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Stock Rating
Equal-weight

Industry View
Cautious

Mahindra & Mahindra M&M Management Meet Takeaways

Quick Comment: Dr Pawan Goenka, President of Automotive and FES division, hosted an analyst meeting to discuss issues regarding tractor industry. Management cited that as of now they do not see stress in the tractor industry and the management maintains its volume guidance, expects 17/18% growth in FY12 and long-term industry growth of 10%-11%. We remain EW on M&M.

Some key takeaways from the meeting were.

- April-November tractor industry has grown 19% and M&M has grown 21%. For FY12, they expect the industry to grow at 17%-18%, and the long-term growth outlook remains 10%-11%.

- On long-term outlook:

1) Though India is almost close to global average on tractor penetration, because India is primarily an agricultural country, there is more scope for penetration growth.

2) Increasing levels of mechanization and labor shortage are key factors for tractor sales to continue to grow.

3) Management believes that products such as Yuvraj are garnering good response from smaller farmers and expects this product to contribute to volume growth.

4) Company took a 1.5% price hike in October and has no further plans to increase prices in near term.

Key Ratios and Statistics

Reuters: **MAHM.BO** Bloomberg: **MM IN**
India Four-Wheelers: **Commercial Vehicles**

Shr price, close (Dec 20, 2011)	Rs650.95
52-Week Range	Rs874.75-585.10
Sh out, dil, curr (mn)	613
Mkt cap, curr (mn)	Rs399,032
EV, curr (mn)	Rs319,510
Avg daily trading value (mn)	Rs1,465

Fiscal Year ending	03/11	03/12e	03/13e	03/14e
ModelWare EPS (Rs)	46.55	56.36	65.45	72.86
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)\$	48.65	54.28	64.64	71.25
Revenue, net (Rs mn)	233,119	283,737	325,598	367,626
EBITDA (Rs mn)	32,744	38,361	44,862	51,179
ModelWare net inc (Rs mn)	28,534	34,546	40,122	44,664
P/E	15.0	11.6	10.0	9.0
P/BV	4.0	3.0	2.5	2.0
RNOA (%)	56.9	59.5	64.6	72.8
ROE (%)	34.7	32.2	30.3	27.5
EV/EBITDA	10.6	7.7	5.9	4.6
Div yld (%)	1.6	1.9	2.1	2.1
FCF yld ratio (%)	5.0	5.8	7.2	7.8
Leverage (EOP) (%)	(11.9)	(19.3)	(32.1)	(42.0)

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
\$ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

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On market share

- 1) According to management, tractor industry is a fairly stable market share industry.
- 2) M&M will strive to maintain current market share of 42% or go higher by either organic or inorganic modes

Some comments by management on macro environment:

1) No financing stress. While management agrees that PSU banks have given indication of slowing down agricultural lending, this is unlikely to affect tractor financing environment, as PSU banks are only 25% of market. For M&M, private banks and NBFC's comprise about 50% of financing; 25% is through cash and the rest through PSU's. NBFC's such as M&M Finance (captive finance arm) and Kotak Finance are not seeing any signs of slowdown in lending or NPAs.

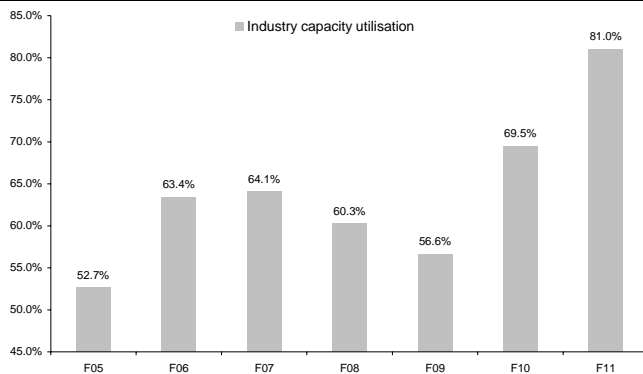
2) Rural incomes are holding up well. Management cited three indicators: 1) Foodgrain production, 2) MSPs and 3) Credit Growth. All three indicators have slowed versus last year but are still growing.

Other Key points

- 1) On segment growth, while currently 31-40HP tractor segment is doing well, management believes that in the longer term demand will move towards the 41-50HP tractor segment.
- 2) Industry now running at high capacity utilization, but over next 2-3 years significant additions to capacity from M&M, John Deere etc may bring down utilization.

Exhibit 1

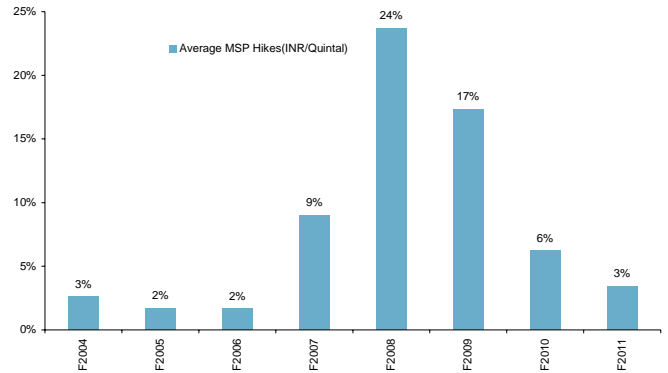
Industry Now Running at High Utilization Rate



Source: Company data, Morgan Stanley Research

Exhibit 2

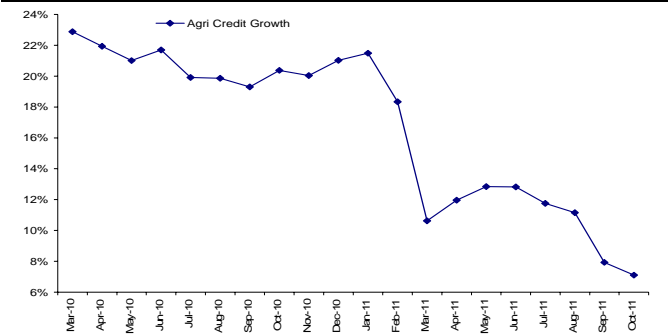
MSP Growth



Source: Company data, Morgan Stanley Research

Exhibit 3

Slowing Agri Credit Growth



Source: RBI, Morgan Stanley Research



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of November 30, 2011)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1109	39%	453	44%	41%
Equal-weight/Hold	1203	42%	434	42%	36%
Not-Rated/Hold	108	4%	24	2%	22%
Underweight/Sell	422	15%	122	12%	29%
Total	2,842		1033		

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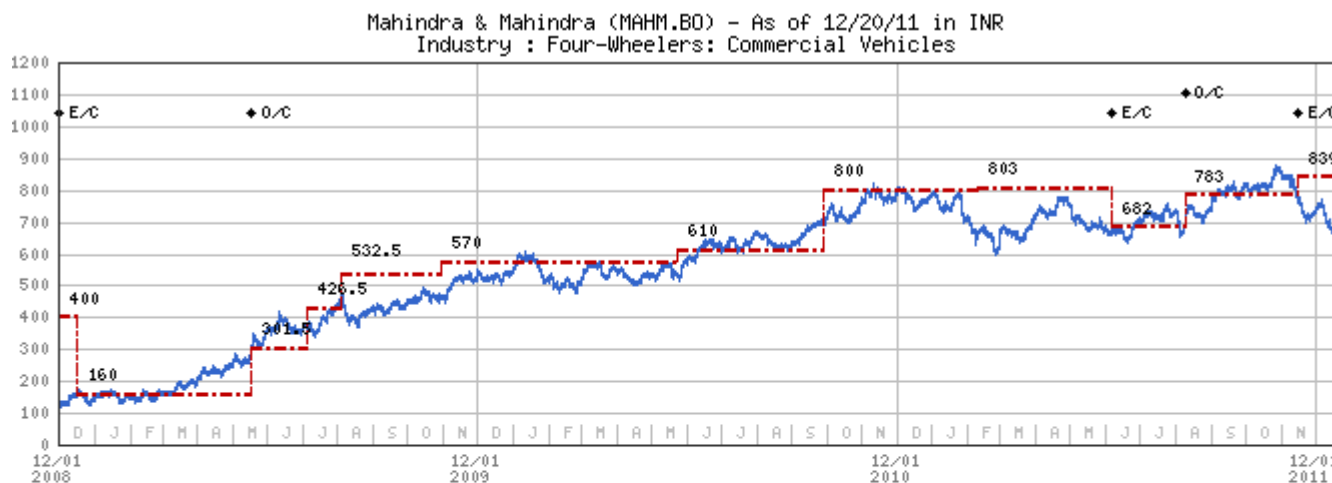
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 12/1/08 : E/C; 5/18/09 : O/C; 6/7/11 : E/C; 8/9/11 : O/C; 11/15/11 : E/C

Price Target History: 2/4/08 : 400; 12/17/08 : 160; 5/18/09 : 301.5; 7/6/09 : 426.5; 8/4/09 : 532.5; 10/30/09 : 570; 5/24/10 : 610; 9/28/10 : 800; 2/10/11 : 803; 6/7/11 : 682; 8/9/11 : 783; 11/15/11 : 839

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
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 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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December 21, 2011
Mahindra & Mahindra

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**Industry Coverage: India Four-Wheelers:
Commercial Vehicles**

Company (Ticker)	Rating (as of)	Price* (12/20/2011)
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Ashok Leyland Ltd. (ASOK.BO)	U (05/23/2011)	Rs21.65
Mahindra & Mahindra (MAHM.BO)	E (11/15/2011)	Rs650.95
Tata Motors (TAMO.BO)	O (11/30/2009)	Rs174.9

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