

BUY

Price	Rs521
Target Price	Rs660
Investment Period	12 months

Stock Info

Sector	Automobile
Market Cap (Rs cr)	12,792
Beta	0.72
52 WK High / Low	872/430
Avg Daily Volume	138787
Face Value (Rs)	10
BSE Sensex	14,356
Nifty	4,333

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

Shareholding Pattern (%)

Promoters	22.7
MF/Banks/Indian FIs	34.0
FII/ NRIs/ OCBs	32.9
Indian Public	10.4

Abs.	3m	1yr	3yr
Sensex (%)	(17.0)	(7.7)	88.0
M&M (%)	(22.4)	(28.6)	53.6

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Performance Highlights

- Net Sales in line, Profit below expectations:** For 1QFY2009, Mahindra and Mahindra (M&M) clocked Net Sales of Rs3,294cr, which was marginally lower than our expectation of Rs3,320cr. Growth was aided by 21.1% yoy growth in Volumes while average realisation per vehicle improved by 4.1% primarily due to the change in Sales mix and better performance by the utility vehicles (UV) and Tractor segment in 1QFY2009. The company's Bottom-line for the quarter at Rs159cr, was below our expectation mainly due to lower OPM and foreign currency losses of Rs77.9 (Rs58.2 net of Tax). The exchange loss includes a loss of Rs58.2cr on account of the revaluation of US \$200mn FCCBs issued in April 2006, which in fact is part reversal of the positive impact of such revaluation booked from the date of issue till end March 2008. Excluding the impact of exchange loss, Profit after Tax during the quarter grew 11.1%.
- Raw Material costs up 133bp impact Margins:** During 1QFY2009, EBITDA Margins witnessed a 128bp yoy decline owing to higher Raw Material costs, which increased 133bp yoy and accounted for over 69.7% of Sales (68.4% in 1QFY2008). High commodity prices saw Raw Material costs increasing substantially during the quarter. However, the company managed to prune Staff costs by 60bp yoy, while Other Expenditure increased by marginal 53bp yoy. M&M reported a 10.7% yoy increase in Operating Profits to Rs305cr (excluding foreign currency losses).
- Higher Exceptional Items clip Net Profit:** Higher Exceptional Items restricted Net Profit growth during the quarter to Rs159.3cr. Net Profit after factoring in Exceptional items to the tune Rs58.2 (mainly includes loss on foreign currency transaction) stood at Rs218cr, up 11.1% yoy. Higher Interest costs on account of Debt raised for capex and acquisitions impacted Net Profit Margin.
- Division-wise Performance:** M&M's Farm Equipment Division, which clocked robust Net Sales of Rs1,325cr, a yoy growth of 27.5% mainly aided by better growth of Tractor sales and higher sales by the Engine and DG Sets Division. M&M total Tractors' volume increased by 10.9% yoy. The Auto Division reported 24.5% growth on 21.6% Sales volume growth registered by utility vehicles (UV). PBIT Margins of the Farm Equipment Division however, declined by 160bp yoy to 11.8% (13.4%) while the Auto Division reported an 80bp yoy fall to 8%. Margins were impacted despite a price hike taken (Rs10,000 per unit on Tractors and Rs8,500 per unit on UVs during the quarter) mainly due to the escalation in input costs.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	9,848.9	11,281.7	12,243.8	13,786.0
% chg	21.5	14.5	8.5	12.6
Net Profit	975.0	953.3	1,053.0	1,180.4
% chg	13.8	(2.2)	10.5	12.1
OPM (%)	10.7	9.7	9.3	9.9
EPS (Rs)	41.0	39.9	40.5	45.5
P/E (x)	12.7	13.1	12.8	11.5
RoE (%)	9.7	9.3	10.0	8.7
RoCE (%)	3.5	2.9	2.1	1.8
P/BV (x)	30.2	25.4	16.1	16.1
EV/Sales (x)	16.3	12.3	8.7	9.4

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

Key Highlights

Volume Performance: Auto: The company's domestic MUV sales volumes grew 21.6% to 37,919 units (31,171 MUVs in 1QFY2008) as against Industry sales growth of 17.4. Better performance of *Bolero* and *Scorpio* continued to drive the growth in volumes and the company strengthened its domination of the domestic MUV segment by increasing its marketshare to 51.8% (50.0%). In the Pick Up segment, the company's volumes registered a growth of 31% in 1QFY2009 while the Industry growth was only 13%. The company's marketshare stood at 82.9% (71.9%). The company's Sales volumes in the Three-wheeler segment at 11,396 units (7,336 units in 1QFY2008) grew by 55.3% yoy in 1QFY2009. The company's marketshare grew to 13.3% (8.5%).

Exports: The company continued its strong focus on Exports. In 1QFY2009, the company's vehicles were launched in Turkey and Paraguay. Various initiatives taken in the previous years resulted in the company exporting 3,187 vehicles in 1QFY2009, a 31% yoy growth.

Farm Equipment: During the quarter, the domestic Tractor industry sales grew by 13.1% yoy to 85,289 units (75,424 units last year). The company sold 28,161 tractors in the quarter, a growth of 11.5% yoy in domestic market. The company continued to be the market leader with a marketshare of 33.0% during the quarter. M&M exported 2,103 tractors (2,055), a growth of 2.3%. The company also continued to grow its Engine business, under the '*Mahindra Powerol*' brand, by selling 14,227 Engines/DG sets (7,028 units 1QFY2008), registering a growth of 102.4%. Revenues for the Engine and DG set business, for the quarter, grew by 124.8% to Rs250cr (Rs111.2cr).

Exhibit 1: M&M Group - Product Mix

(in units)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	%chg
Total Volume	90,160	75,855	18.9	330,509	280,758	17.7
Utility Vehicles	37,919	31,171	21.6	148,759	127,856	16.3
Exports	3,187	2,436	30.8	12,359	8,021	54.1
*LCV	2,957	2,681	10.3	10,402	8,652	20.2
#Logan	4,595	4,940	(7.0)	25,666	-	
Three wheelers	11,396	7,336	55.3	33,927	33,700	0.7
Total Auto Sales	60,054	48,564	23.7	231,113	178,229	29.7
Dom. Tractor Sales	28,161	25,235	11.5	90,723	95,004	(4.5)
Export Tractor Sales	2,103	2,055	2.3	8,673	7,525	15.3
Total Tractor Sales	30,264	27,287	10.9	99,396	102,529	(3.1)

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.

New Launches: M&M plans to launch new models over the next two years. It would be launching the *Ingenio* - MUV towards in 2HFY2009. It also plans to launch a new SUV in 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* in the next two-three years. It also intends to launch a mass-market platform for cargo and passenger applications in 2009 and a new truck and bus platform.

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 for the US market to increase its marketshare there. **M&M also announced to become a MAT-paying company given the tax-free status of some of its incomes like dividend and tractor sales from Rudrapur.**

Capex Plan: The company has lined up capex of around Rs7,000cr over the next three years. M&M is building a new plant at Chakkan with capacity of 3,50,000 vehicles, which would be operational by FY2010. M&M plans to manufacture UVs as well as LCVs at this plant. This includes 50,000 units of Mahindra 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 has indicted Rs2,000cr of capital investment during FY2009. **In 1QFY2009, the company incurred capex of Rs170cr mainly towards its Chakan facility coming up near Pune.**

Punjab Tractors to merge with M&M: The company also announced and approved a scheme of amalgamation of Punjab Tractors (PTL), a subsidiary, with itself. M&M, as a group, owns a majority stake in PTL (M&M had earlier acquired 63.33% stake in July 2007 and MHFL, a wholly-owned subsidiary of M&M, currently holds 1.31% in PTL). Under this amalgamation scheme, PTL will be merged with M&M and all its assets and liabilities will be transferred to M&M at book value. The Appointed Date for this scheme is August 1, 2008. Upon the scheme becoming effective, M&M will transfer all the equity shares held by it in PTL to a Trust, of which M&M is the beneficiary. M&M will issue its shares to PTL shareholders as on record date, based on the swap ratio determined by independent valuers. The share exchange ratio for the amalgamation has been fixed at 3:1 (Equity shares of M&M will be issued to the shareholders of PTL in the ratio of one equity share of Rs10 each of M&M for every three equity shares of R10 each of PTL).

M&M to acquire business assets of Kinetic Motor Company: M&M announced that it has approved acquisition of business assets of Pune-based Kinetic Motor Company (KMCL). The acquisition will be done through a new company called Mahindra Kinetic Scooters & Motorcycles (MKSM). The consideration for the acquisition is a sum of Rs110cr (subject to closing due diligence) plus 20% stake to KMCL in MKSM and M&M will hold the balance 80% of the equity. Mahindra's entry into the Indian-two wheeler market is expected to intensify the prevailing competition in the segment among leading players such as TVS, Hero Honda and Bajaj Auto. We believe it will be difficult to revive a brand like *Kinetic*, as its marketshare is extremely low in both the scooters and mopeds segment.

Exhibit 2: 1QFY2009 Performance

Y/E Mar (Rs cr)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	%chg
Net Sales	3,293.5	2,612.8	26.1	11,281.7	9,848.9	14.5
Other Income	38.4	31.6	21.4	638.5	590.1	8.2
Total Income	3,331.8	2,644.4	26.0	11,920.3	10,439.0	14.2
EBITDA	305.1	275.5	10.7	1,094.5	1,057.8	3.5
OPM (%)	9.3	10.5		9.7	10.7	
Interest	9.7	(5.1)		87.6	19.8	
Depreciation	62.1	57.1	8.8	238.7	209.6	13.9
Profit Before Tax	213.4	255.1	(16.4)	1,406.8	1,418.5	(0.8)
Tax	54.1	64.0	(15.4)	303.4	350.1	(13.3)
PAT & EOI	159.3	191.2	(16.7)	953.3	975.0	(2.2)
EPS (Rs)	6.7	8.0	(17.1)	39.9	41.0	(2.6)

Source: Company, Angel Research. Note: EPS is after Extraordinary Items

Exhibit 3: 1QFY2009 Segment-wise Performance

Y/E Mar (Rs cr)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	% chg
Total Net Sales	3,399.3	2,673.1	27.2	11,846.3	10,281.6	15.2
Auto Segment	1,873.2	1,504.6	24.5	7,179.2	6,096.1	17.8
Farm Segment	1,324.5	1,038.5	27.5	3,996.9	3,716.5	7.5
Other Segments	201.6	130.1	55.0	670.1	469.1	42.9
Total PBIT	309.7	274.4	12.9	1,319.9	1,249.1	5.7
Auto Segment	150.1	131.7	14.0	763.3	680.6	12.1
Farm Segment	156.1	139.0	12.3	542.1	542.1	0.0
Other Segments	3.4	3.7	(7.5)	14.5	26.4	(45.0)
PBIT/ Sales (%)	9.1	10.3		11.1	12.1	
Auto Segment	8.0	8.8	(0.7)	10.6	11.2	
Farm Segment	11.8	13.4	(1.6)	13.6	14.6	
Other Segments	1.7	2.9		2.2	5.6	

Source: Company, Angel Research

Outlook and Valuation

High Interest rates and reduced finance by banks and NBFCs continue to hurt the domestic Auto business. We believe financing is a major area of concern and will likely hurt demand. We lower our volume growth estimate for M&M's Tractor business and estimate around 4% growth for M&M in FY2009. Besides, we expect Margins to be under pressure on account of the rising commodity prices. Management has guided higher production at its Rudrapur plant to reap the benefits of lower Excise and Income Tax. These steps would be taken to improve performance of the Farm Equipment Division. We model overall 10-11% CAGR volume growth for M&M for the next two years backed by new launches in the Auto segment.

M&M has substantial investments on its Books including some of its key subsidiaries, which are performing better than the parent. The company has invested in other Mahindra group companies too. We believe that M&M's Non-Automotive subsidiaries like Tech Mahindra, Mahindra Financial Services (MMFSL) and Mahindra Gesco will not only add significantly to its consolidated financials, but will enhance its valuations too. The company has already announced listing of its highly profitable subsidiary Mahindra Holidays in the near future.

Exhibit 4: SOTP Valuation

Key Subsidiary	No. of Shares held (cr)	CMP (Rs)	Value (Rs cr)
Mahindra Financial Services	5.8	250	1,456
Mahindra GESCO	1.5	467	701
Tech Mahindra	5.4	757	4,088
Punjab Tractors	3.9	167	651
Other Investments			3,059
Total Value			9,955
No of share o/s of M&M (Cr)			25
Per share value of Investments (20% discount)			325
M&M's Core Business value			335
M&M' Price with investments in subsidiaries			660

Source: Company, Angel Research

At the CMP, M&M is trading at 12.8x FY2009E and 11.5x FY2010E Earnings. High growth potential of M&M's subsidiaries is expected to unlock actual value of the stock. Our SOTP Target Price for M&M works out to Rs660 wherein its core business fetches Rs335 and value of investments works out to Rs325. **We maintain a Buy on the stock, with a Target Price of Rs660.**



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	Reduce (Downside upto 15%)	Sell (Downside > 15%)	