

May 31, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 665	Rs 810
EPS change FY12E (%)	-10
Target Price change (%)	-2.4
Nifty	5,473
Sensex	18,232

Price Performance

(%)	1M	3M	6M	12M
Absolute	(12)	12	(14)	22
Rel. to Nifty	(6)	9	(7)	14

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	MM@IN
Equity Capital (Rs mn)	3070
Face Value(Rs)	5
No of shares o/s (mn)	614
52 Week H/L	826/550
Market Cap (Rs bn/USD mn)	408/9,052
Daily Avg Volume (No of sh)	374401
Daily Avg Turnover (US\$m)	5.7

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	24.9	22.8	25.8
FII/NRI	32.7	35.0	32.2
Institutions	23.6	24.3	24.6
Private Corp	10.2	8.9	8.2
Public	8.6	9.0	9.2

Source: Capitaline

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- Results below est. EBIDTA at Rs 8.6bn (est. of Rs9.8bn) was affected due to higher staff cost (ESOP amortization), lower VAT set off and higher production in MVML (100% subsidiary)
- Ramp up in MVML visible with 4QFY11 EBIT account for 10% of standalone EBIT. However, value is not getting captured due to limited information and complex structure
- Lower FY12 EPS by 10% to Rs 42. Lower EBIDTA margins est. by 170 bps to 13% due to ESOP (40bps), VAT (70bps) and higher production at Chakan (40 bps)
- Introduce FY13 est. with an EPS of Rs 50, Retain BUY with a SOTP value of Rs 810 down 2.4%) based on FY13 estimates. Stock to underperform till clarity emerges on margins

Net Sales – in line with est.

Net sales at Rs 67.8bn were in line with our est. Average selling price at Rs 416,308 improved by ~1% YoY and ~2% QoQ driven by improving product mix and price hikes of ~2% taken during the quarter.

Product Mix %	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
UV's	46.3	42.4	48.0	46.6	48.8
Three Wheelers	17.1	15.8	14.4	10.6	11.0
Tractors	34.3	37.5	32.2	37.3	35.1
Export	2.3	4.4	5.4	5.5	5.1
Units Sold	128,428	127,299	131,285	148,631	160,511

Source: Company, Emkay research

EBIDTA – Higher staff cost/lower VAT set off/Higher production at MVML dents performance

EBIDTA at Rs 8.6bn was below our est. of Rs 9.8bn due to higher staff cost. Staff cost at Rs 4.3bn (6.3% of sales) was up 60% YoY and 23% QoQ. This was due to impact of amortization of employee stock option (Rs 260mn or 0.4% of sales) and higher provision of employee PF (~90mn or 0.15% of sales). 4QFY11 was affected by change in rule with respect to set off of state VAT (~12.5%) w.e.f 15th March 2011. The impact of the same is ~ Rs 70mn for 15 days. Similarly, higher production at MVML (100% subsidiary) also affected the standalone margins due to distribution of profits between the two companies.

Net profit – marginally below est due to higher other inc./interest inc.

APAT at Rs 6.1bn was only 4% below est due to higher interest income for the quarter, indicating strong cash flow generating from the business.

Financial Snapshot

YE-	Net	EBITDA	EPS	EPS	RoE	EV/				
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	185,296	28,828	15.6	19,459	31.5	145.3	29.8	21.1	13.3	5.6
FY11P	234,220	34,131	14.6	25,038	40.5	28.7	27.6	16.4	10.6	4.2
FY12E	270,030	35,047	13.0	25,895	41.9	3.4	23.1	15.9	9.9	3.6
FY13E	315,915	41,791	13.2	31,200	50.4	20.5	23.7	13.2	7.7	3.1

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY(%)	QoQ(%)	FY11	FY10	YoY(%)
Revenue	53,046	51,601	53,635	61,211	67,782	27.8	10.7	234,228	185,296	26.4
Expenditure	44,591	43,845	45,135	51,973	59,163	32.7	13.8	200,116	156,215	28.1
as % of sales	84.1	85.0	84.2	84.9	87.3			85.4	84.3	
Consumption of RM	35,845	35,905	36,494	42,358	47,883	33.6	13.0	162,639	123,329	31.9
as % of sales	67.6	69.6	68.0	69.2	70.6			69.4	66.6	
Employee Cost	2,661	3,137	3,323	3,475	4,261	60.1	22.6	14,196	11,985	18.5
as % of sales	5.0	6.1	6.2	5.7	6.3			6.1	6.5	
Other expenditure	6,084	4,803	5,318	6,140	7,020	15.4	14.3	23,280	20,901	11.4
as % of sales	11.5	9.3	9.9	10.0	10.4			9.9	11.3	
EBITDA	8,456	7,756	8,500	9,238	8,619	1.9	(6.7)	34,112	29,081	17.3
Depreciation	947	976	970	1,022	1,171	23.6	14.6	4,139	3,708	11.6
EBIT	7,508	6,780	7,530	8,216	7,448	(0.8)	(9.3)	29,974	25,373	18.1
Other Income	181	205	1,998	419	474	161.6	13.2	3,095	1,994	55.3
Interest	9	(227)	(91)	(27)	(158)	(1,858.9)	484.1	(503)	278	(280.8)
PBT	7,681	7,211	9,618	8,662	8,080	5.2	(6.7)	33,572	27,089	23.9
Total Tax	1,978	1,588	2,483	2,490	2,015	1.9	(19.1)	8,575	7,221	18.8
Adjusted PAT	5,703	5,624	7,135	6,172	6,065	6.4	(1.7)	24,997	19,868	25.8
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj.PAT after MI	5,703	5,624	7,135	6,172	6,065	6.4	(1.7)	24,997	19,868	25.8
Extra ordinary items	-	-	467	1,175	-	467		1,642	1,010	62.5
Reported PAT	5,703	5,624	7,602	7,347	6,065	6.4	(17.4)	26,638	20,878	27.6
Reported EPS	9.8	8.6	11.6	11.2	9.3	(5.5)	(17.4)	45.7	35.9	27.4

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	15.9	15.0	15.8	15.1	12.7	(322)	(238)	14.6	15.7	(113)
EBIT	14.2	13.1	14.0	13.4	11.0	(317)	(243)	12.8	13.7	(90)
EBT	14.5	14.0	17.9	14.2	11.9	(256)	(223)	14.3	14.6	(29)
PAT	10.8	10.9	13.3	10.1	8.9	(180)	(113)	10.7	10.7	(5)
Effective Tax rate	25.8	22.0	25.8	28.7	24.9	(82)	(381)	25.5	26.7	(111)

Segmental performance- MVML reports strong numbers, margins in Auto/FES under pressure

MVML (100% subsidiary) reported strong performance for 4QFY11. MVML accounted for 10% of standalone EBIT. We expect the share of MVML to increase going forward. As a result the standalone margins will be under pressure. In 4QFY11, both FES and auto segment reported QoQ drop in margins. However, both of them reported improvement in ROCE

Segmental details (Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Farm Equipment					
Tractor (Units)	46,963	50,150	45,508	58,608	59,388
Net Sales (Rs mn)	21,763	22,739	20,850	26,383	27,997
Avg realizations	463,416	453,412	458,159	450,157	471,418
Results (Rs mn)	4,358	3,894	3,561	4,872	4,756
Margins %	20.0	17.1	17.1	18.5	17.0
Capital Employed (Rs mn)	11,147	8,756	13,436	11,324	10,316
ROCE %	39.1	44.5	26.5	43.0	46.1
Automotive					
UVs and 3-wheelers (units)	81,465	77,149	85,777	90,023	101,123
Net Sales (Rs mn)	31,139	28,798	33,239	34,716	39,598
Avg realizations	363,535	373,280	387,502	385,634	391,581
Results (Rs mn)	4,065	3,521	4,473	4,266	4,182
Margins %	13.1	12.2	13.5	12.3	10.6
Extraordinary inc/(exp)	-	-	726	-	-
Capital Employed (Rs mn)	20,755	20,856	25,869	28,856	27,548
ROCE %	19.6	16.9	17.3	14.8	15.2
MVML					
Net Sales (Rs mn)			240	386	1247
EBITDA (Rs mn)			96	319	765
Margins (%)			40.1	82.7	61.3
Results (Rs mn)			60	283	729
Margins (%)			25.0	73.3	58.4
Net Profit (Rs mn)			14	236	682
Capital Employed (Rs mn)			16401	17473	18609
ROCE(%)			0.4	1.6	3.9

Introducing FY13 est.

We expect overall volume growth of ~15% in FY13. We have not factored in the sales of new SUV and we are conservative on our exports estimates with a growth of 16%, accounting for 5.5% of total sales. On earnings, we expect 20% growth in net profit to Rs 31.2bn driven by 17% increase in top line to Rs 316bn and 20 bps improvement in EBITDA margin to 13.2%

	FY13e	%YoY
Uv's	361,863	16.3
Three Wheelers (Inc Gio)	71,175	8.9
Tractors	253,037	14.0
Exports	36,412	16.3
Total	722,488	14.7
Sales	315,915	17.0
EBIDTA	41,791	19.2
EBIDTA margins (%)	13.2	
Net Profits	31,200	20.5
EPS	50.4	20.5

Valuations and View

We have valued the company on SOTP basis. We have lowered our TP by ~2% to Rs 810. We have valued the standalone business at Rs 658 (lowered by 5%) which implies 7.5x FY13E EV/EBIDTA. We have valued the listed subsidiaries and Tech Mahindra at Rs 138 per share. We introduce value for MVML subsidiary at Rs 15 (7.5x FY12E EV/EBITDA, EBITDA of Rs 2.3bn and net debt of Rs 8bn in FY12E)

Revision in Estimates

Volumes	FY12E		
	Earlier	Revised	% Change
Uv's	314,064	311,133	(0.9)
Three Wheelers (Inc Gio)	69,596	65,339	(6.1)
Tractors	218,170	221,962	1.7
Exports	25,105	31,317	24.7
Total	626,935	629,750	0.4
Sales (Rs. Mn)	268,091	270,030	0.7
EBIDTA (Rs. Mn)	39,278	35,047	(10.8)
EBIDTA margins (%)	14.7	13.0	
Net Profits(Rs. Mn)	28,734	25,895	(9.9)

Valuation Summary

Particulars	Basis	Discount	Value per share (Rs)
			FY12E
M&M	EV/EBIDTA (7.5x)		658
MVML *	EV/EBITDA (7.5x)		15
Listed Subsidiaries			
Mahindra Finance	CMP	20	48
Mahindra Forgings	CMP	20	4
Mahindra Life	CMP	20	9
Mahindra Holidays	CMP	20	30
Mahindra Ugine	CMP	20	1
Tech Mahindra	CMP	20	45
Total			810

* Source: MVML Annual Report FY10

Key extracts from the con call

- Management maintains its industry growth target of 16%-18% and 11-13% for automotive and FES segment respectively for FY12.
- Expect tractor demand to remain strong driven by labour shortage, higher farm income due to higher MSP and good monsoons
- Price hikes of ~2% in automotive segment and ~3% in tractor segment have been taken during April to offset rising input costs.
- Management expects raw material cost pressures of ~6% - 9% in FY12. Moreover, tractor segment is likely to witness higher pressure as compared to automotive segment.
- Automotive segment to witness a strong line up of another 6 -7 launches over the remaining part of FY12 which includes a new SUV in H2FY12.
- Chakan plant (MVML) produced 40,000 units in FY11. Management expects this to ramp up in FY12 and contribute ~25% of over volumes primarily driven by Maxximo, New SUV, Navistar trucks and Ssangyong models to be introduced in India.
- Maharashtra VAT rule has likely impacted MVML EBITDA by ~Rs 70mn for a 15 day period. Also, the impact is likely to be front ended resulting in lower margins during first few years of operation and improvement later.
- Target ~50% growth in top line for Ssangyong in FY12. However, do not expect Ssangyong to break even in FY12.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	185,296	234,220	270,030	315,915
<i>Growth (%)</i>	42.0	26.4	15.3	17.0
Expenditure	156,469	200,089	234,983	274,124
Materials Consumed	123,462	162,631	192,553	226,239
Employee Cost	11,985	14,195	16,238	17,915
Other Exp	21,022	23,262	26,192	29,970
EBITDA	28,828	34,131	35,047	41,791
<i>Growth (%)</i>	175.1	18.4	2.7	19.2
EBITDA margin (%)	15.6	14.6	13.0	13.2
Depreciation	3,708	4,138	4,948	5,424
EBIT	25,120	29,993	30,099	36,367
EBIT margin (%)	13.6	12.8	11.1	11.5
Other Income	1,994	3,093	3,539	4,166
Interest expenses	278	(535)	(435)	(519)
PBT	26,835	33,621	34,073	41,053
Tax	7,376	8,583	8,177	9,853
<i>Effective tax rate (%)</i>	27.5	25.5	24.0	24.0
Adjusted PAT	19,459	25,038	25,895	31,200
<i>Growth (%)</i>	145.3	28.7	3.4	20.5
Net Margin (%)	10.5	10.7	9.6	9.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JV's/Ass/MI	19,459	25,038	25,895	31,200
E/O items	1,418	1,642	-	-
Reported PAT	20,878	26,679	25,895	31,200
<i>Growth (%)</i>	145.3	28.7	3.4	20.5

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	24,842	30,528	30,534	36,887
Depreciation	3,708	4,138	4,948	5,424
Interest Provided	278	(535)	(435)	(519)
Other Non-Cash items	6,032	7,371	76	-
Chg in working cap	(4,119)	3,414	326	2,154
Tax paid	(7,376)	(8,583)	(8,177)	(9,853)
Operating Cashflow	23,365	36,333	27,271	34,092
Capital expenditure	(6,999)	(10,829)	(8,529)	(7,000)
Free Cash Flow	16,366	25,504	18,742	27,092
Other income	1,994	4,734	3,539	4,166
Investments	(8,449)	(29,273)	(16,000)	(18,000)
Investing Cashflow	(6,456)	(24,539)	(12,461)	(13,834)
Equity Capital Raised	118	-	(183)	-
Loans Taken / (Repaid)	(11,726)	(4,749)	-	(2,000)
Interest Paid	(278)	535	435	519
Dividend paid (incl tax)	(6,238)	(8,038)	(7,802)	(9,400)
Income from investments	-	-	-	-
Others	10,103	-	-	-
Financing Cashflow	(8,021)	(12,252)	(7,550)	(10,881)
Net chg in cash	1,890	(11,286)	(1,269)	2,378
Opening cash position	15,618	17,432	6,146	4,878
Closing cash position	17,432	6,146	4,877	7,256

Balance Sheet

Y/E, Mar (Rs. Mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	2,910	3,276	3,093	3,093
Reserves & surplus	75,393	99,771	117,865	139,665
Minority Interest	78,302	103,047	120,958	142,758
Net worth	-	-	-	-
Secured Loans	6,025	5,285	5,285	5,285
Unsecured Loans	22,777	18,769	18,769	16,769
Loan Funds	28,802	24,053	24,053	22,053
Net deferred tax liability	2,403	3,544	3,544	3,544
Total Liabilities	109,507	130,644	148,554	168,355
Gross Block	52,763	61,763	72,763	79,763
Less: Depreciation	25,378	29,516	34,464	39,888
Net block	27,385	32,247	38,299	39,875
Capital work in progress	9,642	11,471	9,000	9,000
Investment	63,980	93,253	109,253	127,253
Current Assets	60,424	61,435	72,390	86,059
Inventories	11,888	16,942	21,548	25,209
Sundry debtors	12,581	13,547	18,462	21,599
Cash & bank balance	17,432	6,146	4,878	7,256
Loans & advances	18,014	23,732	26,435	30,927
Other current assets	509	1,067	1,067	1,067
Current lia & Prov	51,965	67,676	80,225	93,670
Current liabilities	34,000	47,617	55,921	65,236
Provisions	17,965	20,059	24,304	28,434
Net current assets	8,458	(6,241)	(7,835)	(7,611)
Misc. exp	41	-	-	-
Total Assets	109,507	130,730	148,717	168,517

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.6	14.6	13.0	13.2
Net Margin	10.5	10.7	9.6	9.9
ROCE	26.8	27.6	24.1	25.6
ROE	29.8	27.6	23.1	23.7
RolC	162.1	157.1	133.2	144.7
Per Share Data (Rs)				
EPS	31.5	40.5	41.9	50.4
CEPS	37.5	47.2	49.4	58.7
BVPS	119.5	157.3	184.6	217.9
DPS	9.4	10.9	11.2	13.4
Valuations (x)				
PER	21.1	16.4	15.9	13.2
P/CEPS	17.8	14.1	13.5	11.3
P/BV	5.6	4.2	3.6	3.1
EV / Sales	2.1	1.5	1.3	1.0
EV / EBITDA	13.3	10.6	9.9	7.7
Dividend Yield (%)	1.4	1.6	1.7	2.0
Gearing Ratio (x)				
Net Debt/ Equity	0.00	(0.02)	(0.08)	(0.15)
Net Debt/EBITDA	0.00	(0.05)	(0.27)	(0.52)
Working Cap Cycle (days)	(18.78)	(26.69)	(21.51)	(21.29)

Recommendation History: Mahindra and Mahindra – MM IN

Date	Reports	Reco	CMP	Target
09/02/2011	M&M Q3FY11 Result Update	Buy	654	830
12/01/2011	M&M Management Meet Update	Buy	736	880
29/10/2010	M&M Q2FY11 Result Update	Buy	732	880
29/07/2010	M&M Q1FY11 Result Update	Buy	644	775

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/05/2011	Tata Motors Q4FY11 Conso Result Update	Buy	1,161	1,450
26/05/2011	Motherson Sumi Q4FY11 Result Update	Accumulate	226	260
25/05/2011	JK Tyre & Industries Q4FY11 Result Update	Accumulate	92	118
20/05/2011	Ashok Leyland Q4FY11 Result Update	Accumulate	51	63

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