

BUY

Price	Rs606
Target Price	Rs731
Investment Period	12 months

Stock Info

Sector	Automobile
Market Cap (Rs cr)	14,488
Beta	0.72
52 WK High / Low	872/543
Avg Daily Volume	153464
Face Value (Rs)	10
BSE Sensex	16,316
Nifty	4,835
BSE Code	500520
NSE Code	M&M
Reuters Code	MAHM.BO
Bloomberg Code	MM IN

Shareholding Pattern (%)

Promoters	22.6
MF/Banks/Indian FIs	26.4
FII/ NRIs/ OCBs	34.1
Indian Public	16.9

Abs.	3m	1yr	3yr
Sensex (%)	(9)	14.8	148
M&M (%)	(6.5)	(13.3)	159.3

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Performance Highlights

- Net Sales in line, Profit lower than expectation:** For 4QFY2008, Mahindra and Mahindra (M&M) clocked Net Sales of Rs3,148cr, which was marginally above our expectation of Rs3,021cr. Growth was aided by 5.2% yoy growth in Volumes while average realisation per vehicle improved marginally by 9% primarily due to the change in Sales mix and better performance by the Utility Vehicles (UV) segment. The company's Bottom-line for the quarter at Rs221cr, was below our expectation mainly due to lower OPM. There was an exceptional Profit of Rs13.9cr during the quarter, arising mainly from a merger scheme of subsidiaries approved by the High Court of Bombay. Net Profit for the quarter after Exceptional Items, Prior Period Adjustments and Taxation stood at Rs207.2cr, down 9.1% yoy.
- Raw Material costs up 213bp impact Margins:** During 4QFY2008, EBITDA Margins witnessed a 53bp yoy decline owing to higher raw material costs, which increased 213bp yoy and accounted for over 69.2% of Sales (67% in 4QFY2007). High commodity prices saw raw material costs increasing substantially during the quarter. However, the company managed to prune Other Expenditure and Staff costs by 90bp and 60bp yoy, respectively. M&M reported a 9.2% yoy increase in Operating Profits to Rs342.4cr.
- Higher Exceptional Items increase Net Profit:** Higher Exceptional Items restricted Net Profit growth during the quarter to Rs207.2cr. Net Profit after factoring in Exceptional items to the tune Rs13.9cr (mainly includes Profit on merger of subsidiaries of Rs15.6cr) stood at Rs207.2cr, down 9.1% yoy. Higher Interest Costs on account of Debt raised for capex as well as acquisitions impacted Earnings.
- Divisional Performance:** M&M's Farm Equipment Division, which clocked modest Net Sales of Rs980.4cr, a yoy growth of 12.4% mainly aided by better growth of M&M's Engineering business. However, the Tractor Division recorded 4.4% yoy decline in volumes during the quarter. The Auto Division reported 16.4% growth on 7.8% Sales volume growth registered by Utility Vehicles (UV). PBIT Margins of the Farm Equipment Division increased 14.5% (12%) while the Auto Division reported a 20bp yoy increase to 10%. Sales grew mainly due to higher demand for hard top vehicles. The new *Bolero* and *VLX* variant of *Scorpio* continued their strong performance in 4QFY2008.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	10,026	11,503	12,794	14,355
% chg	25.5	14.7	11.2	12.2
Net Profit	966	938	981	1,115
% chg	49.2	(2.8)	4.6	13.7
OPM (%)	12.6	11.6	11.7	11.9
EPS (Rs)	40.6	39.2	40.0	45.5
P/E (x)	14.9	15.4	15.2	13.3
RoE (%)	27.2	21.6	19.5	19.0
RoCE (%)	20.2	15.7	17.0	18.2
P/BV (x)	4.1	3.3	2.9	3.3
EV/Sales (x)	1.5	1.6	1.5	1.4

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

FY2008 Results: For FY2008, M&M clocked 14.7% growth in Net Sales to Rs11,504cr. Growth was aided by 18% yoy increase in Auto Sales while Tractors clocked 3.1% yoy decline in volume. The company recorded better 32.2% growth in its Engineering business in FY2008. M&M reported a 100bp yoy decline in OPM to 11.6% in FY2008 and expects to maintain it at these levels in FY2009 despite a substantial increase in Raw Material costs. Net Margins however, ended lower by 120bp due to higher Depreciation and Interest costs owing to the aggressive capital expenditure announced by the company. We believe these costs will continue to be higher over the next two years due to the ongoing capex during the period. M&M reported a 3.3% yoy growth in Net Profit to Rs1,103cr for FY2008. Net Profit increased on account of a one-time gain of Rs173cr. Three subsidiaries of the company were merged with Mahindra Forgings, resulting in an increase in the value of investments by Rs173cr. Net Profit, for the year, post adjusting for extraordinary items, declined by 2.8% to Rs938cr. On a consolidated basis, M&M reported a 37% increase in Topline to Rs26,600cr and a 4.9% rise in Bottomline to Rs1,571cr. Bottomline was impacted mainly owing to the higher raw material costs during the year.

New Launches: M&M plans to launch new models over the next two years. M&M would be launching the *Ingenio - MUV* towards FY2009. Besides, it has 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 in its bid to further consolidate its marketshare. M&M 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.

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, to be 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.

Key Highlights

- M&M's domestic UV sales grew a healthy 16.3% during FY2008 as against the industry UV sales of 5.1%. The company strengthened its domination in the domestic UV sub-segment by increasing its marketshare to 51.5% (46.6%). Success of the refreshed *Bolero* and the new *VLX* variant of *Scorpio* helped the company grow its volumes. *Bolero* sales crossed the milestone of 50,000+ units and continued to be India's largest selling UV for the third year in a row. The company's Pick ups volume registered a growth of 17% despite an industry decline of 4%. As a result, the company's marketshare jumped to 76.9% (63.2%). This was mainly on account of the continued success of the small pick up - the *Maxi Truck*. In the 0.5T load segment of the three-wheeler market, M&M has now acquired sizeable marketshare of 19.3% with the *Alfa* three-wheeler selling 21,564 units. This is a yoy growth of 10.3% in a scenario where industry volumes have declined by 18.6%.
- In its overseas operations, the company launched its vehicles in Australia, Chile and Sudan during the year. The year also witnessed launch of CKD operations abroad with the opening of CKD assembly plants in Egypt and Brazil. These initiatives resulted in export volumes growing by 54% to 12,359 (8,021) units.

- In FY2008, the domestic Tractor sales stood at 3,02,241 (3,18,328) units, a decline of 5.1%. High interest rates and stricter lending norms were the adverse factors that contributed to this performance. M&M in FY2008 reported a decline of 4.5% yoy. However, M&M managed to maintain its full-year domestic marketshare at 29.9%. During the year, 8,673 tractors were exported registering a growth of 15.3%. The Engine business registered a growth of 32.2%, with *Mahindra Powerol* selling 31,922 units against 24,141 engines sold last year. The *Mahindra Powerol* business clocked gross Revenues of Rs553cr (Rs321cr).

Exhibit 1: M&M Group - Product Mix

	4QFY2008	4QFY2007	% chg	FY2008	FY2007	%chg
Total Volume	89,644	77,720	15.3	330,744	280,758	17.8
Utility Vehicles	42,999	39,879	7.8	148759	127856	16.3
Exports	4,274	1,977	116.2	12359	8021	54.1
*LCV	2,498	2,565	(2.6)	10402	8652	20.2
#Logan	8,120	-		25901	0	
Three wheelers	8,775	9,823	(10.7)	33927	33700	0.7
Total Automotive Sales	66,666	54,244	22.9	231,348	178,229	29.8
Domestic Tractor Sales	20,195	21,517	(6.1)	90723	95004	(4.5)
Exports Tractor Sales	2,783	1,959	42.1	8673	7525	15.3
Total Tractor Sales	22,978	23,476	(2.1)	99,396	102,529	(3.1)

Source: Company, Angel Research Note: Logan and LCV sales are not included in standalone results; *Includes LCV sales of Mahindra International; # Mahindra Renault Pvt. Ltd.

Exhibit 2: 4QFY2008 Performance

Y/E Mar (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	%chg
Net Sales	3,148.2	2,747.5	14.6	11,503.5	10,026.3	14.7
Other Income	27.3	35.4	(22.8)	168.2	195.0	(13.8)
Total Income	3,175.5	2,782.8	14.1	11,671.6	10,221.2	14.2
EBITDA	342.4	313.4	9.2	1,336.3	1,262.9	5.8
OPM (%)	10.9	11.4		11.6	12.6	
Interest	13.9	(20.5)		24.2	(67.5)	
Depreciation	64.9	60.9	6.4	238.7	209.6	13.9
EOI	(13.9)	(8.2)		(165.2)	(102.8)	
Profit Before Tax	304.8	316.5	(3.7)	1,406.8	1,418.5	(0.8)
Tax	83.7	80.4	4.1	303.4	350.1	(13.3)
Profit After Tax	221.1	236.1	(6.3)	1,103.4	1,068.4	3.3
Adj. PAT and EOI	207.2	227.9	(9.1)	938.2	965.6	(2.8)
EPS (Rs)	8.7	9.6	(9.5)	39.2	40.6	(3.3)

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

Exhibit 3: 4QFY2008 Segment-wise Performance

Y/E Mar (Rs Cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Total Net Sales	3,270.5	2,797.8	16.9	11,846.3	10,281.6	15.2
Auto Segment	2,077.9	1,785.6	16.4	7,179.2	6,096.1	17.8
Farm Segment	980.4	872.4	12.4	3,996.9	3,716.5	7.5
Other Segments	212.3	139.8	51.8	670.1	469.1	42.9
Total PBIT	355.5	291.9	21.8	1,319.9	1,249.1	5.7
Auto Segment	207.5	175.2	18.4	763.3	680.6	12.1
Farm Segment	141.9	104.5	35.7	542.1	542.1	0.0
Other Segments	6.2	12.2	(49.1)	14.5	26.4	(45.0)
PBIT/ Sales (%)	10.9	10.4		11.1	12.1	
Auto Segment	10.0	9.8		10.6	11.2	
Farm Segment	14.5	12.0		13.6	14.6	
Other Segments	2.9	8.7		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 Tractor 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 a marginal 2% 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 8% and 10% volume growth for M&M in FY2009 and FY2010 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 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	275	1,602
Mahindra GESCO	1.5	633	950
Tech Mahindra	5.4	833	4,498
Punjab Tractors	3.9	223	870
Other Investments			3,059
Total Value			10,978
No of share o/s of M&M (Cr)			25
Per share value of Investments (20% discount)			358
M&M's Core Business value			373
M&M' Price with investments in subsidiaries			731

Source: Company, Angel Research

At the CMP, M&M is trading at 15.2x FY2009E and 13.3x 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 Rs731 wherein its core business fetches Rs373 and value of investments works out to Rs358. **We maintain a Buy on the stock, with a revised Target Price of Rs731 (Rs754).**



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