

July 29, 2010

BUY

Price Rs 644	Target Price Rs 775
Sensex	17,992

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	20	27	57
Rel. to Sensex	2	18	15	34

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	MAHM.BO
Bloomberg	MM@IN
Equity Capital (Rs mn)	2892
Face Value(Rs)	5
No of shares o/s (mn)	578
52 Week H/L	656/367
Market Cap (Rs bn/USD mn)	372/7,957
Daily Avg Volume (No of sh)	2100213
Daily Avg Turnover (US\$m)	26.1

Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	26.3	26.3	27.2
FII/NRI	32.1	32.4	29.1
Institutions	25.0	24.9	27.1
Private Corp	7.9	7.7	7.6
Public	8.7	8.8	8.9

Source: Capitaline

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- EBIDTA at Rs 7.8bn is above est of Rs 7.3bn as other exp decline sharply (favorable MTM on forex in 1QFY11). PAT at Rs 5.6bn is in line due to higher than expected tax rate
- Supply constraints continue to hamper growth. Capex and investment plans remain on the higher side. Expect some scale down as and when actual investments take place
- Upgrade volume by 7% for FY11 and 6.6% for FY12 for higher sales of tractor, 3-wheelers and exports. Upgrade FY11 and FY12 EPS by 15.4% & 13.0% to Rs 39.1 & Rs 42.6 respectively
- Upgrade TP to Rs 775 (up by 6.9%). Valuing standalone business at FY12E EV/EBIDTA of 9x and listed subs and Tech Mahindra at Rs 140 per share. Maintain BUY rating

Net Sales – below expectation due to lower avg. realizations

Net sales at 51.6bn were below our expectation of Rs 53.7bn due to 2.7% YoY decline in avg. realizations as a result of unfavorable product mix. Avg. realizations stood at Rs 402,530 against est. of Rs 413,518.

Product Mix %	1QFY11	1QFY10	4QFY10
UV's	42.4	47.6	46.3
Three Wheelers(Inc Gio)	15.8	8.8	17.1
Tractors	37.5	41.0	34.3
Export	4.4	2.5	2.3
Units Sold	127,299	102,280	128,428

Source: Company, Emkay research

EBIDTA – above expectation driven by lower other expenses

EBIDTA at Rs 7.8bn was 7% ahead of our expectation mainly due to lower expenses which stood at 9.3% of sales against est of 12.5%. Other expenses declined both YoY and QoQ. The decline in other expenses is due to lower sales promotion and branding cost as well as favorable MTM on forex.

APAT – in line

Despite above expected operating performance and higher than expect other income (including interest income), net profits are in line with expectation due to higher tax rate. Tax rate stood at 22% against our expectation of 15%.

Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	130,488	10,477	8.0	7,933	13.2	(10.0)	16.6	48.8	33.8	7.4
FY10	185,296	28,828	15.6	19,459	32.4	145.3	29.8	19.9	11.6	4.9
FY11E	212,024	31,822	15.0	23,525	39.1	20.9	26.0	16.5	10.0	3.8
FY12E	230,063	34,850	15.1	25,618	42.6	8.9	23.1	15.1	8.7	3.2

Source: Company, Emkay Research

Segmental performance- Strong YoY growth, FES margin down 300bps QoQ

Both FES and automotive segment reported strong YoY growth. However, sequential performance was weak primarily driven by FES segment (Margins declined 290 bps QoQ).

Segmental details (Rs mn)	1QFY11	1QFY10	4QFY10
Farm Equipment			
Tractor (Units)	50,150	43,383	46,963
Net Sales (Rs mn)	22,739	19,750	21,763
Avg realizations	453,412	455,250	463,416
Results (Rs mn)	3,894	3,344	4,358
Margins %	17.1	16.9	20.0
Capital Employed (Rs mn)	8,756	10,898	11,147
ROCE %	44.5	30.7	39.1
Automotive			
UVs and 3-wheelers (units)	77,149	58,897	81,465
Net Sales (Rs mn)	28,798	22,575	31,139
Avg realizations	373,280	383,298	363,535
Results (Rs mn)	3,521	2,302	4,065
Margins %	12.2	10.2	13.1
Capital Employed (Rs mn)	20,856	17,398	20,755
ROCE %	16.9	13.2	19.6

Valuations and View

We have valued the company on SOTP basis. We have upgraded our TP by 6.9% to Rs 775. We have valued the standalone business at Rs 635 (FY12E EV/EBIDTA of 9x). We have valued the listed subsidiaries and Tech Mahindra at Rs 140 per share.

Revision in Estimates

Volumes	FY11E			FY12E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
UV's	236,213	234,193	(0.9)	254,528	252,407	(0.8)
Three Wheelers (Inc Gio)	54,800	65,160	18.9	60,262	71,658	18.9
Tractors	162,461	182,139	12.1	172,209	191,246	11.1
Exports	15,144	19,390	28.0	16,087	20,737	28.9
Total	468,618	500,883	6.9	503,086	536,048	6.6
Sales (Rs. Mn)	203,649	212,024	4.1	222,209	230,063	3.5
EBIDTA (Rs. Mn)	29,445	31,822	8.1	32,272	34,850	8.0
EBIDTA margins (%)	14.5	15.0		14.5	15.1	
Net Profits(Rs. Mn)	19,923	23,525	18.1	22,137	25,618	15.7

Valuation Summary

Particulars	Basis	Discount	Value per share (Rs)	
			FY11E	FY12E
M&M	EV/EBIDTA (9x)		565	635
Listed Subsidiaries				
Mahindra Finance	CMP	20	32	32
Mahindra Forgings	CMP	20	6	6
Mahindra Life	CMP	20	12	12
Mahindra Holidays	CMP	20	43	43
Mahindra Ugine	CMP	20	1	1
Tech Mahindra	CMP	20	46	46
Total			706	775

Key extracts from the con call

- Management expects 14-15% and 12-13% industry growth for automotive and FES segment respectively for remaining part of FY11.
- Maximmo was launched in Q4FY10, has gained a market share of 25% in the markets where it is launched. Currently, Maximmo is launched in Northern markets. Recently it entered in Karnataka and Kerala.
- During the quarter company launched Swaraj tractors in Gujarat market. Also, Arjun tractors (>50 HP) is doing well with 35% market share in the relevant segment.
- Exports are expected to register good growth in Q2FY11 given the low base but pressure should build in from Q3FY11 onwards
- Company took price hike to an extent of Rs 10,000 in FES segment in April first week. Sequential decline in the realizations would be on account of addition of Yuvraj tractors in portfolio, which have a lower realization.
- Powerol business has been expanded to develop home UPS (1000 units sold in Q1FY11) and genset for business other than telecom. Revenue from this segment was around Rs 2.25bn during the quarter.
- Capacity constraints continue to effect sales to extent of 7-8%. The constraints are mainly on account of shortage in supply of key components like Tyres, Castings and Injection equipment for diesel engines. This should be expected to be sorted by Q3/Q4FY11 only.
- Under its JV with Navistar for commercial vehicle, will start the sales once order for 500 units has been received.
- Tax rate was lower due to benefits from tax free plants, higher tax free income of dividend and also deduction on account of R&D expenditure.
- Company would be launching ~ 3 variants each of Xylo and Maximmo in over next 12 month. Also, a new product in SUV segment is expected to be launched in Q1FY12.
- Currently Chakan produces 5-6 trucks per day.
- company is trying to increase the capacity for tractors by de-bottlenecking. Also, is in process of finalizing a location for a new plant, which most probably should be Tamil Nadu.
- Capex in M&M – Rs 45bn over next three years, for Chakan – Rs 56bn (from FY09-FY13). There would be additional investments of Rs 25bn
- Out of Rs 56bn on Chakan, M&M will contribute Rs 20 bn (has already done Rs 4.5bn till FY10), MVML will contribute Rs20bn, MNAL – Rs 10 bn and MEPL – balance Rs 5 to 6bn.
- Cash position – Rs 25bn, Debt – Rs 30bn (Rs 14bn in foreign currency)

Quarterly Summary

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	42,426	44,853	44,971	53,046	51,601	21.6	(2.7)
Expenditure	36,336	37,172	38,116	44,591	43,845	20.7	(1.7)
<i>as % of sales</i>	<i>85.6</i>	<i>82.9</i>	<i>84.8</i>	<i>84.1</i>	<i>85.0</i>		
Consumption of RM	28,056	29,289	30,140	35,845	35,905	28.0	0.2
<i>as % of sales</i>	<i>66.1</i>	<i>65.3</i>	<i>67.0</i>	<i>67.6</i>	<i>69.6</i>		
Employee Cost	3,083	2,941	3,300	2,661	3,137	1.8	17.9
<i>as % of sales</i>	<i>7.3</i>	<i>6.6</i>	<i>7.3</i>	<i>5.0</i>	<i>6.1</i>		
Other expenditure	5,198	4,942	4,677	6,084	4,803	(7.6)	(21.1)
<i>as % of sales</i>	<i>12.3</i>	<i>11.0</i>	<i>10.4</i>	<i>11.5</i>	<i>9.3</i>		
EBITDA	6,090	7,681	6,855	8,456	7,756	27.4	(8.3)
Depreciation	885	892	984	947	976	10.3	3.0
EBIT	5,205	6,789	5,872	7,508	6,780	30.3	(9.7)
Other Income	236	1,333	244	181	205	(13.1)	13.0
Interest	60	128	82	9	(227)		
PBT	5,381	7,994	6,033	7,681	7,211	34.0	(6.1)
Total Tax	1,373	2,087	1,783	1,978	1,588	15.7	(19.7)
Adjusted PAT	4,009	5,907	4,250	5,703	5,624	40.3	(1.4)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
Adjusted PAT after MI	4,009	5,907	4,250	5,703	5,624	40.3	(1.4)
Extra ordinary items	-	1,123	(113)	-	-	(91.6)	
Reported PAT	4,009	7,030	4,137	5,703	5,624	40.3	(1.4)
Reported EPS	14	25	15	20	10	(32.7)	(52.7)

Margins (%)						(bps)	(bps)
EBIDTA	14.4	17.1	15.2	15.9	15.0	68	(91)
EBIT	12.3	15.1	13.1	14.2	13.1	87	(102)
EBT	12.7	17.8	13.4	14.5	14.0	129	(50)
PAT	9.4	13.2	9.4	10.8	10.9	145	15
Effective Tax rate	25.5	26.1	29.6	25.8	22.0	(349)	(374)

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	130,488	185,296	212,024	230,063
<i>Growth (%)</i>	(2.2)	42.0	14.4	8.5
Expenditure	120,011	156,469	180,202	195,212
Materials Consumed	92,419	123,462	143,931	156,503
Employee Cost	10,246	11,985	13,223	14,590
Other Exp	17,345	21,022	23,047	24,120
EBITDA	10,477	28,828	31,822	34,850
<i>Growth (%)</i>	(5.2)	175.1	10.4	9.5
EBITDA margin (%)	8.0	15.6	15.0	15.1
Depreciation	2,915	3,708	4,340	4,973
EBIT	7,562	25,120	27,482	29,877
EBIT margin (%)	5.8	13.6	13.0	13.0
Other Income	2,703	1,994	2,298	2,586
Interest expenses	453	278	-380	-380
PBT	9,813	26,835	30,160	32,844
Tax	1,880	7,376	6,635	7,226
<i>Effective tax rate (%)</i>	19.2	27.5	22.0	22.0
Adjusted PAT	7,933	19,459	23,525	25,618
<i>Growth (%)</i>	(9.9)	145.3	20.9	8.9
Net Margin (%)	6.1	10.5	11.1	11.1
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	7,933	19,459	23,525	25,618
E/O items	435	1,418	-	-
Reported PAT	8,368	20,878	23,525	25,618
<i>Growth (%)</i>	(9.9)	145.3	20.9	8.9

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	7,110	24,842	27,862	30,258
Depreciation	2,915	3,708	4,340	4,973
Interest Provided	453	278	-380	-380
Other Non-Cash items	(808)	6,032	-	-
Chg in working cap	8,524	-4,119	-3,074	475
Tax paid	-1,880	-7,376	-6,635	-7,226
Operating Cashflow	16,313	23,365	22,112	28,099
Capital expenditure	(13,380)	(6,999)	(9,358)	(8,000)
Free Cash Flow	2,933	16,366	12,754	20,099
Other income	2,703	1,994	2,298	2,586
Investments	-8,733	-8,449	-9,000	-9,000
Investing Cashflow	-6,030	-6,456	-6,702	-6,414
Equity Capital Raised	361	118	-	-
Loans Taken / (Repaid)	14,657	-11,726	-	-
Interest Paid	-453	-278	380	380
Dividend paid (incl tax)	(3,111)	(6,238)	(7,902)	(8,605)
Income from investments	-	-	-	-
Others	(1,978)	10,103	-	-
Financing Cashflow	9,477	-8,021	-7,521	-8,224
Net chg in cash	6,380	1,890	-1,469	5,461
Opening cash position	9,239	15,618	17,432	15,963
Closing cash position	15,744	17,432	15,963	21,425

Balance Sheet

Y/E, Mar (Rs. Mn)	FY09	FY10	FY11E	FY12E
Equity share capital	2,792	2,910	3,006	3,006
Reserves & surplus	49,648	75,393	99,428	116,442
Net Worth	52,440	78,302	102,434	119,448
Minority Interest	-	-	-	-
Secured Loans	9,810	6,025	6,025	6,025
Unsecured Loans	30,718	22,777	14,269	14,269
Loan Funds	40,528	28,802	20,293	20,293
Net deferred tax liability	(183)	2,403	2,403	2,403
Total Liabilities	92,785	109,507	125,130	142,144
Gross Block	48,939	52,763	61,763	70,763
Less: Depreciation	23,263	25,378	29,718	34,691
Net block	25,676	27,385	32,045	36,072
Capital work in progress	6,467	9,642	10,000	9,000
Investment	57,864	63,980	72,980	81,980
Current Assets	50,629	60,424	68,644	78,544
Inventories	10,607	11,888	16,919	18,359
Sundry debtors	10,437	12,581	14,496	15,729
Cash & bank balance	15,744	17,432	15,963	21,425
Loans & advances	13,826	18,014	20,757	22,523
Other current assets	16	509	509	509
Current lia & Prov	47,978	51,965	58,580	63,493
Current liabilities	35,202	34,000	39,496	42,786
Provisions	12,776	17,965	19,083	20,707
Net current assets	2,652	8,458	10,064	15,050
Misc. exp	126	41.2	41.2	41.2
Total Assets	92,785	109,507	125,130	142,144

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	8.0	15.6	15.0	15.1
Net Margin	6.1	10.5	11.1	11.1
ROCE	12.6	26.8	25.4	24.3
ROE	16.6	29.8	26.0	23.1
RoIC	26.2	76.3	71.9	60.5
Per Share Data (Rs)				
EPS	13.2	32.4	39.1	42.6
CEPS	18.0	38.5	46.4	50.9
BVPS	87.2	130.2	170.4	198.7
DPS	10.2	9.5	12.5	13.6
Valuations (x)				
PER	48.8	19.9	16.5	15.1
P/CEPS	35.7	16.7	13.9	12.7
P/BV	7.4	4.9	3.8	3.2
EV / Sales	2.7	1.8	1.5	1.3
EV / EBITDA	33.8	11.6	10.0	8.7
Dividend Yield (%)	1.6	1.5	1.9	2.1
Gearing Ratio (x)				
Net Debt/ Equity	0.3	0.0	(0.1)	(0.2)
Net Debt/EBITDA	1.5	0.0	(0.3)	(0.5)
Working Cap Cycle (days)	(39.6)	(18.8)	(13.9)	(13.8)

Recommendation History: Mahindra and Mahindra Ltd – MM IN

Date	Reports	Reco	CMP	Target
01.06.2010	Mahindra & Mahindra Q4FY10 Result Update	Buy	545	725
27.01.2010	Mahindra & Mahindra Q3FY10 Result Update	Accumulate	1,072	1,265
30.10.2009	Mahindra & Mahindra Q2FY10 Result Update	Accumulate	927	1,120
12.10.2009	Mahindra & Mahindra Company Update	Accumulate	890	1,070

Recent Research Reports

Date	Reports	Reco	CMP	Target
26.07.2010	Maruti Suzuki Q1FY11 Result Update	Reduce	1,358	1,275
23.07.2010	Bajaj Auto Q1FY11 Result Update	Accumulate	2,490	2,865
22.07.2010	TVS Motor Co Q1FY11 Result Update	Hold	133	133
05.07.2010	Hero Honda Management Meet Update	Accumulate	2,021	2,250

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