech Mahindra- IT Services

Tech Mahindra is considered to be the largest telecom focused IT services and solutions provider in India. The company has a presence across the telecom value chain and has a global presence across 31 countries involving 130 customers. The company is currently finalizing a merger proceeding with Mahindra Satyam which incidentally enjoys strengths in other segments outside telecom such as BFSI, Manufacturing, Retail, Travel, Healthcare and Logistics. This puts Tech Mahindra in a very enviable position of catering to a wider market.

Mahindra Lifespace Developers- Real Estate

Mahindra Lifespace Developers is considered to be India's first green spaces developer. As its name suggests the company is focused on developing residential and commercial projects that enable healthy living. The company has so far completed over 7.14 million square feet of real estate development and currently is in the process of developing over 18 million square feet of projects.

Mahindra Holidays and Resorts – Hospitality

Mahindra Holidays and Resorts is considered to be India's number 1 (in terms of member base) holiday company. At the end of June 2012 the company had a total vacation owner member base of 147,000. At the end of 2011 the company had 12 RCI gold crowns resorts makingthe number 1 company in the country in terms of RCI gold crown ownership.

OUTLOOK AND SCOPE

- **MML's entry into the micro irrigation space through a 55% stake in EPC Industries is a very good fit for the company's farm equipment division which has the objective of not just selling tractors but rather striving to ensure 'farm tech prosperity' across its target markets. The micro irrigation market is estimated to be growing at 40% annually.**
- **MML's XUV500 is likely to continue its stupendous performance on account of highly attractive pricing. The company currently has a pending order book of 15000 units that is likely to be satiated only by November 2012.**
- **Through the aid of its Korean SUV sub-Ssanyong and its Electric Vehicle sub-Reva, MML is in a very good position to meet the changing global trends in the automotive space.**
- **MML is likely to develop significant back-end synergistic benefits at its Zaheerabad plant which is close to opening its tractor division. Earlier this plant used to only manufacture three-wheelers and four wheelers.**

OUTLOOK AND SCOPE

Thrust in micro irrigation

In February 2011, MML bought a 38% stake in the micro irrigation company-EPC Industries and in June 2012 increased this stake even further to 54%. The entry of MML into the micro irrigation business is a very good fit for the company's farm equipment division as it is in keeping with the division's objective of strengthening 'farm tech prosperity' and empowers MML to offer a more comprehensive offering to its farm equipment clientele. EPC Industries is considered to be amongst the top 5 micro irrigation players in the country and this is a market that is believed to be valued at around Rs.3000 crores and growing at an annual rate of 40% (Source: DNA India) . The synergistic benefits of this deal are likely to put MML in a very good position to strengthen its market share. While EPC is renowned for its pioneering technology it falls short on scale. The company lacks large manufacturing capacity and working capital support is quite limited, as is its distribution network. MML with its superior size, brand and network across the agrarian lands of the cou try can help EPC build scale tap into the potential of this ever growing market.

Stellar performance of XUV500 to continue

One of the biggest success stories of MML this year has been the XUV500 that has galvanized MML's topline not just through the average price realization (the XUV500 is the highest priced vehicle of the standalone automotive business) but also through extremely robust sales volumes as well .At the end of July the company had sold 32000 units with a pending order book of 20000 units (in early September 2012 MML stated that the pending order book was around 15000 units that was likely to be met by November 2012) that is likely to hold for the next 6 months). While the UV boasts of superior styling, features and power what has really swung the tide in MML's favour is the attractive pricing. At a price range of Rs.11-Rs.14 lakh most industry experts suggest that the XUV500 is a real value proposition

WHAT MAKES THE MAHINDRA XUV 500 STANDOUT?

- ***MML's first monocoque chassis oriented car makes it adaptable not just for local conditions but globally as well where the monocoque is preferred over ladder chassis. Monocoque chassis is largely believed to result in superior fuel efficiency due to its light weight. The car is backed by a 2.2L mHawk engine,142 ps of power and 330NM of torque.***
- ***Reasonable fuel efficiency of 11kms/litre for an SUV of XUV500's weight and size.***
- ***Modern gadgets and gizmos such as infotainment screen with multiple applications including full fledged navigation maps, real parking sensor, real time fuel consumption and service. Other key features include automatic wipers and climate control and voice control for music***
- ***Attractive pricing for a premium SUV (Rs.11-Rs.14 lakhs). Blows competition away.***

for customers and the MML management confirmed that it was a deliberate ploy on their part to keep pricing low relative to the competition. The management stated that they were wary of the historical performance of previous automakers who were rather successful in selling low priced vehicles (sub Rs. 10 lakh price range) at high volumes but struggled in the premium segment as they failed to understand the market and its competitors. Thus the management felt that in order to counter the threat of MNC UV makers they had to offer the product at an attractive price and the success of the XUV500 shows that their strategy has paid off. Due to the stupendous demand for the XUV 500 MML has had to gradually increase its monthly production runrate from 2000 units to 4000 units. The management has been stabilizing production at 4000 units for the last 2-3 months and is reluctantly looking to take it to 5000 units per month. Going forward the management has categorically stated that they will not exceed the 5000 units per month mark as they don't believe it is sustainable and there is also a challenge in getting the 70-80 suppliers abetting the production of XUV500 to make the transition in tandem.

MML well positioned to capitalize on changing automobile market trends through standalone entity, Ssanyong and Reva.

MML acquired the Bangalore based Electric Car manufacturer- Reva Electronics in May 2010 and followed this up with yet another critical acquisition in late November 2010- that of Korean based SUV maker Ssanyong Motors. Both these acquisitions are a strong signal of intent from MML and indicate that the company is very well positioned to capitalize on the changing trends in the automotive space. In the last two years, particularly in emerging markets, SUV products have been the standout products driving sales. JLR (Jaguar Land Rover) one of the most prominent automobile makers in the world saw its sales grow by 29% yoy driven mainly by its premium SUV Land Rover Evoque which contributed around 35% of total sales volumes. Closer home as well, the SUV oriented vehicles have been the saving face for the overall automobile sales with Maruti Suzuki's Ertiga and Mahindra's XUV500 (MML's UV segment has grown by 50% yoy in the current fiscal) dominating popularity charts (In the current dire economic environment

these vehicles have waiting periods estimated to be between 4-7 months). Renault's latest offering- Duster as well, has captured the imagination of the Indian public having garnered bookings of 6000 units within the 1st week of its launch and a cumulative order book of around 16000. Mahindra's Korean sub-Ssanyong (other than the Chairman all of Ssanyong products are SUV) is similarly seeing strong traction in both Korea and abroad (Ssanyong exports 2/3rds of its products abroad). To put things into perspective while sales in the overall Korean automobile sales market only grew by 2.5% yoy in CY 2011, Ssanyong's sales grew by a whopping 40% yoy to reach 113000 units. The management is now targeting sales of 130000 units by 2013 and 300000 units by 2015.

FORTHCOMING AUTOMOBILE LAUNCHES FROM MML

Product	Timeline
Mini Xylo- Quanto	Q2FY13
Ssanyong Rexton	Q3FY13
Reva NXR	Q3FY13
Verito- Sub 4m	Q4FY13

Source: MML

Alternate energy vehicles are slowly making their presence felt across the world and it seems inevitable that demand for these products will improve exponentially, given rising recognition of the deteriorating environmental effects of fossil fuels as well as their scarcity. MML has recognized this emerging trend and while it continues to run programs for the development of vehicles which would run on alternate fuels like CNG, Biodiesel, Hydrogen and Electric traction, the acquisition of Reva will help MML to leapfrog its Electric Vehicle technology expertise. In addition to that, MML and Ssanyong have started working on a common framework and platform for developing electric vehicles for both Mahindra Ssangyong and Mahindra Reva with synergy benefits expected to be seen over the next three years.

The unique Zaheerabad plant all set to increase MML's efficiency.

MML's Zaheerabad plant which from 1985 to until now was only manufacturing automotives will soon start manufacturing tractors as well. This is a landmark achievement in the field of manufacturing as essentially tractors and automobiles cater to different clientele and hence require different positioning. However MML is likely to generate substantial synergistic benefits including technology sharing and joint product development, optimum workforce, efficiency in working capital and sourcing raw materials and more productive logistical efforts. While the front end marketing oriented work is likely to be separate, most of the back end work will now be synergized. This new initiative is likely to generate substantial cost benefits for MML in the long run.

CURRENT TRENDS AND DEMOGRAPHICS IN THE AUTOMOBILE SECTOR

- *The Indian automobile industry is currently estimated to be around Rs.210000 crores.*
- *The Indian car market has made the shift from a largely petrol fuel oriented market to a diesel fuel oriented market with diesel's share in total sales rising from 40% to 55% over the last two years.*
- *The UV segment and the LCV segment were the only two segments that did not see a decline in their yoy sales growth rates for FY12 compared to FY11.*
- *There is a clear demand for UV vehicles not just in India but abroad as well. In India UV sales have impressed due to realignment of the customer's mindset coupled with appropriate positioning by the automakers. Greater affordability and rising per capita incomes have been another reason.*
- *Three wheeler sales declined by 2% yoy on account of declining three wheeler passenger vehicles which fell by 4.5% yoy.*
- *Two wheeler sales which account for 77% of the Indian market saw declined by 5% yoy in August-the first time in 42 months.*
- *CV sales were average on account of weak industrial and transport activity but buoyed by the need to facilitate 'last mile connectivity' LCV sales continued to be very strong growing by 27% yoy.*

SECTOR

AUTOMOBILE SECTOR

Current trends and demographics

At the end of FY12, the Indian automobile industry was estimated to be worth around Rs.210000 crores in terms of sales- source:SIAM. While the industry did remarkably well to negate the adverse effects of the recessionary era of 2008, the yoy sales growth over the last two years has been trending lower (26% yoy in FY11 and 12% yoy in FY12). In addition to the base effect the main reasons have been slowing GDP growth, weak customer confidence (on account of rising inflation and high interest rates) and intense competition.

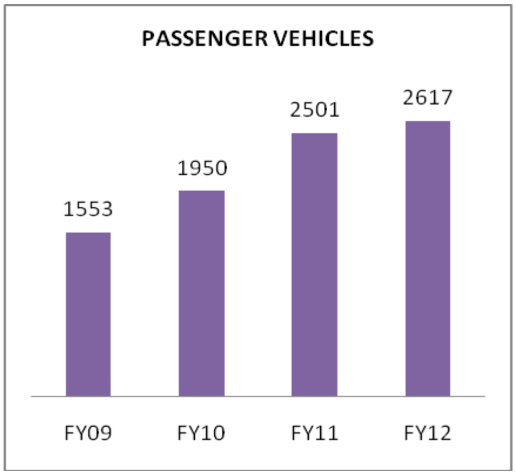
INDIAN AUTOMOBILE SALES CHART

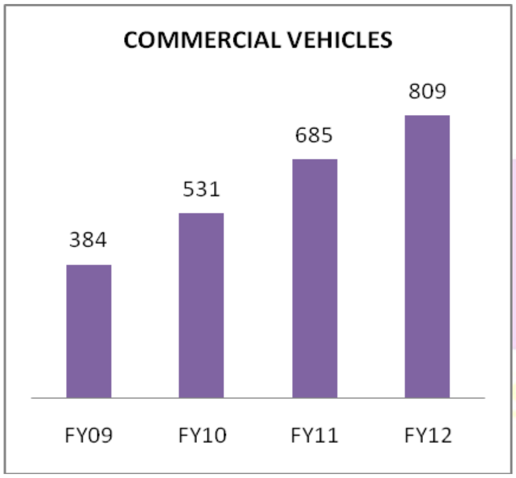
Segment	Total Domestic Sales		Industry yoy Growth %	
(In units)	**2011**	**2012**	**2011(%)**	**2012(%)**
Passenger Cars	*1972845*	*2016115*	*29%*	*2%*
Utility Vehicles	*315123*	*367012*	*16%*	*16%*
MPV (Vans)	213574	234945	42%	10%
Total Passenger Vehicles	**2501542**	**2618072**	**28%**	**5%**
MHCV	*323059*	*348701*	*32%*	*8%*
LCV	*361846*	*460831*	*26%*	*27%*
Total CV	**684905**	**809532**	**29%**	**18%**
Three wheelers	**526024**	**513251**	**19%**	**-2%**
Two wheelers	**11768910**	**13435769**	**26%**	**14%**
Total Domestic	**15481381**	**17376624**	**26%**	**12%**

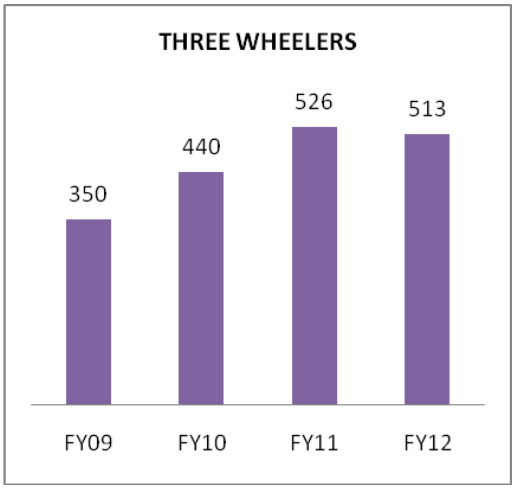
Source: SIAM

In the last one and a half years, few clear patterns seem to be emerging in the Indian automobile market, particularly the passenger vehicle market. Due to the discriminatory fuel policy followed under the current government regime, there has been an obvious shift in customer preference towards diesel oriented vehicles and those automakers that have a substantial diesel portfolio have been able to capitalize on this trend. Diesel petrol car

4 YEAR TREND OF KEY AUTOMOBILE SEGMENTS IN INDIA







Source: SIAM (Sales in '000 vehicles)

sales which used to account for 40% of the total car sales now account for around 55%. Fuel preferences aside, within the passenger car segment there has been one outstanding winner- the Utility Vehicle segment. This is a segment that has captured the imagination of not just the Indian public but the global auto market as well. Within India the UV segment grew by 16% yoy and was the only automobile segment (other than LCV) that did not report a decline in the sales growth rate for 2012. Much higher growth rates are expected in the current fiscal as the dominant calendar year sales figures of new UV launches like the Maruti Suzuki Ertiga, Mahindra XUV500 and the Renault Duster begins to filter in. Globally as well, UV sales have been dominating automobile sales particularly in the emerging markets where the UK based Land Rover has seen tremendous sales of its Land Rover Evoque in markets like China. Mahindra &Mahindra's SUV oriented Korean subsidiary saw total sales volume for 2011 rise by 40% yoy while overall automobile sales in Korea only grew by 2% yoy. The obvious explanation for this rising preference in UV vehicles would be rising per capita income and greater affordability levels in developing nations but this would be far too simplistic a rationale. One of the key reasons for this development is that there has been realignment in the mindset of the customer and the way automakers have recently positioned the UV. Earlier UVs were not perceived as family cars but largely as cars that were suitable for taxi oriented services over large distances due to their size and ability to weather the hard terrain. In addition to that the UVs were largely unaffordable. But recently, buoyed by superior styling and features, better fuel efficiency as well as attractive pricing, UV makers have been able to position the UV as an affordable family oriented value proposition.

Outside passenger vehicles most of the other segments have come under sizeable pressure. The two wheeler segment which accounts for 77% of the total domestic market has seen a significant decline in the sales growth rate from 26% to 14%. This is mainly on account of a lack of ample rural buoyancy (two wheeler sales are not particularly sensitive to high interest rates as majority of the purchases are cash purchases) and high petrol prices relative to diesel (motorcycles do

FUTURE TRENDS AND DEMOGRAPHICS IN THE AUTOMOBILE SECTOR

- *The current fiscal is expected to be challenging for the Indian automobile industry and industry forecaster SIAM has already scaled down its guidance for cars and CVs from 10-12% to 9-11% and 9-11% to 6-8% respectively.*
- *However H2FY13 and FY14 onwards is expected to be better on account of cut in interest rates, better consumer sentiment and low base effect.*
- *The long term potential of the Indian market is huge as vehicles per 1000 population in India only stands at 15 relative to the global average of 120. Besides it is believed that automobile industry in a country reaches the high growth trajectory when a country's per capita income as per PPP reaches $4500. It currently stands at $3500.*
- *Automakers who are building capacity for alternate fuels vehicles particularly electric vehicles will be very well positioned over the next decade. The Indian government is committed to reducing the country's dependence on fossil fuels and is looking to spend close to Rs.23000 crores over the next 8 years to set up infrastructure for an electric vehicle culture.*
- *It is believed that fossil fuel based transportation is the second largest source of carbon dioxide emission.*

not run on diesel). In fact in August 2012, two wheeler monthly sales for the industry declined by 5% yoy-the first time in 42 months. Three wheeler sales declined by 2.5% and this was mainly on account of decline in the three wheeler passenger vehicles which fell by 4.5% yoy relative to three wheeler goods vehicles which grew by 6.3% yoy.

Overall commercial vehicle sales were relatively strong at 18% yoy for the year but once again this is another segment that has come from the highs of FY11 where it grew by 38.6%. Commercial vehicles are essentially a proxy on industrial growth and goods transportation in the country and the slowdown has mainly affected Medium and Heavy Commercial vehicles that only grew by 7.9% yoy. Growth in CVs was lead by the LCV (Light Commercial Vehicle) which beat the FY11 sales growth rate of 26%yoy, growing by 27% yoy. The reason LCV demand has been able to hold up is due to need for 'last mile connectivity' within cities (last mile refers to the last leg in the supply chain where goods have to be transported from the freight station or the ship port to the final destination). LCVs are excellent agents at facilitating the last mile connectivity as they cater to the newer and smaller transport operators.

Future trends and demographics

The current fiscal is expected to be a challenging year for the broad automobile industry with H1 figures already suggesting a clear slowdown. SIAM (Society of Indian Auto Manufacturers) has already had to revise downwards its forecasts for cars and commercial vehicles in FY13. For passenger vehicles SIAM has cut its forecast from 10-12% down to 9-11% while for commercial vehicles it has cut the forecast down from 9-11% to 6-8%. However on the expectations of a cut in interest rates and better customer sentiment on account of the festival season, H2FY13 and FY14 are expected to help the automobile sector back on track. Current inventory levels at the dealer levels are quite high relative to the previous year resulting in compressed capacity

utilization levels. However the upcoming festival season could see a readjustment to previous levels. In the longer term, automobile sales in India is expected to grow at a rate of 10-12% reaching a figure of around 4-5 million by FY15. Huge opportunities exist in the Indian automobile market on account of low penetration levels. India's vehicle penetration of 15 vehicles per 1000 population is very low compared to the global average of 120 vehicles per 1000 population. Historical trends suggest that the automobile market in a country gets on a high trajectory when that particular country's per capita income on a Purchasing Power Parity (PPP) basis crosses about $4500. In India that figure currently stands at $3500 and it is believed that it could get to the high trajectory levels in the next 4 years.

SIAM'S FY13 OUTLOOK FOR INDIAN AUTOS	
Segment	FY13 OUTLOOK
Cars	9-11%
UV	10-12%
Vans	8-10%
Total PV	11-13%
Total CV	6-8%
2 wheelers	11-13%
3 wheelers	5-7%
Total Auto	10-12%

Source: SIAM

While UV makers are expected to continue the strong momentum on account of rising per capita incomes, better positioning and a better value proposition, one another trend that is likely to come about is the influx of alternate energy vehicles. This will ofcourse be precipitated by the growing awareness of the harmful environmental effects of fossil fuels (according to International Energy Agency, fossil fuel based transportation is the second largest source of carbon dioxide emission) as well as its growing scarcity and challenges in securing the same. India's crude oil bill is considered to be one of the chief culprits in the annual current account deficit figure and the Indian government is looking to promote a culture of electronic vehicles to reduce this dependence on fossil fuels. According to a report by The Economic Times, it is believed that sales of 6-7 million electric vehicles will help save 2-2.25 million tone fossil fuel consumption by 2020. In keeping with this it is believed that the government is looking to commit Rs.2000-Rs.23000 crores for setting up additional power generation and associated infrastructure to charge electric batteries. The government believes that by 2020 there could be demand for 5-7 million electricity operated vehicles with 50% of them being battery electric vehicles. Indian automakers that are developing vehicles to run on alternate fuels particularly electricity will be in a very good position to prosper over the next decade.

★★★★★★★★★★

FARM AND TRACTOR SECTOR

- The share of agriculture in India's overall GDP has declined from 30% levels seen in the 1990s to 14% in FY12 but the sector still provides employment to around 53% of the country's workforce.
- India's average yield of rice and wheat is below the global average at 2.3/tonne ha and 2.9 /tone ha vs global averages of 4.3/tone ha and 3.0/tone ha respectively.
- The domestic tractor market is segmented into 4 segments:- the <30HP segment, the 30-40 HP segment, the 40-50 segment and the >50 HP segment.
- The Indian tractor market which grew at 32% yoy and 20% yoy in FY10 and FY11 saw sales drop substantially to 11% in FY12.
- In Q1FY13 and Q4FY12 sales have been weak, growing only by 3.4% yoy and 2.8% yoy respectively.
- Tractor sales are expected to pick up in H2FY13 as monsoon in August was 99.6% normal rainfall beating the IMD's forecast of 96%.
- While a good monsoon remains the most important factor for strong tractor sales other crucial factors include of farm mechanization, government spending, better crop realizations, higher MSPs (Minimum Support Prices) and ease of procuring organized credit at favourable terms.

★★★★★★★★★★

FARM AND TRACTOR SECTOR

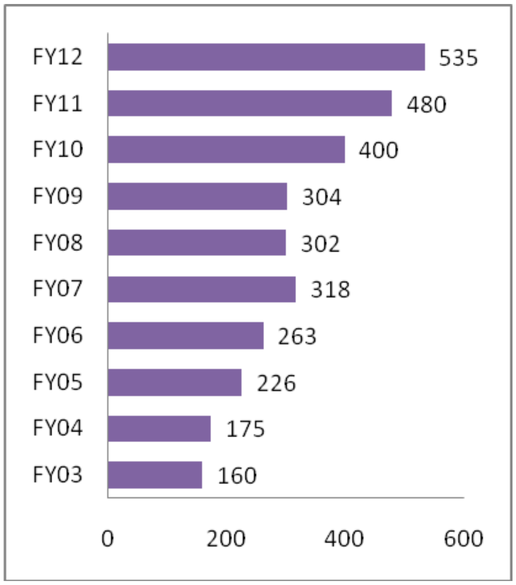
Indian agriculture sector

Even though the share of agriculture in India's overall GDP has been declining over the years (agriculture which used to contribute close to 30% of India's GDP in the 1990s has seen its share decline to 13.9% in FY12), the heart of the country still very much exists in the rural hinterlands and the farms as 53% of India's workforce is dependent on this sector. India is believed to possess the second largest arable land in the world and this offers tremendous opportunities for those involved or those who are seeking to become involved in this sector. Unfortunately this a sector that is heavily dependent on the uncontrollable force that is the monsoon and in addition to that there are various other hindrances such as frequent power outage, low tractor penetration particularly in small and marginalized farms and a lack of concrete farm mechanization. All these factors have resulted in India's average yield per agriculture falling well short of the world average. According to the United Nations, India's average yield of rice is 2.3/tonne ha against the global average of 4.3/tonne ha. However the average yield of wheat at 2.9/tonne ha is closer to the world average of 3.0/tonne ha. To get to world average levels it is imperative that the sector stimulates a strong movement of farm mechanization and better farm practices such as micro-irrigation, nutrient bases fertilizer application, the usage of hybrid seeds, measures to counter power outage through the usage of generators, etc.

Tractor industry

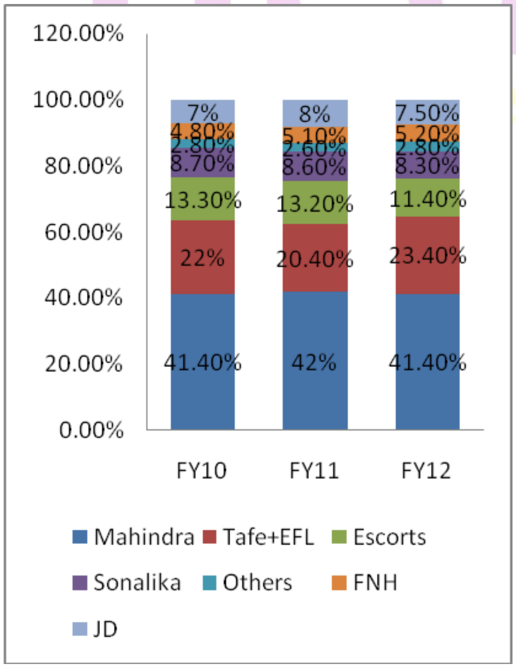
In terms of segment the domestic tractor market is segmented into the less than 30HP segment, the 30-40HP segment, the 40-50 HP segment and the higher than 50HP segment. The Indian tractor market is currently estimated to be around 5.3 lakh units. After undergoing strong growth in FY10 and FY11 where sales grew by 32% and 20% respectively, sales slowed down substantially in FY12 to around 11%. In the last two quarters (Q1FY13 and Q4FY12) sales growth has been on a declining trend, growing only by 3.4% and 2.8% respectively. This is mainly due to a lack of rural buoyancy precipitated by the weak and delayed

10 YEAR PERFORMANCE OF INDIAN TRACTOR INDUSTRY SALES



Source:MML (Sales in '000)

TRACTOR INDUSTRY MARKET SHARE



Source:MML

monsoons. There are also reports suggesting that bank oriented credit for funding tractors has stalled on account of the rising NPA position of PSU banks. Most tractor manufacturers have guided for anywhere between flat to 7% growth in tractor sales for the year. Some of the optimistic tractor manufacturers have been buoyed by the delayed rainfall in August. The monsoon in August 2012 registered 99.6% normal rainfall beating the IMD (Indian Meteorological Department)'s forecast of 96% for the month. This consequently also overall monsoon deficit stand at 12% (at the end of August 29th) compared to a higher figure of 19% at the start of the month.

Tractor sales are a function of many factors such as greater awareness of farm mechanization, government spending, better crop realizations, higher MSPs (Minimum Support Prices) and ease of procuring organized credit at favourable terms but perhaps the single biggest factor that has historically driven tractor sales is the prevalence of a good monsoon. While the obvious benefit of a good monsoon is higher income at the hands of the farmer there is also the ensuing benefit of consumer sentiment that has often served as the crucial tipping point in going for tractor purchases or deferring the purchase.

If India has to improve its average yield of crops it is inevitable that the country will have to climb on to a path of strong farm mechanization and the tractor is a profound image of farm mechanization. Industry experts believe that due to the vagaries of the monsoon high growth of 20% consistently may not quite be possible and a safe long term estimate of the Indian tractor industry is around 7% yoy.

HISTORICAL FINANCIAL HIGHLIGHTS

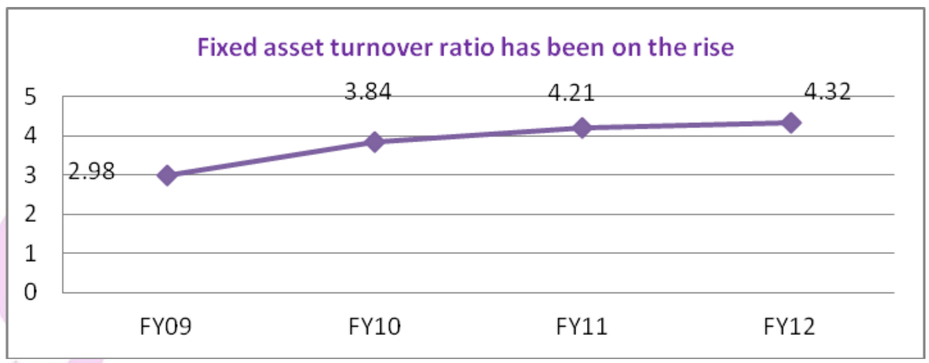
- MML's fixed asset turnover ratio has been improving every year.
- Strong sales volume growth for both the automotive (28%CAGR) and the farm equipment segment (16% CAGR) have both contributed to superior topline growth of 31% CAGR.
- Operating profits have grown at a lower 16% CAGR and operating profit margins have been trending lower in the last 3 years. This is mainly due to a surge in the purchase of finished goods.
- Debt equity ratio levels have been respectable at around 31% and average cost of debt has only been around 2.8% to 4.8%. This is mainly due to efficient borrowings under ECB.
- Liquidity levels are slightly weak as current ratio has been below 1 for 2 successive years and cash balance is lower than what it was two years back. But MML still has current investments to the tune of Rs.1000 crores in addition to Rs.1700 crores of cash.
- PAT CAGR has come in at 17% while ROIC and ROE have been trending lower in the last two years.

FINANCIALS

HISTORICAL FINANCIALS

Operating performance

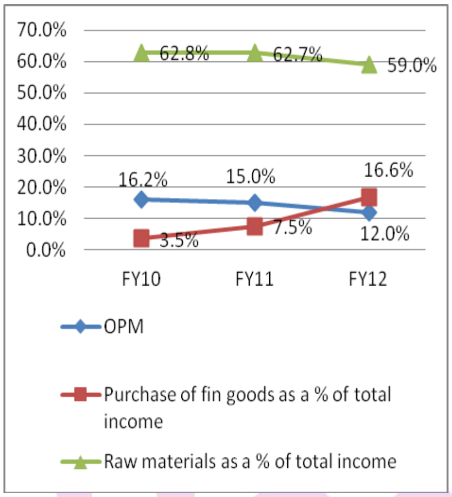
MML has displayed a mixed operating performance over the last three years. The company has been very efficient in putting its fixed assets to good use as evidenced by the fixed asset turnover ratio (this ratio has been an excellent barometer to measure the efficiency of manufacturing oriented companies) that has seen an improvement on a yearly basis. The asset turnover ratio which stood at 2.98 times in FY09 has seen an increase in every passing year to reach 4.35 at the end of FY12.



Source: Hedge Research

While production has been robust the company has also been very impressive in capitalizing on the strong demand for its products manufactured by both its key segments- the Automotive segment and the Farm Equipment segment. Auto sales have been consistently growing at a rate greater than 25% (2 year CAGR of 28%) while tractor sales as well have been in the mid-teen zone growing at a 2 year CAGR of 16%. For a large cap company of MML's standing these figures are indeed quite impressive. On the face of it, it seems as though MML would rather have a volume driven top line approach rather than a price driven one, as the yoy growth in the average price realizations (with the exception of FY12) have been quite flat. In both FY10 and FY11 average price realizations did not see a material rise but in FY12 there was a sizeable jump by 9% yoy reaching a little over Rs.4.8 lakhs

EVEN AS RAW MATERIAL COSTS HAVE DECLINED RELATIVE TO INCOME, PURCHASE OF FINISHED GOODS HAS SHOT UP CONSIDERABLY AND THIS HAS RESULTED IN THE DECLINE OF OPERATING PROFIT MARGINS



Source: Hedge Research

OCF DECLINED YOY AS THE COMPANY CUT SHORT ITS CURRENT LIABILITIES WHILE CONTINUING TO INVEST IN CURRENT ASSETS

(In crores)	FY11	FY12
Operating profits	3962.44	3544.95
Accounts rec.	-682.56	-761.15
Inventories	-497.62	-652.36
Current Liabilities	1387.54	929.22
Changes in WC	-207.36	484.2
OCF before tax	3752.31	3478.16

Source: Hedge Research

per unit (the FY12 average price realization ofcourse skews the 3 year average to 4%). While the FY12 surge might indicate a passing on rising costs to the customer and ensuing pricing power, the actual reason could well be a change in the product mix with the higher end, more expensive models contributing to the surge in price realizations. All in all total income growth over the last 2 years has grown at a very impressive 31% CAGR.

While the top line figures have indeed been awe worthy for a large player like MML, operating profits haven't quite been able to keep pace, growing by 13% CAGR over the last two years. Besides operating profit margins have been on a downward trend for the last two years. Operating profit margins which stood at the 16% mark in FY10 had dropped to 12% at the end of FY12. This is a tad surprising as when one first scrutinizes the different operating expense items it is obvious that the company has done very well to manage the largest component of operating expenses-cost of raw materials. Cost of raw materials and services as a % of total income declined from 62.87% in FY10 to 59% in FY12. In fact all the other key operating expense items from employee expenses to other operating and manufacturing expenses have seen a decline relative to sales. However there is one key item that has not gone down relative to sales and has actually gone up substantially over the years-Purchase of finished goods and stock in trade. Purchase of finished goods and stock in trade as a % of total income has gone up from 3.55% in FY10 to a whopping 16.62% in FY12. In fact in the recently concluded fiscal finished goods for four wheelers went up by 4 times from Rs.1016 crores to Rs.4142 crores.

Operating cash flow (OCF) levels have grown at a muted 2 year CAGR of 8% but what needs to be realized is that the OCF was higher in FY11 (Rs.2979 cr.) vs FY12 (Rs.2735 cr.). The main reason for this decline was due to the fact that the company spent less on current assets while current liabilities saw a greater spurt thereby boosting cash levels in FY11. However in FY12 while the company continued to make increased investments in key current asset items, it cut short its current liabilities by Rs. 458 crores and this resulted in increased investments of working capital to the tune of Rs. 484 crores.

KEY BALANCE SHEET AND RETURN RATIOS			
(In crores)	FY10	FY11	FY12
Debt Equity	37%	28%	32%
Avg.cost of debt	4.50 %	2.80 %	4.80 %
Cash	1743	614	1188
Current Investments	1037	720	1037
Current ratio	79%	94%	110%
Quick ratio	51%	62%	74%
ROIC	20%	20%	18%
ROE	27%	26%	24%

Source: Hedge Research

WHAT PROMPTED ROE TO DECLINE BY 3% BETWEEN FY10 TO FY12?

DUPONT ANALYSIS

BREAKUP OF ROE	FY10	FY12
Leverage (Assets to Equity) ↓	1.37	1.32
Profit Margin (Profit to Sales) ↓	11%	9%
Asset turnover ratio (Sales to Assets) ↑	1.74	1.99
RETURN ON EQUITY (ROE)%	27%	24%

Source: Hedge Research

THE TABLE ABOVE SUGGESTS THAT WHILE MML WAS EFFICIENT ENOUGH IN CONVERTING ITS ASSETS TO SALES, IT STRUGGLED TO CONTROL OPEX AND FINANCE COSTS RELATIVE TO INCOME THUS RESULTING IN LOWER PAT MARGINS. BESIDES LEVERAGE SAW A SLIGHT DECLINE. WITH THE ASSET TURNOVER RATIO BEING THE LONE WINNER, OVERALL ROE SAW A DECLINE.

Balancesheet, profitability and return ratios

MML's balance sheet is quite strong-leverage is at respectable levels but liquidity is average. MML's fixed assets to net worth ratio is relatively safe at 38-41%. A high fixed asset to net worth figure would suggest that a company would have to fund the bulk of its working capital through debt but this is not the case with MML with plenty of leeway on that front. The company's historical debt equity ratio for the last 3 years has been consistently around the 28- 38% mark(FY12 figure of 32%). Cash levels are relatively decent at Rs.1188 crores but there has been a decline from the Rs.1700 odd levels seen 2 years back. One the other hand MML also has current investments (not including long term investments) to the tune of a little over Rs.1000 crores, suggesting that the have cash and marketable securities to the tune of around Rs.2700 crores. The current ratio and quick ratio are a little worrying but this is in keeping with the management's intention not to invest too much in working capital in the current environment. Current ratio has been below 1 for the last two years (FY11:0.79, FY12:0.94) while the quick ratio has come in at 0.51 and 0.62 for the last two years.

While debt levels are reasonable, MML also scores on its ability to source cheap cost of debt. Much of its unsecured debt is sources under the ECB (External Commercial Borrowings) window with duration of around 5 years. This has consequently enabled them to borrow at remarkably low rates and consequently ensured that interest costs haven't proved to be a hindrance for the bottomline. In the last three years the average cost of borrowings has come in at 4.5%, 2.8% and 4.8% respectively. M&M 's average tax rate has decline from 26% to 20% levels but this is mainly on account of carry forward of losses of its previously merged sub and also MAT credit entitlements. PAT CAGR from FY10 has come in at an impressive 17%. While MML's return ratios are still impressive when viewed in isolation they have been trending lower in the last 2 years. The ROIC has dropped from 19.9% to 18.2% while the ROE has dropped from 27% to 24%. The Dupont analysis suggests this is mainly due to challenges faced in managing costs relative to income.

FINANCIAL OUTLOOK

- We expect auto volumes to grow at 15% yoy and tractor volumes to growt at 5% yoy over the next two years.
- Average price realizations are poised to grow by 4% yoy despite the high base due to the stupendous sales of the high priced XUV500.
- We expect raw material costs to rise relative to sales while purchase of finished goods is expected to decline relative to sales. Employee costs and other opex are expected to be close to historical levels. Operating profits are expected to grow at 11-15% over the next two years with a slight 50 bps decline in OPMs. PAT is expected to growt at a CAGR of 7% over the next two years.
- The management expects to spend Rs.5000 crores of capex and Rs.2500 crores of investments over the next three years. We expect most of this to be funded by internal accruals and debt. Debt equity ratio is poised to hover around the 30-31% levels.
- We expect cash levels to be stable in the current year and increase substantially next year. We expect negative working capital to boost cash levels. As we have not built in a scenario of raising equity we have assumed the company will preserve cash.

FINANCIAL OUTLOOK

Income statement

Going forward we expect MML to continue to display strengths on its top line. In fact it has already set the ball rolling with a rather impressive 39% yoy growth in the topline in Q1. This has ofcourse mainly been driven by the performance of its automotive segment, with particular reference to the new XUV500 which has seen stupendous demand. At the end of July the company had sold 32000 units with a pending order book of 20000 units (in early September 2012 MML stated that the pending order book was around 15000 units that was likely to be met by November 2012) that is likely to hold for the next 6 months). The company is also on the verge of launching the mini-Xylo (to be called Quanto) that is likely to be the first of its kind (India's first sub-four meter and seven seater vehicle) and this is likely to be very attractively priced at around the Rs.8 lakh mark. We thus believe that automobile volumes will continue to be robust. The management has guided for 20% for the year and we have assumed 15% CAGR for the next two years. Tractor sales on the other hand have been dwindling on account of delayed monsoons, recent stalling of PSU bank support in financing tractors and a general weakness in rural sentiment. Consequently the management has guided for weak tractor sales for the year, estimated to be flat to 2.5% yoy. We have assumed a 5% CAGR over the next two years. Despite the high base effect where average price realizations grew by 9% yoy in FY12 we are forecasting a 4.5% increase in average price realizations on account of improved product mix. We expect the XUV500 effect to make some serious traction in galvanizing overall price realizations as it is the standalone entity's most expensive product at Rs.11-14 lakhs.

MML has done remarkably well to cope with raw material costs which had declined to 59% as a % of total income in FY12 and declined even further to 52% in Q1FY13. The Q1FY13 we believe is unsustainable and to be on the conservative side we are assuming raw material as a % of net sales will revert to the historical levels of 62%. If Q2 results suggest this is not the case we might be tempted to bring it down. We are expecting a moderation in the purchase of finished goods item and we

ESTIMATES OF KEY FINANCIAL ITEMS		
(In crores)	FY13E	FY14E
Total Income	36575	42111
Operating Profit	4170	4801
PAT	3065	3533
Equity Capital	14316	16789
Total Debt	4526	4875
Net block	4914	5558
Investments	12590	13345
Net working capital (excl.cash)	-492	-661
Cash	1266	2692

Source: Hedge Research

expect employee costs and other operating and manufacturing expenses to hover closer to historical levels. We expect operating profits to grow by 11-15% over the next two years and we are estimating a slight decline in OPMs by 50bps to 11.5%. We expect average interest costs to come down marginally from 4.8% to 4.5% and expect the average tax rate to increase by 2%. We are consequently forecasting PAT growth to come in at 7% CAGR over the next two years though there is likely to be upside risks to these forecasts post Q2FY13.

Balance sheet and liquidity

With regard to the balance sheet and liquidity, we expect most of the investments and capex to be funded by a combination of retained profits and debt (While debt is expected to grow at a CAGR of 12% over the next two years the debt equity ratio is still expected to be at the 30-31% levels). We have not built in a scenario where we expect MML to raise equity over the next two years though this is quite possible. The management has stated that they intend to spend Rs.5000 crores worth of capex and Rs.2500 crores of investments over the next three years and we have assumed the same. The investment figure of only around Rs.800 crores per year (or 8% yoy growth) is significantly lower than historical average where investments have been growing at 40% yoy. This might perhaps be seen as an intention by the management to invest more in the standalone entity. We have assumed cash positions to be stable for FY13 and grow significantly in FY14. This is driven by the working capital management strategy. Historically MML's working capital (excluding cash) has generally alternated from net working capital to negative working capital every year. However we have assumed negative working capital for time period in question as the company will need the cash to fund capex and investments and we have not built in raising of equity. We are also not keen on raising the debt equity ratio. The MML management has been remarkably consistent in its dividend payout ratio for the last 3 years giving out 30% of its profits as dividends and we don't expect MML to compromise on the same over the next two years.

VALUATIONS

DCF VALUATION (SOTP)

STOCK PRICE VALUATION BASED ON DCF	
Present Value of Mahindra &Mahindra's standalone entity (In crores)	47,635
Minus Net Debt (In crores)	2,665
Add Current Investments (In crores)	1,037
Fair value of Mahindra & Mahindra's equity (In crores)	46,007
# of shares outstanding, common	613980756
Fair Value per common share of M&M's standalone business	**749**
Value of M&M's subs based on FY12 book value less 20% hold. Co. disount*	**172**
Fair valueper common share of M&M's consolidated business	**921**
Margin of Safety	30%
Recommended purchase price	**709**

CAPM	
rf	8.00%
Beta	0.93
rm	14.0%
Mkt premium	6.00%
Cost of Equity (ke)	14%

WACC	
D/D+E	24%
E/D+E	76%
Ke (Cost of Equity)	14%
Kd (Cost of Debt)	4%
WEIGHTED AVERAGE COST OF CAPITAL (Kwacc)	11%

*** For the DCF valuation we have conservatively estimated aggregate subs at their book value with no premium allocated to book values.**

EV/EBITDA VALUATION (SOTP)

STOCK PRICE VALUATION BASED ON EV/EBITDA						
(In crores)	METHOD	FY12 EBITDA	FY13E EBITDA	3 yr Avg. Multiple	Allocated Multiple	EV BASED ON FY13
M&M Standalone	EV/EBITDA	4237	4755	11.66	10.5	49925
Mahindra Lifespaces	EV/EBITDA	218	240	12.33	11	2638
Mahindra Holidays	EV/EBITDA	167	170	22.8	20	3407
Mahindra Forgings	EV/EBITDA	212	233	5.22	4	933
Tech Mahindra	EV/EBITDA	992	1042	9	9	9374
AGGREGATE EV						66277
LESS NET DEBT (EXCL MMFIN DEBT)						11008
EV LESS NET DEBT OF MMFIN						55269
		SH.CAP	RESERVES	MULTIPLE	BV	M&M'S STAKE
ADD M&M FINANCE	P/BV	102.69	2841.29	2	2944	3297
NET VALUE						58567
NET VALUE PER SHARE						954
ADD VALUE OF OTHER SUBS	P/BV					155
TOTAL						1109
TARGET PRICE LESS 20% HOLDING COMPANY DISCOUNT						**924**

PE VALUATION (SOTP)

STOCK PRICE VALUATION BASED ON PE	FY13
FORECASTED EPS	49.91
3 YEAR STANDALONE PE AVERAGE	16.53
TRAILING PE	15.52
ASSIGNED PE 10% DISCOUNT TO 3 YEAR AVERAGE	15
PE TARGET PRICE BASED ON FY13 EPS	**749**
Aggregate book value of M&M's SUBS less 20% holding company. discount*	**172**
SOTP TARGET PRICE	**921**

* For the PE valuation we have conservatively estimated aggregate subs at their book value with no premium allocated to book values.

WEIGHTED AVERAGE TARGET PRICE

WEIGHTED AVERAGE TARGET PRICE		
VALUATION METHOD	**TARGET PRICE**	**WEIGHTS**
DCF SOTP	*921*	*40%*
PE SOTP	*921*	*40%*
EV EBITDA SOTP	*924*	*20%*
WEIGHTED AVERAGE TARGET PRICE		**922**
BUYING LEVEL- 30% MOS		**709**

SENSITIVITY ANALYSIS

Tractor prod.yoy	Auto prod. yoy			
	10%	**15%**	**20%**	**25%**
2.5%	891	915	937	955
5.0%	898	**922**	944	962
10.0%	911	935	957	975
15.0%	923	947	969	988

RM as a % of sales	Auto prod.yoy			
	10%	**15%**	**20%**	**25%**
58%	1,155	1,199	1,243	1,287
60%	1,026	1,060	1,093	1,125
62%	898	**922**	944	962
64%	769	783	794	800

RM as a % of sales	Tractor prod.yoy			
	2.5%	**5.0%**	**10.0%**	**15.0%**
9%	1,188	1,199	1,221	1,244
11%	1,051	1,060	1,078	1,096
13%	915	**922**	935	947
15%	778	783	792	799

RISKS

- Being a manufacturing oriented company, MML is highly susceptible to volatilies in raw material costs. Raw material costs for MML account for 67% of total operating costs.
- More than 95% of MML's automobile portfolio consist of diesel vehicles. While a diesel price hike is inevitable there has also been talk of a tax levied on diesel vehicles. This could adversely affect MML's sales. Besides positionally MML is a little weaker than small car manufacturers as there is a greater tax differential on small cars and large cars and this could tempt potentially new car buyers to go for small cars.
- In addition to its own expertise, MML is also looking to leverage on its Korea based SUV sub-Ssanyong Motors to position itself as a dominant global leader of SUVs. MML has made substantial investment to turn around Ssanyong and while the company has posted an EBITDA positive figure for H1CY12 the company is yet to post profits.
- Current tractor sales of MML have been quite weak and the management has only guided for a flat to 2.5% yoy growth.
- 47% of MML's consolidated sales arises from the performance of its aggregate subs and if some of the crucial subs were to face sustained sales pressure in the future that could affect the performance of the MML stock to some extent.

RISKS

Sensitive to commodity costs

Being a manufacturing oriented company, the obvious risk staring at MML is the volatility in raw material costs. Raw material costs account for a whopping 67% of MML's total operating costs. There is some serious talk of further quantitative easing from the Euro region and the US and this could increase appetite for risk assets such as commodities. This could well play havoc with MML's operating margins. Raw materials as a % of sales for MML have not been particularly consistent indicating challenges in managing costs. In FY11 it stood at 63% of sales but then declined to 59% of sales in FY12 and further to 52% of sales in Q1FY13. Such volatilities in this cost items imposes valuation risks as we have assumed a figure of 62% going forward.

Potential fuel price hike, lack of clarity in government's fuel policy and tax issues

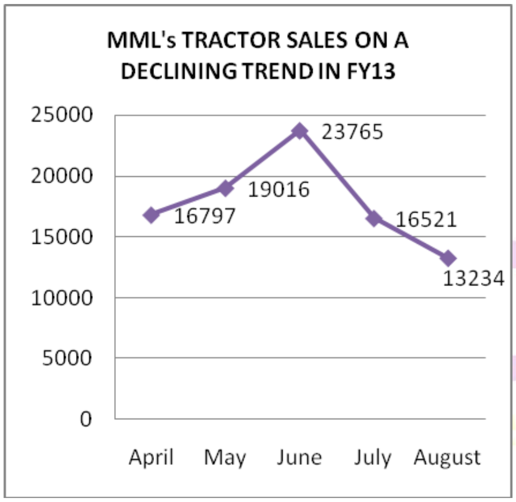
More than 95% of MML's automobile portfolio are diesel oriented vehicles. It seems inevitable that diesel prices could be hiked very soon and this could affect diesel oriented car sales marginally. However the more worrying sign is the lack of concrete clarity by the government with regard to its long term fuel policy. Earlier in the year, there were suggestions that the government could levy a tax or duty on the sale of diesel vehicles. While a reasonable hike in diesel prices to narrow the gap between petrol and diesel may not be highly pernicious, the implementation of any potential diesel tax could well kill the allure of owning a diesel vehicle and this could affect MML's auto sales substantially. In addition to that many state governments have also recently increased the tax on diesel vehicles. Besides in India there is a significant tax differential for small cars and large cars and since MML is heavily oriented towards the large car segment, demand could suffer relative to small car manufacturers.

Turnaround of Ssanyong crucial to global positioning

When MML first acquired Ssanyong it was struggling and had lost market share considerably. Since then Ssanyong has been gradually convalescing

and the operating performance has improved with time (Ssanyong posted EBITDA of $12.5 million for H1CY12 vs an EBITDA loss of $12.5 million a year ago). MML sees Ssanyong as pivotal in its quest to offer a comprehensive set of SUVs across the world (Ssanyong exports two-thirds of its products) and it is very keen on positioning itself as an SUV maker. If Ssanyong is unable to post profits in the next 2-3 years it could weigh heavily on MML on account of weak ROIs and lower standalone cash flows (greater investments), thereby resulting in lower valuations for MML.

Near term tractor sales a concern



Source: MML

MML's tractor sales have not been particularly good for the last few months but this is an industry wide phenomenon that has been precipitated my macroeconomic issues such as relatively weak and delayed monsoons, recent reluctance by PSU banks to fund tractors on account of rising NPAs, weak disposable income and lack of ample rural buoyancy. In the recently concluded month of August, tractor sales declined from 16003 units last year to 13234 units. Minimum Support Prices (MSP) that have been growing on an average of 15% yoy for the last three years are unlikely to be raised or raised at the same pace on account of the government's desire to control the fiscal deficit. However most industry experts believe that the situation could improve in H2FY13 as the monsoons have improved. The monsoon deficiency which stood at 12- 15% in July has come down to around 9% at the end of August. The MML Nevertheless the MML management has only guided for a flat to 2.5% growth in tractor sales for the year.

Stock performance could be affected by performance of subs

MML's standalone business focuses on automotives and farm equipment but the company also derives value as a holding company (At the end of FY12 MML had a controlling stake in 117 subsidiaries, 5 associate companies and 4 joint ventures). 47% of MML's consolidated sales arises from the contribution of its subsidiaries. MML's stock could come under some pressure if some of its crucial subsidiaries are facing sustained pressure. This could also well act on a drag on MML's free cash flow as it might call for greater investments to aid the subsidiary.

INVESTMENT RATIONALE

Strong brand value and diversity in economic interests

The Mahindra Group is one of India's most prominent and well known business groups. Today the group is a $15.4 billion worth conglomerate that enjoys interests across the global economic spectrum in sectors such as aerospace, aftermarket, agribusiness, automotive components, construction equipment, consulting services, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail and two wheelers. In addition to diversity the Mahindra Group is noted for its strong levels of corporate governance and transparency that have contributed to the allure of the brand. Incidentally the company's transparency about the impact of business on the environment and local communities has made MML secure 1st place in the S&P ESG India Index 2011 amongst the top 50 best performing companies in the stock market.

Diversification in plant locations and better human relations practices lessens risk of plant lockdowns

Unlike some of its peers MML's plants are relatively more diversified in terms of location. Out of its 10 manufacturing units across India, 5 plants are located in Maharashtra, 2 plants in Uttarkhand, and 1 each in Punjab, Rajasthan and Andhra Pradesh. While this certainly ensures logistical advantages, the more subtle advantage that crops up is that were industrial relations to worsen (as in the case of Maruti Suzuki) MML will not be hamstrung and will still be able to carry on production at its other plants. Besides MML has largely been able to mitigate or assuage any large scale labour related issues by implementing a more concrete HR engagement structure. Training and engagement programs for the development of interpersonal and technical skills are organized for not just the company's officers but blue collar employees as well. Programs covered a wide range of topics such as Positive Attitude, Stress Management, Creativity, Team Effectiveness, Safety and Environment, Quality Tools, TPM, Dexterity and Technical Training.

INVESTMENT RATIONALE

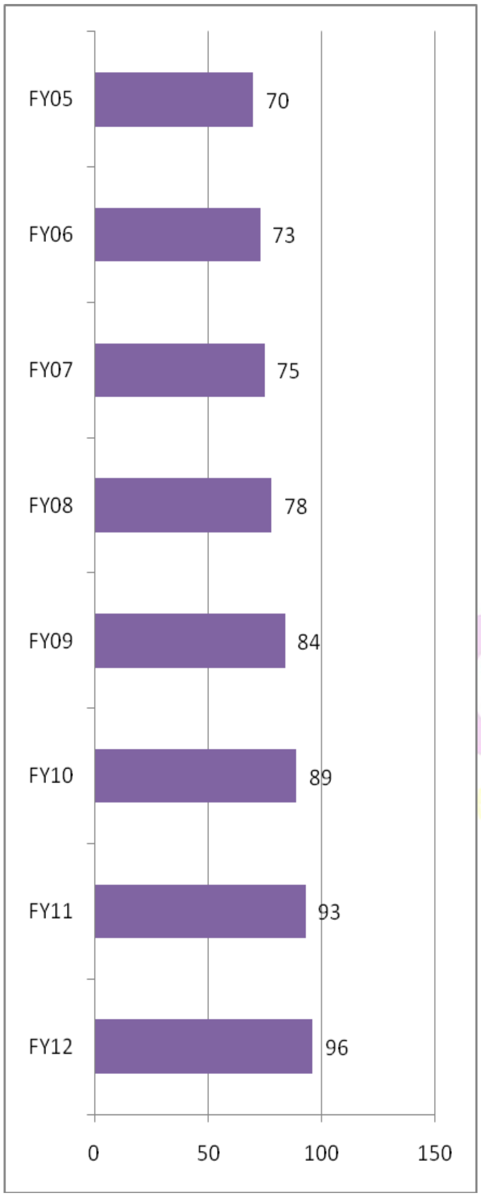
- MML enjoys tremendous brand recall across its focus markets. The company is also noted for its strong levels of corporate governance and transparency and has won awards for the same.

- MML's plants are well spread out across 5 states in the country and the company has a strong HR engagement policy thereby reducing the risk of employee discontent and possible plant lockdowns.

- MML's is the largest tractor manufacturer in the world and in the domestic market it has enjoyed leadership for 29 years in a row. MML's farm equipment division follows a more holistic approach in catering to its target market and this ensures deep relationships with its clientele.

- MML is the country's number 1 UV maker and is looking to take its domestic dominance to the global market. It's collaboration with its Korean based SUV oriented sub-Ssanyong Motors puts it in a very solid position to cater to global standards. MML is also well positioned to cope with the changing demand for vehicles that run on alternative fuels. It's stake in the electrical vehicle major- Reva will augment its product offerings in this segment.

MAHINDRA AND SWARAJ TRACTORS HAVE TOPPED THE CUSTOMER SATISFACTION INDEX



Source: MML, Taylor Nelson Sofres

Holistic and comprehensive strategy followed by MML's farm equipment business

MML is already considered to be the largest tractor manufacturer in the world (by sales volume) and in the Indian tractor market it has enjoyed market leadership for 29 years in a row (FY12 market share of 41.4%). MML also sells Swaraj tractors (acquisition of Punjab Tractors in 2007) under the 'Swaraj' name and both these brands are considered to vbe the top 2 brands in Customer Satisfaction Index (CSI) for the tractor industry (source: Taylor Nelson Sofres). The company is also blessed to be based in the largest tractor market in the world- India and also enjoys a strong presence in the 2nd largest tractor market in the world- China- both markets open up tremendous business opportunities. While most companies would be content with the credentials of being a dominant tractor market, MML follows a far more holistic and comprehensive approach that extend just beyond manufacturing tractors, designed to stimulate the level of farm tech prosperity at its target markets. India is considered to have the second largest arable land in the world and MML - a firm proponent of farm mechanization techniques is doing its bit in improving the productivity of the country's farms. MML serves is target markets in the agriculture sector by providing farm-support services, including agri-mechanization solutions (rendered under its Mahindra AppliTrac umbrella) as well as supplying high quality seeds, crop protection and facilitating market linkages distribution, agri-support information and counseling services (rendered under the Samriddhi initiative). Under the Mahindra Shubhlabh services the company provides farmers with a single window to access products, services and knowledge about farm related matter. All these activities serve as a wonderful way to build relationships with the company's target markets.

Automotive business- Leadership in UV (Utility Vehicles) segment, new launches and very well positioned to ride existing and changing trends in industry. Mahindra Research Valley to play its part

MML's automotive business is currently in the midst of some very exciting times. Even prior to the launch of the pathbreaking XUV500 MML enjoyed leadership in the UV segment, but since the advent of the XUV500 the company's status in the UV space is pretty close to being

MAHINDRA RESEARCH VALLEY

- *In April 2012, MML set up its world class engineering and R&D centre in Chennai.*
- *Spread over 650 acres and home to over 1500 employees including experts in various technologies and product development projects, the research valley is estimated to have cost around Rs.650 crores.*
- *MRV represents the Mahindra Group's commitment to technology driven innovation and will serve as the bedrock for its future products.*
- *MRV houses both automobile and tractor engineering research and product development divisions under one roof and enables close and creative collaboration between engineers and researchers.*

Source: MML

THE FOLLOWING NEW LAUNCHES IN THE COMING FISCAL WILL CONTRIBUTE TO MML's ALREADY STRONG AUTOMOBILE PORTFOLIO.

PRODUCT	LAUNCH
Mini Xylo-Quanto	Q2FY13
Ssanyong Rexton	Q3FY13
Reva NXR	Q3FY13
Verito- Sub 4m	Q4FY13

unrivalled. At the end of July the company had sold 32000 units with a pending order book of 20000 units (in early September 2012 MML stated that the pending order book was around 15000 units that was likely to be met by November 2012) that is likely to hold for the next 6 months). Due to the stupendous demand for the XUV 500 MML has had to gradually increase its monthly production runrate from 2000 units to 4000 units to 5000 units. The other prominent vehicle from MML's UV space is the Bolero which has been the number 1 selling SUV brand in India for 7 years in a row and is incidentally the first SUV in India to cross the sales landmark of 1 lakh annual units. MML is not just contend with its dominance in the domestic SUV market and is looking to make its presence felt globally as well. It's Korean SUV oriented subsidiary-Ssanyong Motors will enable MML to position itself as a global honcho of SUV vehicles (Ssanyong is mainly an export oriented company with two thirds of its revenue arising through exports). MML has made significant investments to turn around this once ailing company and in the last calendar year Ssanyong posted a sales volumes growth rate of 40% relative to the total Korean auto industry sales volume growth figure of 2.5% yoy. The company is targeting a sales units target of 300000 by 2015. If one were to study trends in global auto sales one would discover that UV sales have been quite resplendent over the last 1-2 years. MML through its collaboration with Ssaanyong is very well placed to ride this wave. While the SUV space represents MML's current area of dominance, the company is also making significant investments in developing vehicles that run on alternate fuels (CNG, Biodiesel, Hydrogen, Electric Traction). Alternate energy vehicles are slowly making their presence felt across the world and it seems inevitable that demand for these products will improve exponentially, given rising recognition of the deteriorating environmental effects of fossil fuels as well as their scarcity.MML acquired electric vehicle makor- Reva electrical and this collaboration will help MML to leapgrog its Electric Vehicle technology. In addition to that, MML and Ssanyong have started working on a common framework and platform for developing electric vehicles for both Mahindra Ssangyong and Mahindra Reva with synergy benefits expected to be seen over the next three years.

FINANCIAL FORECASTS

INCOME STATEMENT		
(In crores)	FY13E	FY14E
Net Sales	36034.79	41488.59
Other operating income	540.52	622.33
Total income	36575.32	42110.92
Total opex	32405.73	37310.28
Operating profits	4169.59	4800.65
Other income	585.21	673.77
EBITDA	4754.79	5474.42
Depreciation	637.22	733.66
EBIT	4117.57	4740.76
Interest	188.54	211.52
PBT	3929.03	4529.24
Tax	864.39	996.43
PAT	3064.64	3532.80
BALANCE SHEET		
Shareholders' funds	14316.34	16789.30
Debtholders' funds	4525.97	4874.96
Total source of funds	18842.31	21664.26
Net block	4913.56	5557.65
CWIP	1092.38	1257.71
Investments	12590.05	13345.46
Cash	1265.57	2691.57
Net working capital (Incl.cash)	773.44	2030.58
Net deferred tax assets	-527.13	-527.13
Total application of funds	18842.31	21664.26
CASH FLOW STATEMENT		
Opening Cash Balance	1188.43	1265.57
Operating profit	4169.59	4800.65
(Increase)/ Decrease in WC	-1102.65	168.86
Cash flow after changes in WC	3066.94	4969.50
OPERATING CASH FLOW	2202.55	3973.07
(Capex)	-1562.41	-1543.07
(Investments)	-712.64	-755.4
INVESTING CASH FLOW	-2275.05	-2298.48
Increase in Debt	672.38	348.99
(Net Financing charges)	-522.725	-597.585
FINANCING CASH FLOW	149.65	-248.60
Closing cash balance	1265.57	2691.57

Source: Hedge Research

HISTORICAL FINANCIAL HIGHLIGHTS (In crores)

DESCRIPTION	Mar-12	Mar-11	Mar-10	Mar-09	Mar-08
Inc / Exp Performance					
Gross Sales	34354.51	25555.02	20396.12	14713.03	13107.66
Total Income	32336.97	23919.26	18930.76	13454.45	11765.72
Total Expenditure	28100.46	20030.78	15647.13	12002.62	10205.43
PBIDT	4236.51	3888.48	3283.63	1451.83	1560.29
PBIT	3768.64	3592.10	3003.60	1170.59	1494.36
PAT	2878.89	2662.10	2087.75	836.78	1103.37
Sources of Funds					
Equity Paid Up	294.52	293.62	282.95	272.62	239.07
Reserves and Surplus	11765.87	9985.80	7535.81	4982.91	4107.00
Net Worth	12049.48	10268.24	7807.09	5212.78	4320.07
Total Debt	3853.59	2920.58	2883.61	4052.76	2587.06
Capital Employed	16013.77	13222.79	10698.71	9272.09	6911.13
Application of Funds					
Gross Block	7838.38	5971.32	5276.29	4893.89	3656.13
Investments	11877.41	10910.78	6398.02	5786.41	4215.06
Cash and Bank balance	1188.43	614.64	1743.23	1574.43	861.23
Net Current Assets	-406.35	-1229.02	849.97	265.17	404.36
Total Assets	16024.68	13233.97	10710.38	9314.84	6937.13
Cash Flow					
Cash Flow from Operations	2734.95	2979.78	2336.49	1631.30	825.83
Cash Flow from Investing activities	-1936.54	-3734.99	-1345.44	-1941.00	-2075.08
Cash Flow from Finance activities	-306.15	-383.75	-783.87	696.91	811.34
Market Cues					
High Price (Unit Curr.)	874.75	826.40	598.35	357.50	436.00
Low Price (Unit Curr.)	617.00	491.00	188.75	117.75	271.50
Market Capitalization	41050.20	41024.59	30852.87	10446.80	16630.90
Adjusted EPS	48.87	45.33	36.89	15.35	23.08
Price / Book Value(x)	3.41	4.00	3.95	2.00	3.85
Equity Dividend %	250.00	230.00	190.00	100.00	115.00
Enterprise Value	43715.36	43330.53	31993.25	12925.13	18356.73
Dividend Yield %	1.79	1.65	1.74	2.61	1.65

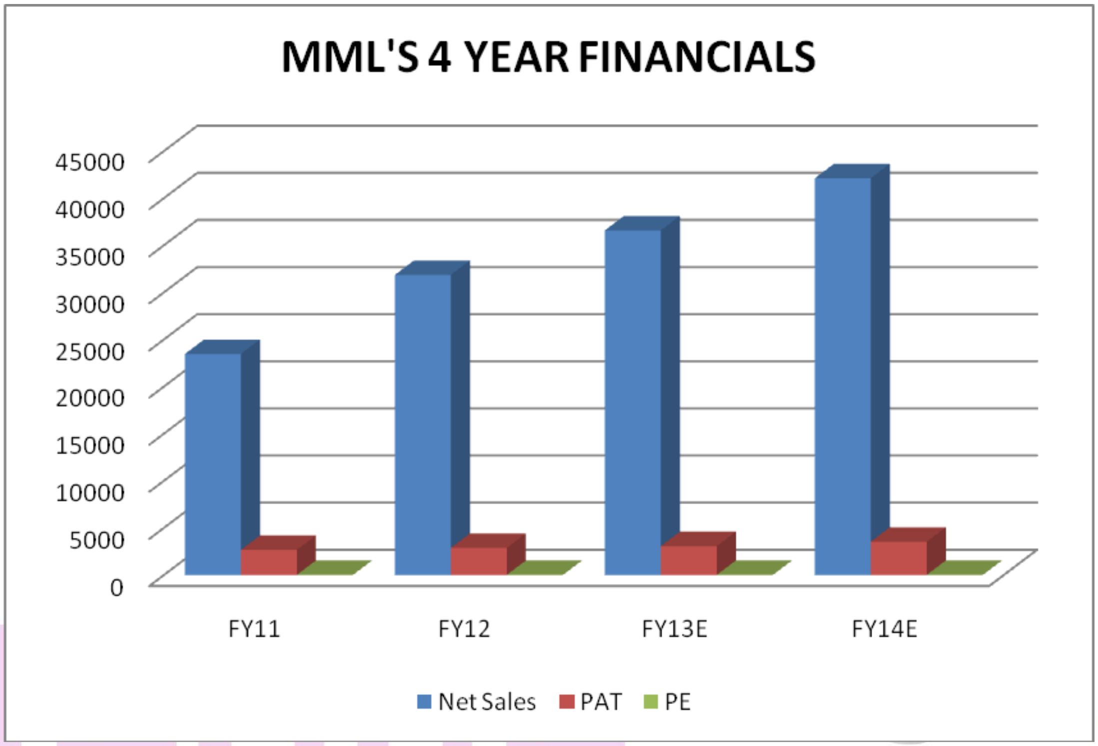
Source: Ace Equity

HISTORICAL FINANCIAL RATIOS

DESCRIPTION	Mar-12	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07
Operational & Financial Ratios						
Earnings Per Share (Rs)	48.87	45.33	36.89	30.69	46.15	44.88
DPS(Rs)	12.50	11.50	9.50	10.00	11.50	11.50
Book Value (Rs)	198.00	174.86	137.96	191.21	180.70	147.85
Tax Rate(%)	20.16	24.36	26.66	19.27	21.57	24.68
Dividend Pay Out Ratio(%)	25.58	25.37	25.75	32.58	24.92	25.62
Margin Ratios						
PBIDTM (%)	12.33	15.22	16.10	9.87	11.90	13.76
EBITM (%)	10.97	14.06	14.73	7.96	11.40	12.81
PATM (%)	8.38	10.42	10.24	5.69	8.42	9.51
Performance Ratios						
ROA (%)	19.68	22.24	20.85	10.30	18.20	23.79
ROE (%)	25.80	29.46	32.07	17.56	28.15	33.41
ROCE (%)	25.78	30.03	30.08	14.47	24.76	32.25
Asset Turnover(x)	2.35	2.13	2.04	1.81	2.16	2.50
Inventory Turnover(x)	16.95	17.73	18.13	13.72	13.36	12.78
Debtors Turnover(x)	21.15	20.29	17.72	14.36	15.37	16.78
Fixed Asset Turnover (x)	4.98	4.54	4.01	3.44	3.81	3.67
Sales(x)/Working Capital	-84.54	-20.79	24.00	55.49	32.42	10.38
Efficiency Ratios						
Fixed Capital/Sales(x)	0.20	0.22	0.25	0.29	0.26	0.27
Receivable days	17.26	17.98	20.60	25.41	23.75	21.75
Inventory Days	21.53	20.59	20.13	26.60	27.33	28.55
Payable days	52.77	63.84	76.23	85.12	70.26	66.68
Growth Ratio						
Net Sales Growth(%)	35.78	26.12	42.07	13.45	16.63	21.44
Core EBITDA Growth(%)	8.95	18.42	126.17	-6.95	0.98	38.39
PAT Growth(%)	8.14	27.51	149.50	-24.16	3.27	24.65
Financial Stability Ratios						
Total Debt/Equity(x)	0.32	0.28	0.37	0.78	0.60	0.46
Current Ratio(x)	0.94	0.79	1.16	1.06	1.12	1.41
Quick Ratio(x)	0.62	0.51	0.94	0.83	0.79	1.08
Interest Cover(x)	23.16	49.55	19.15	8.73	17.06	72.64
Total Debt/Mcap(x)	0.09	0.07	0.09	0.78	0.31	0.18

Source: Ace Equity

FINANCIALS GRAPH AND PEER GROUP COMPARISON



Source: Hedge Research

Peer Comparison Standalone (In crores)						
Company Name	**Year End**	**Net Sales**	**PAT**	**OPM%**	**PAT%**	**ROE%**
Maruti	201203(U)	34705	1635	8.46%	5.60%	11.79%
M&M	201203(U)	31853	2878	12.33%	8.38%	25.80%
Tata Motors	201203(U)	54005	1242	8.02%	2.10%	6.34%

Source: Ace Equity

ANALYST NOTES AND COMPANY NEWS

18-5-12

MML can be pursued by moderate investors. The 12 month price target works out to Rs.922 and a 30% MOS suggests buying levels of >Rs.709.

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