



NEUTRAL

Price	Rs675
Target Price	-
Investment Period	-

Stock Info

Sector	Automobile
Market Cap (Rs cr)	18,820
Beta	0.9
52 WK High / Low	700/236
Avg Daily Volume	144890
Face Value (Rs)	10

BSE Sensex	14,625
Nifty	4,449

BSE Code	500520
NSE Code	M&M
Reuters Code	MAHM.BO
Bloomberg Code	MM@IN

Shareholding Pattern (%)

Promoters	29.2
MF/Banks/Indian FIs	29.7
FII/ NRIs/ OCBs	31.5
Indian Public	9.6

Abs.	3m	1yr	3yr
Sensex (%)	64.5	(10.4)	34.8
M&M (%)	117.3	11.3	14.1

Vaishali Jajoo

Tel: 022 – 4040 3800 Ext: 344
e-mail: vaishali.jajoo@angeltrade.com

Performance Highlights

- **Net Sales, Profit above expectations:** For 4QFY2009, Mahindra and Mahindra (M&M) clocked Net Sales of Rs3,654cr, up 15.7% yoy which was above our expectation of Rs3,555cr. Growth was aided by the 9% yoy growth in Volumes while average realisation per vehicle increased 6%. Punjab Tractors (PTL) consolidation and lower Excise rate also aided Top-line growth. The Xylo continues to see good response (currently has a waiting period of 6 weeks), which aided 4QFY2009 growth substantially. The company's Bottom-line for the quarter at Rs419cr was much above our expectation mainly due to application of AS-11 and improvement in OPM during the quarter. Excluding Rs166.1cr of forex loss write-back with respect to AS-11, Rs73.4cr of quarterly forex losses and one-time gain of octroi refund and gain on sale of investments, M&M reported PAT of Rs279.5cr, up 33.8%yoy.
- **Margin improves on high Top-line growth and cost rationalisation:** During 4QFY2009, M&M's EBITDA Margins witnessed a 26bp yoy increase owing to the cost rationalisation efforts of the company. Other Expenditure declined by 150bp yoy. However, higher raw material costs, which increased by 125bp yoy and accounted for 70.5% of Sales (69.3% in 4QFY2008) restricted the growth in Operating Profit. M&M's raw material costs increased substantially yoy mainly due to high-cost inventory. Staff cost also spurted by 61bp yoy. Excluding the forex losses, M&M reported 18.4% yoy increase in Operating Profit to Rs421cr.
- **Higher Other Income, Exceptional Items boost Net Profit growth:** M&M registered Net Profit of Rs419cr during the quarter, which was much above our expectation mainly due to application of AS11 and improvement in OPM during the quarter. Excluding Rs166.1cr of forex loss write-back with respect to AS-11 accounting, Rs73.4cr of quarterly forex loss and one-time gain of octroi refunds and gain on sale of investments, M&M reported PAT of Rs279.5cr, up 33.8%yoy. Higher growth was also aided by higher Other Income of Rs61.4cr (Rs15.9cr) following sale of the company's stake in Swaraj Mazda.
- **Segment-wise Performance:** M&M's Farm Equipment Division, which clocked 46.8% yoy growth in Net Sales to Rs1,449cr was mainly aided by higher Sales registered by the Engine and DG Sets Division and 15.4% yoy (including PTL) increase in Tractor volumes. However, the Auto Division reported 5.1% yoy increase aided by 11.8% yoy growth in UV volumes. PBIT Margins of the Auto Equipment Division fell by 196bp yoy to 8% (10%). Farm Division reported a 13.2% yoy increase in PBIT to Rs165cr.

Key Financials (Standalone)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	11,541.3	13,093.7	15,101.6	16,396.9
% chg	17.2	13.5	15.3	8.6
Adj. Net Profit	860.4	921.7	1,091.3	1,132.9
% chg	(11.7)	7.1	18.4	3.8
OPM (%)	11.8	9.5	10.5	10.8
EPS (Rs)	36.0	33.8	39.9	41.4
P/E (x)	18.8	20.0	16.9	16.3
P/BV (x)	3.7	3.5	2.6	2.5
RoE (%)	21.4	15.9	15.2	15.1
RoCE (%)	16.1	8.6	10.1	10.1
EV/Sales (x)	1.4	1.3	1.1	1.1
EV/EBITDA (x)	13.2	14.9	12.2	11.5

Source: Company, Angel Research; Note: FY2009 and FY2010 estimates are on fully diluted Equity. Net Profit and EPS are after Extraordinary Items

FY2009 Financial Performance (Standalone): For FY2009, M&M clocked Net Sales (including Other Operating Income) of Rs13,094cr, up 13.5% yoy which exceeded our expectation. Growth was aided by the 4.7% yoy growth in core Volumes while average realisation per vehicle was up by 4.2%. PTL's consolidation and lower Excise rate also supported Top-line growth. The company's Bottom-line for the year at Rs837cr was much above our expectation mainly due to application of AS-11 and better-than-expected improvement in OPM during 4QFY2009. Excluding the forex loss write-back of Rs166.1cr with respect to AS-11, Rs322.7cr of forex loss during the year and the one-time gain of octroi refund and gain on sale of investments, M&M reported PAT of Rs921.7cr, up 7.1% yoy.

FY2009 Financial Performance (Consolidated): M&M's Gross Revenues and Other Income for FY2009 grew 8.9% to Rs29,099.7cr (Rs26,726.2cr). Profit before Exceptional Items and Tax for the current year stood at Rs2,330.5cr (Rs2,798.3cr). Consolidated Group Profit after Exceptional items, prior-period adjustments and Tax and after deducting Minority Interests stood at Rs1,405.4cr (Rs1,571.1cr). The Group results were affected by the downturn in the Automotive and Auto-components industry the world-over as well as the consequent poor showing by the company's subsidiaries operating in these industries during the year. The steep decline in the Rupee during the year also adversely impacted the Group Profits.

Key Highlights – Analyst Meet

- Gross Sales includes a Government grant in the form of an octroi refund Rs18cr (net of Tax Rs11.9cr) received by the company during the quarter, for earlier years.
- The scheme of amalgamation of PTL, a wholly-owned subsidiary, with the company was sanctioned by the Bombay High Court on January 9, 2009 and by the High Court of Punjab and Haryana on January 16, 2009. The scheme became effective on February 16, 2009 and is operative from the Appointed date of August 1, 2008. PTL's numbers for the January 1 to March 31, 2009 period reflect in M&M's 4QFY2009 and FY2009 Performance. PAT of Rs6,228cr earned by PTL during August 1 to December 31, 2008 is included in M&M's FY2009 Profits.
- M&M commented that PTL's Balance Sheet has substantially improved, with its FY2009-end dealer inventory down to 17 days from 45 days in FY2008 and 141 days in FY2007, and receivables are down to 31 days from 272 days in FY2008.
- PAT of Rs34cr from sale of shares of Swaraj Mazda by PTL during 4QFY2009 has been reported by M&M as Other Income. Accounting of this amalgamation was done as per the scheme approved by both the High Courts.
- During the current quarter, Mahindra Defence Land Systems Pvt Ltd and Venturbay Consultants Pvt Ltd become subsidiaries of M&M and PTL and Mahindra Retail Pvt Ltd have ceased to be the company's subsidiaries.
- Amongst the listed subsidiaries, Tech Mahindra and MMFSL have reported 31.9% and 21.3% yoy growth in FY2009 Net Profits respectively, while Mahindra Lifespace reported a yoy decline. Mahindra Forgings and Mahindra UGINE remained loss-making in 4QFY2009. In FY2009, the Auto and Tractor Divisions contributed just 35% of M&M's Consolidated EBIT, highlighting the growing conglomerate nature of the company.

New Launches: The company launched the *Ingenio - MUV* in Jan 2009 in the form of *Xylo*. M&M has further plans to launch new models over the next two years. It also plans to launch a new SUV over the next two years as a successor to the *Bolero*. M&M has also indicated that it would be launching a successor to the *Scorpio* over the next two-three years. It also intends to launch mass-market platform for cargo and passenger applications in 2009 and a new truck and bus platform.

M&M plans to launch the light commercial vehicle (in the *Ace* category) in 3QFY2010. It expects to launch M&HCV trucks from its JV with Navistar (Mahindra International) by 3QFY2010. The company said that it expects US SUV launch to happen in 3QFY2011. It also plans to launch a new SUV in India in FY2011.

M&M plans to launch high-powered tractors in the 40-60HP range to further consolidate its marketshare. It has indicated that it would enhance its focus on Exports especially to Africa even as it sets up new assembly plants there to boost volumes. It would also be launching models in the US market to increase its marketshare there.

Capex Plan: The company had previously lined up capex of around Rs7,000cr for the next three years. However, owing to the overall slowdown in the Auto's, it has revised it to Rs5,000cr to be spent during 2009-12. M&M is setting a new plant at Chakkan with capacity of 3,50,000 vehicles, which would be operational by FY2010. It plans to manufacture UVs and LCVs at this plant. This includes 50,000 units of M&M's international trucks, 1,20,000 units of a new mass market platform, 90,000 units of a new SUV, the successor to the *Scorpio* and 90,000 units of '*Ingenio*' variants. This will likely be funded through the recent convertible debentures raised by M&M and through internal accruals. The company also rationalised and indicated Rs900-950cr (Rs2,000cr previously indicated) of capital investment during FY2009.

Exhibit 1: M&M Group - Product Mix

Y/E Mar (in units)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	%chg
Total volume	90,234	89,644	0.7	330,402	330,500	(0.3)
Utility Vehicles	48,090	42,999	11.8	153,655	148,759	3.3
LCV*	1,724	2,498	(31.0)	8,604	10,402	(17.3)
Logan#	2,567	8,120	(68.4)	13,423	25,657	
Three wheelers	10,281	8,775	17.2	44,533	33,927	31.3
Exports	1,052	4,274	(75.4)	8,500	12,359	(31.2)
Total Auto Sales	63,714	66,666	(4.4)	228,715	231,104	(1.0)
Dom. Tractor Sales@	25,796	20,195	27.7	95,410	90,723	5.2
Export Tractor Sales	724	2,783	(74.0)	6,277	8,673	(27.6)
Total Tractor Sales	26,520	22,978	15.4	101,687	99,396	2.3

Source: Company, Angel Research Note: Logan and LCV sales are not included in the Standalone results; *Includes LCV sales of Mahindra International; # Mahindra Renault Pvt. Ltd. @ Including PTL Volume

Exhibit 2: 4QFY2009 Performance (Standalone)

Y/E Mar (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	%chg
Net Sales	3,654.5	3,159.6	15.7	13,093.7	11,541.3	13.5
Other Income	61.4	15.9	286.4	270.3	130.4	107.4
Total Income	3,715.9	3,175.5	17.0	13,364.0	11,671.6	14.5
EBITDA	420.8	355.5	18.4	1,249.2	1,357.7	(8.0)
OPM (%)	11.5	11.3		9.5	11.8	
Interest	20.3	13.9		45.3	24.2	
Depreciation	93.2	64.9	43.7	291.5	238.7	22.1
PBT	509.2	304.8	67.1	1,036.5	1,406.8	(26.3)
Tax	90.5	83.7	8.1	199.7	303.4	(34.2)
PAT and EOI	418.7	221.1	89.4	836.8	1,103.4	(24.2)
Adj. PAT	279.5	208.9		921.7	860.4	
Adj. DEPS	15.4	8.1	89.4	30.7	40.5	(24.2)

Source: Company, Angel Research

Exhibit 3: Segment-wise Performance

Y/E Mar (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	%chg
Total Net Sales	3,669.2	3,281.9	11.8	13,132.6	11,884.1	10.5
Auto Segment	2,189.6	2,082.6	5.1	7,384.5	7,197.4	2.6
Farm Segment	1,448.5	986.9	46.8	5,667.2	4,015.9	41.1
Other Segments	31.1	212.4	(85.4)	80.8	670.7	(87.9)
Total PBIT	342.6	355.5	(3.6)	1,085.2	1,319.9	(17.8)
Auto Segment	175.3	207.5	(15.5)	447.6	763.3	(41.4)
Farm Segment	160.5	141.9	13.2	624.0	542.1	15.1
Other Segments	6.8	6.2	9.0	13.6	14.5	(6.3)
PBIT/ Sales (%)	9.3	10.8		8.3	11.1	
Auto Segment	8.0	10.0	(195.6)	6.1	10.6	
Farm Segment	11.1	14.4	(329.2)	11.0	13.5	
Other Segments	21.8	2.9		16.9	2.2	

Source: Company, Angel Research: Note : Net Sales includes Other Operating Income.

Outlook and Valuation

M&M recorded strong volume growth in its Auto business in 4QFY2009, giving an indication of turnaround in business. Outlook of the Farm Division also turned positive after the Elections, as the government is focused on Agricultural and Rural development. Accordingly, we have revised our volume estimates for M&M's core business from almost flat to around 9-10% in FY2010 and 5.4% in FY2011. Owing to better performance, we have modeled almost 11.9% CAGR in Top-line for M&M over FY2009-11E. We have also upgraded OPM to 10.5% from 9% earlier on the better-than-expected performance of the company at the Operating level and reduction in Input costs. Management has guided higher production at its Rudrapur plant to reap the benefits of lower Excise and Income Tax. We believe this will improve performance of its Farm Equipment Division. However, higher depreciation charge could restrict higher growth in Bottom-line. Thus, we estimate the company to clock around 11% CAGR in Net Profit over FY2009-11E.

M&M has substantial investments on its Books including some of its key subsidiaries. Most of its listed subsidiaries have seen a sharp run up in their stock prices following the increase in the risk appetite for the Equity asset class reflected in the SOTP Price Target of the company. On account of the uncertainties dwindling on improved business sentiment, the company may also resume listing of its subsidiaries like Mahindra Holidays in the near future, which could trigger momentum in the stock.

Exhibit 4: SOTP Valuation

Key Subsidiary	No. of Shares Held (cr)	CMP (Rs)	Value (Rs cr)
Mahindra Financial Services	5.8	260	1,514
Mahindra GESCO	1.5	282	434
Tech Mahindra	5.4	474	2,549
Mahindra Forgings	4.2	69	286
Other Investments			1,779
Total Value			6,563
No of share o/s of M&M (cr)			28
Per share value of Investments (15% discount)			199
M&M's Core Business per share value			432
M&M' Target Price with investments			631

Source: Company, C-line, Angel Research; Price as of May 29, 2009

At the CMP of Rs675, M&M is trading at 16.9x FY2010E and 16.3x FY2011E Earnings. Our SOTP Target Price for M&M works out to Rs631 wherein its Core business fetches Rs432 and value of investments works out to Rs199. **Post the sharp run up in the stock price in the recent past, we change our rating on the stock from Accumulate to Neutral.**



Research Team: Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
----------------------------	---	--	---------------------------