

November 14, 2011

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	<b>Accumulate</b>
Rating	
Price	Rs791
Target Price	Rs833
Implied Upside	5.3%
Sensex	17,119

(Prices as on November 14, 2011)

### Trading data

Market Cap. (Rs bn)	457.9
Shares o/s (m)	578.9
3M Avg. Daily value (Rs m)	1756.8

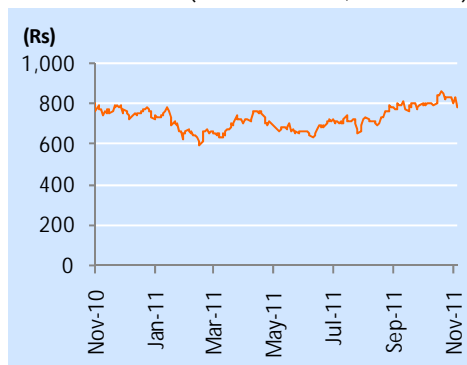
### Major shareholders

Promoters	25.18%
Foreign	26.39%
Domestic Inst.	20.64%
Public & Other	27.79%

### Stock Performance

(%)	1M	6M	12M
Absolute	(1.8)	14.7	2.5
Relative	(2.0)	22.3	17.5

Price Performance (RIC: MAHM.BO, BB: MM IN)



Source: Bloomberg

■ **EBITDA margins @12.3% disappoint:** Mahindra & Mahindra (M&M) reported 37.3% YoY growth in its top-line at Rs73.6bn (PLe: Rs74.3bn). Tractor volumes grew by 26.1% YoY, whereas the automotive segment volumes grew by 24.6% YoY. Raw material/sales ratio increased by 80bps QoQ on account of higher contribution of traded goods from Mahindra Vehicle Manufacturers (MVML), thereby, leading to a 100bps QoQ decline in EBITDA margins at 12.3% (15.3% in Q2FY11). Absolute EBITDA grew by 10.2% YoY to Rs9.0bn (PLe: Rs10.0bn). Adjusted for a forex MTM loss on outstanding ECBs to the tune of Rs320m, PAT grew by 12.2% YoY to Rs7.7bn (PLe: Rs8.0bn).

■ **Segmental performance:** Automotive segment reported 35.9% YoY growth in the revenues at Rs45.2bn and a 9.9% PBIT margin (10.7% in Q1FY12). Farm Equipment Segment (FES) reported a revenue growth of 35.5% YoY at Rs28.3bn, with PBIT margins at 15.3% (16.0% in Q1FY12).

■ **M&M + MVML:** The combined revenue of M&M and MVML grew by 33.9% YoY at Rs83.0bn (Rs68.0bn in Q1FY12). OPM of the combined entity declined by 90bps QoQ to 13.3%, mainly on account of lower operating margins in the standalone business. Adjusted for forex loss, PAT stood at Rs7.9bn.

■ **Outlook & Valuation:** We have revised our earnings estimates downwards by 4-5% to take into account the current quarters' performance. In the four-wheeler listed space, we expect M&M to outperform the volume growth of the auto industry, given its leadership position and strong traction for its recently launched products. On sum-of-parts valuation, excluding Rs190/share assigned to its subsidiaries, the stock currently trades at 12.6x its standalone FY13E EPS, which in our view is fair. We maintain our '**Accumulate**' rating on the stock.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	185,296	234,210	295,872	336,289
Growth (%)	41.7	26.4	26.3	13.7
EBITDA (Rs m)	29,962	34,094	37,644	43,970
PAT (Rs m)	20,451	24,892	26,860	31,192
EPS (Rs)	35.1	38.0	41.0	47.6
Growth (%)	112.8	8.2	7.9	16.1
Net DPS (Rs)	9.1	10.2	11.0	11.5

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	16.2	14.6	12.7	13.1
RoE (%)	31.2	27.4	23.9	23.5
RoCE (%)	20.4	20.4	18.9	19.1
EV / sales (x)	2.5	2.3	1.8	1.6
EV / EBITDA (x)	15.7	15.7	14.4	12.2
PE (x)*	19.2	15.8	14.7	12.6
P / BV (x)	5.9	5.0	4.3	3.6
Net dividend yield (%)	1.2	1.3	1.4	1.5

Source: Company Data; PL Research

\*Adj. for subsidiary value of Rs190/share

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**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
<b>Net Sales</b>	<b>73,606</b>	<b>53,617</b>	<b>37.3</b>	<b>67,335</b>	<b>140,942</b>	<b>105,218</b>	<b>34.0</b>
<b>Expenditure</b>							
Raw Materials	53,414	36,494	46.4	48,336	101,750	72,399	40.5
<i>% of Net sales</i>	<i>72.6</i>	<i>68.1</i>		<i>71.8</i>	<i>72.2</i>	<i>68.8</i>	
Personnel	4,302	3,582	20.1	4,034	8,335	6,719	24.0
<i>% of Net sales</i>	<i>5.8</i>	<i>6.7</i>		<i>6.0</i>	<i>5.9</i>	<i>6.4</i>	
Mfgr & Other Exp.	6,831	5,318	28.5	5,992	12,823	10,121	26.7
<i>% of Net sales</i>	<i>9.3</i>	<i>9.9</i>		<i>8.9</i>	<i>9.1</i>	<i>9.6</i>	
Total Expenditure	64,546	45,394	42.2	58,362	122,908	89,239	37.7
<b>EBITDA</b>	<b>9,060</b>	<b>8,223</b>	<b>10.2</b>	<b>8,973</b>	<b>18,034</b>	<b>15,979</b>	
<i>EBITDA Margin (%)</i>	<i>12.3</i>	<i>15.3</i>		<i>13.3</i>	<i>12.8</i>	<i>15.2</i>	
Depreciation	1,257	970	29.6	1,099	2,356	1,946	21.1
<b>EBIT</b>	<b>7,803</b>	<b>7,253</b>	<b>7.6</b>	<b>7,875</b>	<b>15,678</b>	<b>14,033</b>	<b>11.7</b>
Net Interest	49	(91)		(20)	29	(318)	
Non-operating income	2,315	1,998	15.9	249	2,564	2,203	16.4
<b>PBT</b>	<b>10,069</b>	<b>9,341</b>		<b>8,143</b>	<b>18,213</b>	<b>16,553</b>	
Tax-Total	2,376	2,483	(4.3)	2,095	4,470	4,071	9.8
<i>Tax Rate - Total (%)</i>	<i>23.6</i>	<i>26.6</i>		<i>25.7</i>	<i>24.5</i>	<i>24.6</i>	
<b>Adj. Profit after tax</b>	<b>7,694</b>	<b>6,858</b>	<b>12.2</b>	<b>6,049</b>	<b>13,743</b>	<b>12,482</b>	<b>10.1</b>
Extraordinary Income	(320)	797			(320)	727	
<b>Reported PAT</b>	<b>7,374</b>	<b>7,585</b>	<b>(2.8)</b>	<b>6,049</b>	<b>13,423</b>	<b>13,209</b>	<b>1.6</b>

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics (Rs)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Tractors	57,394	45,508	26.1	60,152	117,546	95,656	22.9
MUVs & LCVs	99,116	72,284	37.1	84,987	184,103	138,731	32.7
3-wheelers	19,091	16,497	15.7	14,058	33,149	31,413	5.5
<b>Total Sales Volume</b>	<b>175,601</b>	<b>134,289</b>	<b>30.8</b>	<b>159,197</b>	<b>334,798</b>	<b>265,800</b>	<b>26.0</b>
Net Realisation/vehicle	419,167	399,264	5.0	422,969	420,975	395,853	6.3
Material cost / vehicle	304,175	271,756	11.9	303,626	303,914	272,381	11.6
Other expenses / vehicle	38,901	39,598	(1.8)	37,638	38,300	38,077	0.6
EBITDA/vehicle	51,595	61,232	(15.7)	56,367	53,864	60,115	(10.4)
Net Profit/vehicle	43,814	56,482	(14.2)	37,996	41,047	46,960	(12.6)

Source: Company Data, PL Research3



## Key Highlights of the Conference Call

- XUV 500 has received good response, with bookings over 8,000 units in the first 10 days. M&M looking to produce 2,000 units in November which would be ramped up to 5,000/month by June 2012.
- UV segment is likely to grow at 14-15% in FY12E.
- M&M faced constraints on production on account of demand outstripping supply on the auto side which would be corrected by increasing supply by February 2012.
- M&M had taken a price increase to the tune of 2-3% in the Automotive segment for H1FY12, whereas, in case of tractors, the price hike was to the tune of 1.5%.
- No major respite on the material cost expected in Q3FY12. The increase in the cost has been lower compared to H1FY12.
- Tractor demand continues to be strong and the management pegged the growth to be around 18% YoY for FY12E.
- M&M have launched '*Arjun*' multi-application tractor as well as variants of the other models.
- Debt on the books of MVML is currently at Rs9bn.


**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>185,296</b>	<b>234,210</b>	<b>295,872</b>	<b>336,289</b>
Raw Material Expenses	123,329	162,639	214,206	243,500
Gross Profit	61,967	71,571	81,666	92,789
Employee Cost	11,985	14,196	16,848	18,433
Other Expenses	20,020	23,281	27,174	30,387
<b>EBITDA</b>	<b>29,962</b>	<b>34,094</b>	<b>37,644</b>	<b>43,970</b>
Depr. & Amortization	3,708	4,139	4,768	5,189
Net Interest	278	(503)	108	263
Other Income	1,994	3,095	2,900	2,950
<b>Profit before Tax</b>	<b>27,970</b>	<b>33,553</b>	<b>35,668</b>	<b>41,468</b>
Total Tax	7,519	8,661	8,808	10,276
<b>Profit after Tax</b>	<b>20,451</b>	<b>24,892</b>	<b>26,540</b>	<b>31,192</b>
Ex-Od items / Min. Int.	853	3,458	(320)	—
<b>Adj. PAT</b>	<b>20,451</b>	<b>24,892</b>	<b>26,860</b>	<b>31,192</b>
<b>Avg. Shares O/S (m)</b>	<b>581.9</b>	<b>654.7</b>	<b>654.7</b>	<b>654.7</b>
<b>EPS (Rs.)</b>	<b>35.1</b>	<b>38.0</b>	<b>41.0</b>	<b>47.6</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	27,995	37,152	29,791	34,563
C/F from Investing	(8,236)	(44,273)	(25,000)	(21,000)
C/F from Financing	(18,112)	(4,124)	(3,070)	(10,546)
Inc. / Dec. in Cash	1,647	(11,245)	1,722	3,017
Opening Cash	15,744	17,391	6,146	7,868
Closing Cash	17,391	6,146	7,868	10,885
FCFF	16,175	22,970	15,632	21,563
FCFE	4,448	18,221	23,632	19,563

**Key Financial Metrics**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	41.7	26.4	26.3	13.7
EBITDA (%)	132.5	13.8	10.4	16.8
PAT (%)	121.8	21.7	7.9	16.1
EPS (%)	112.8	8.2	7.9	16.1
<b>Profitability</b>				
EBITDA Margin (%)	16.2	14.6	12.7	13.1
PAT Margin (%)	11.0	10.6	9.1	9.3
RoCE (%)	20.4	20.4	18.9	19.1
RoE (%)	31.2	27.4	23.9	23.5

**Balance Sheet**

Y/e March	2010	2011	2012E	2013E
Net Debt : Equity	0.1	0.2	0.2	0.1
Net Wrkng Cap. (days)	(41)	(48)	(37)	(31)

**Valuation**

Y/e March	2010	2011	2012E	2013E
PER (x) *	19.2	15.8	14.7	12.6
P / B (x)	5.9	5.0	4.3	3.6
EV / EBITDA (x)	15.7	15.7	14.4	12.2
EV / Sales (x)	2.5	2.3	1.8	1.6

**Earnings Quality**

Y/e March	2010	2011	2012E	2013E
Eff. Tax Rate	26.9	25.8	24.7	24.8
Other Inc / PBT	7.1	9.2	8.1	7.1
Eff. Depr. Rate (%)	7.0	6.6	6.2	5.7
FCFE / PAT	21.8	73.2	88.0	62.7

Source: Company Data, PL Research. \*Adj. for subsidiary value of Rs190/share

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	78,268	103,134	121,627	144,273
Total Debt	28,802	24,053	32,053	30,053
Other Liabilities	2,438	3,544	—	—
<b>Total Liabilities</b>	<b>109,507</b>	<b>130,730</b>	<b>153,680</b>	<b>174,326</b>
Net Fixed Assets	37,027	43,719	53,951	61,762
Goodwill	—	—	—	—
Investments	63,980	93,253	103,253	111,253
Net Current Assets	8,459	(6,240)	(3,523)	1,312
<i>Cash &amp; Equivalents</i>	<i>17,391</i>	<i>6,146</i>	<i>7,868</i>	<i>10,884</i>
<i>Other Current Assets</i>	<i>43,033</i>	<i>55,288</i>	<i>74,115</i>	<i>78,863</i>
<i>Current Liabilities</i>	<i>51,965</i>	<i>67,675</i>	<i>85,506</i>	<i>88,435</i>
Other Assets	41	—	—	—
<b>Total Assets</b>	<b>109,507</b>	<b>130,732</b>	<b>153,680</b>	<b>174,326</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
<b>Net Revenue</b>	<b>61,211</b>	<b>67,782</b>	<b>67,335</b>	<b>73,606</b>
<b>EBITDA</b>	<b>9,238</b>	<b>8,619</b>	<b>8,973</b>	<b>9,060</b>
<i>% of revenue</i>	<i>15.1</i>	<i>12.7</i>	<i>13.3</i>	<i>12.3</i>
Depr. & Amortization	1,022	1,171	1,099	1,257
Net Interest	(27)	(158)	(20)	49
Other Income	419	474	249	2,315
<b>Profit before Tax</b>	<b>8,662</b>	<b>8,080</b>	<b>8,143</b>	<b>10,069</b>
Total Tax	2,490	2,015	2,095	2,376
<b>Profit after Tax</b>	<b>7,347</b>	<b>6,065</b>	<b>6,049</b>	<b>7,374</b>
<b>Adj. PAT</b>	<b>6,172</b>	<b>6,065</b>	<b>6,049</b>	<b>7,694</b>

**Key Operating Metrics**

Y/e March	2010	2011	2012E	2013E
UV sales	161,293	186,343	222,167	263,144
3 wheeler Sales	44,438	62,142	65,249	68,511
LCV Sales including pick up	76,387	105,588	139,006	154,907
Automotive Sales	282,118	364,082	446,422	511,561
Tractor sales	175,196	214,325	256,118	281,730
Total Vol.	457,314	578,407	702,540	793,291
Net Real. / Veh.	405,184	404,923	421,146	437,711
Material Cost / Veh.	269,682	281,185	304,902	316,937
Other Exp. / Veh.	43,777	40,250	38,679	39,551
EBITDA / Veh.	65,518	58,944	53,583	57,231

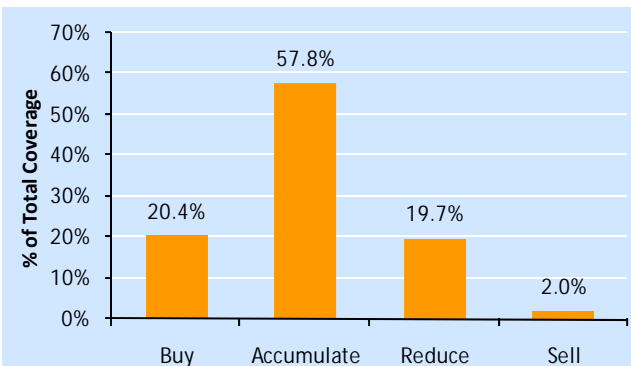
Source: Company Data, PL Research.

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#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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