

21 December 2011

Mahindra & Mahindra

Analyst-meet takeaways: tractor-sector outlook stable; Buy

Rating: **Buy**

Target Price: ₹833

Share Price: ₹690

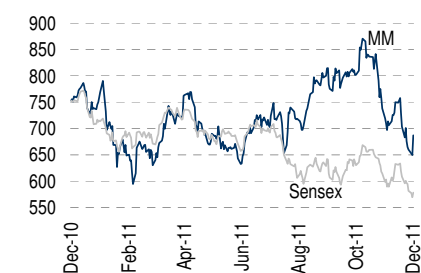
Discussing the tractor industry at M&M's analyst meet, management mainly highlighted positives that would sustain the industry at an 8-12% CAGR for the next 4-5 years. These include acute labour shortage, replacement demand and the need to increase productivity. Fresh capacities are coming up, but management is confident of market-share gains. We retain a Buy, with a price target of ₹833.

- Structural factors would continue to drive demand.** While ytd FY12 growth was a robust 21%, the company should end the year with ~17-18%, and FY13 would be ~10-12% (our current estimate is 9%). Key reasons for the steady growth: further scope for tractor penetration in India, labour shortage (due to high rural to urban migration) and the need to improve productivity. The significant shortening of the replacement cycle is an added growth driver. The 15-HP Yuvraj has influenced smaller farmers to opt for tractors. Keener competition here, however, is likely.
- No negatives currently visible for tractors.** Higher rural incomes, adequate rains, availability of finance particularly from NBFCs, no rise in NPA levels of banks indicate an absence of negatives currently for the tractor industry. Management appeared comfortable with the idea of steadily increasing its market share over time.
- Diversification into non-tractor applications.** M&M is increasingly looking at non-tractor applications in the agri-economy. Some examples in its portfolio are Powerol, Shubh Labh and EPC Industries. These small but high-growth segments can help in de-risking.
- Valuation and Risk.** We retain a Buy, with a price target of ₹833. M&M trades at 10.7x FY13e consolidated EPS of ₹64.2. **Key risks:** negative surprises from overseas, cyclicality of the tractor industry and potential hike in duty on diesel vehicles in the Budget.

| Key data | MM IN / MAHM.BO |
|--------------------|--------------------|
| 52-week high / low | ₹875 / ₹585 |
| Sensex / Nifty | 15685 / 4693 |
| 3-m average volume | US\$29.5m |
| Market cap | ₹423bn / US\$8.0bn |
| Shares outstanding | 614m |

| Shareholding pattern (%) | Sep '11 | Jun '11 | Mar '11 |
|--------------------------|---------|---------|---------|
| Promoters | 25.2 | 24.9 | 24.9 |
| - of which, Pledged | 5.2 | 7.9 | 7.4 |
| Free Float | 74.8 | 75.1 | 75.1 |
| - Foreign institutions | 26.4 | 23.6 | 22.9 |
| - Domestic institutions | 20.6 | 22.6 | 23.7 |
| - Public | 27.8 | 28.9 | 28.5 |

Relative price performance



Source: Bloomberg

| Key financials (Standalone YE: Mar) | FY10 | FY11 | FY12e | FY13e | FY14e |
|-------------------------------------|---------|---------|---------|---------|---------|
| Sales (₹m) | 185,296 | 234,211 | 283,321 | 324,696 | 365,199 |
| Net profit (₹m) | 19,893 | 25,417 | 27,748 | 32,158 | 36,296 |
| EPS (₹) | 32.4 | 41.4 | 45.2 | 52.4 | 59.1 |
| Growth (%) | 115.8 | 27.8 | 9.2 | 15.9 | 12.9 |
| PE (x) | 25.8 | 20.2 | 18.5 | 15.9 | 14.1 |
| PBV (x) | 6.0 | 4.8 | 4.1 | 3.5 | 2.9 |
| RoE (%) | 25.4 | 24.6 | 22.7 | 22.2 | 21.2 |
| RoCE (%) | 25.0 | 25.3 | 24.3 | 24.8 | 24.6 |
| Dividend yield (%) | 1.2 | 1.4 | 1.6 | 1.7 | 1.8 |
| Net gearing (%) | 33.3 | 38.7 | 34.8 | 33.6 | 30.8 |

Source: Company, Anand Rathi Research

Anand Rathi Share and Stock Brokers Limited does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1

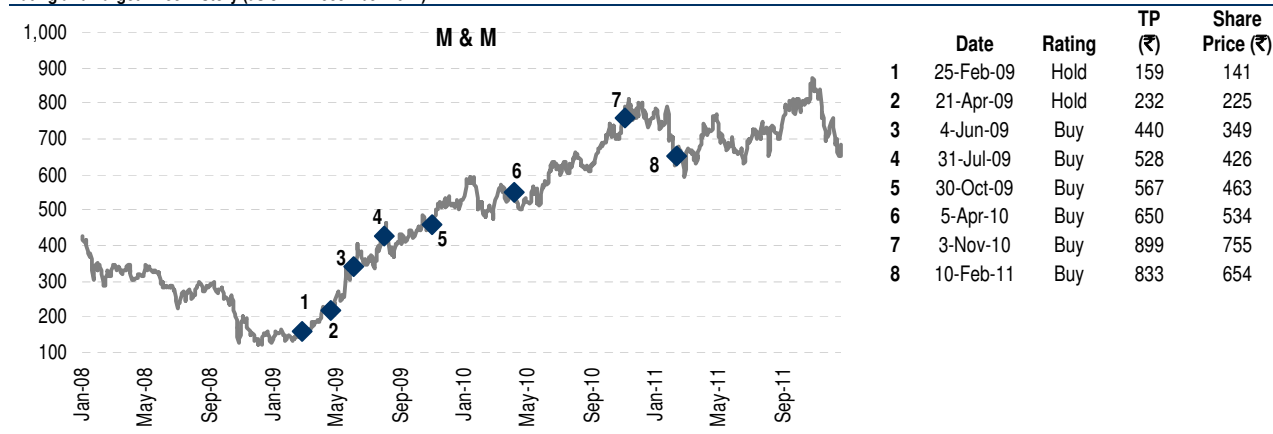
Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures on subject companies

Rating and Target Price History (as of 21 December 2011)



The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Guide

| | Buy | Hold | Sell |
|---------------------------|------|--------|------|
| Large Caps (>US\$1bn) | >20% | 5-20% | <5% |
| Mid/Small Caps (<US\$1bn) | >30% | 10-30% | <10% |

Anand Rathi Research Ratings Distribution (as of 15 December 2011)

| | Buy | Hold | Sell |
|---|-----|------|------|
| Anand Rathi Research stock coverage (136) | 72% | 15% | 13% |
| % who are investment banking clients | 6% | 5% | 0% |

Other Disclosures

This report has been issued by Anand Rathi Share & Stock Brokers Limited (ARSSBL), which is regulated by SEBI.

The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARSBL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARSSBL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARSSBL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

This document is intended only for professional investors as defined under the relevant laws of Hong Kong and is not intended for the public in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. No action has been taken in Hong Kong to permit the distribution of this document. This document is distributed on a confidential basis. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

If this report is made available in Hong Kong by, or on behalf of, Anand Rathi Financial Services (HK) Limited., it is attributable to Anand Rathi Financial Services (HK) Limited., Unit 1211, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Anand Rathi Financial Services (HK) Limited. is regulated by the Hong Kong Securities and Futures Commission.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Stock Exchange, Mumbai, and the National Stock Exchange of India.

© 2011 Anand Rathi Share & Stock Brokers Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.