

Mixed bag, Maintain REDUCE rating

1st June 2009

REDUCE

Price	Target Price
Rs675	Rs595

Sensex –	14,625
----------	---------------

Price Performance

(%)	1M	3M	6M	12M
Absolute	29	117	121	(5)
Rel. to Sensex	7	41	41	14

Source: Bloomberg

*as on 26 may 09

Stock Details

Sector	Automobiles
Reuters	MAHM.BO
Bloomberg	MM@IN
Equity Capital (Rs mn)	2788
Face Value (Rs)	10
No of shares o/s (mn)	279
52 Week H/L (Rs)	685/236
Market Cap (Rs bn/USD mn)	170/3,551
Daily Avg Vol (No of shares)	1644410
Daily Avg Turnover (US\$ mn)	14.8

Shareholding Pattern (%)

	31/03/09	31/12/08	30/09/08
Promoters	29.2	26.5	26.5
FII/NRI	31.5	31.9	32.5
Institutions	25.4	26.7	26.5
Private Corp	4.3	5.0	4.7
Public	9.6	9.9	9.9

Source: Capitaline

Chirag Shah

chirag.shah@emkayshare.com

+91 22 6612 1252

M&M's 4QFY09 performance was a mixed bag. Accounting treatment of forex loss of Rs 1.1 bn creates an impression that the impact is extraordinary in nature. Also, the company has charged Rs 1.7 bn to Investment fluctuation reserve for diminution in some long term assets of the auto business.

- Net sales at 36.4 bn were in line with our expectation. EBIDTA (adjusted for forex loss of Rs 1.1 bn) at Rs 4 bn was ahead of our expectation by 26.9%. The better than expected performance is due to significant control on other expenses (excluding the forex loss of Rs 1.1 bn). Other expenses declined by 1% YoY despite a strong 15% topline growth.
- The company did not give a break up of the nature of forex loss except that its pertains to cancellation of forward contracts, some translation losses and charge on account of AS - 11. We have considered Rs 500 mn as realized loss on cancellation of forward contracts/charge to P&L in terms with AS - 11 and included the same in other income.

We have upgraded our FY10 estimates by 31% to factor in the amalgamation of Punjab Tractors (PTL) and higher volumes estimates for the automotive segment. Also, we introduce our FY11 estimates. We have valued the standalone business at target EV/EBIDTA multiple of 5x (10% discount to MSIL). We have valued the standalone business at Rs 375 (based on fully diluted shares capital). Also, we have revised our holding company discount from 70% to 20% for subsidiaries. We have valued the subsidiaries at Rs 225 per share. We maintain our REDUCE rating on the stock with a target price of Rs 595.

Realization drives the sales performance

M&M registered an 8% YoY volume growth (including PTL sales) 4QFY09. Average realizations improved by 5.9% YoY and 2.9% QoQ to Rs 421,231. As a result set sales grew by 14.5% YoY to Rs 36.4 bn, in line with expectation.

Product mix %	4QFY09	4QFY08	3QFY09
Uvs	55.7	54.4	47.7
Three wheelers	12.0	11.1	13.9
Tractors	30.1	25.6	33.6
Export	2.1	8.9	4.8
Units sold	85,493	79,026	61,225

EBIDTA adjusted for forex loss at Rs 4 bn (26.9% above expectation)

EBIDTA (adjusted for forex loss of Rs 1.1 bn) was at Rs 4 bn, 26.9% above our expectation. This is primarily due to significant reduction in other expenses. Other expenses declined by 1% YoY despite a strong 14.5% top line growth.

Forex loss – the treatment conundrum continues

M&M reported a forex loss of Rs 1.1 bn in 4QFY09. However, the management did not give the break with respect to the nature of the same except that it is a mixture of cancellation of contracts, some translation losses and charge on account of AS - 11. It should be noted that in 3QFY09, the M&M reported a forex loss of Rs 1.4 bn on cancellation of forward contracts. We had indicated the likelihood of repetition of similar business transaction for next three to four quarters. In absence of information, we have considered Rs 500 mn as loss due to cancellation of forward contracts/charge on account of AS - 11 and included the same in other income.

Valuation and View

We have upgraded our FY10 estimates by 31% to factor in the amalgamation of Punjab Tractors (PTL) and higher volumes estimates for the automotive segment. Also, we introduce our FY11 estimates

Revision in estimates Rs mn	FY10E		
	Earlier	Revised	Change
Sales	131,596	148,591	12.9
EBIDTA	11,597	13,916	20.0
EBIDTA margins (%)	8.8	9.4	
Net Profits	8,338	10,942	31.2

We view M&M as a conglomerate rather than an automobile company. Also, considering the lower return ratios and gloomy outlook for the international business, we believe that current valuations do not leave scope for negative surprises, especially on the balance sheet side. **To give an instance company has already written off some long term assets (pertaining to auto business) by charging it to Investment fluctuation reserve.**

We have valued the standalone business at target EV/EBIDTA multiple of 5x (10% discount to MSIL). We have valued the standalone business at Rs 375 (based on fully diluted no of shares). Also, we have revised our holding company discount from 70% to 20% for subsidiaries. We have valued the subsidiaries at Rs 220 per share. We maintain our REDUCE rating on the stock with a target price of Rs 595.

Valuation Summary (based on fully diluted equity of 289 mn share)

Particulars	Basis	Discount	Value per share (Rs)
M&M	PER		375
Listed Subsidiaries			
Mahindra Finance	CMP	20	34
Mahindra Forgings	CMP	20	3
Mahindra Life	CMP	20	16
Mahindra UGINE	CMP	20	2
Tech Mahindra	CMP	20	80
Unlisted subsidiaries			
Mahindra Resort	0.7x PE deal	20	86
Total			595

Quarterly results summary

Rs mn	4QFY08	4QFY09	% change	FY08	FY09	% change
Net Sales	31,655	36,365	14.9	114,366	127,776	11.7
Operating Expenses						
Raw Materials	21,762	25,518	17.3	77,259	92,764	20.1
% of Sales	68.7	70.2		67.6	72.6	
Staff Costs	2,170	2,724	25.5	8,547	10,246	19.9
% of Sales	6.9	7.5		7.5	8.0	
Other Expenses	4,140	4,095	-1.1	15,873	14,729	-7.2
% of Sales	13.1	11.3		13.9	11.5	
Forex loss/(gain)	0	-1,405		62	2,270	
EBIDTA	3,583	5,433	51.6	12,625	7,768	-38.5
EBIDTA %	11.3	14.9		11.0	6.1	
Adj EBIDTA	3,583	4,028	12.4	12,687	10,038	-20.9
Adj EBIDTA %	11.3	11.1		11.1	7.9	
Depreciation	649	932	43.7	2,387	2,915	22.1
EBIT	2,935	4,501	53.4	10,238	4,853	-52.6
Other Income	273	-226		1,682	5,369	219.3
Interest	139	209	50.5	242	1,341	453.2
PBT	3,069	4,066	32.5	11,678	8,881	-24.0
Extraordinary inc/(exp)	151	520		2,593	1,203	
Tax	837	905	8.1	3,034	1,997	-34.2
Net Profit	2,383	3,681	54.5	11,237	8,086	-28.0
Net Margin %	7.5	10.1		9.8	6.3	
Adj Net Profit	2,226	2,109	-5.2	8,997	6,814	-24.3
Net Margin %	7.0	5.8		7.9	5.3	
EPS	8.7	13.5		41.2	29.7	
Adj EPS	9.3	7.7		37.7	27.1	
Adj FDEPS	7.7	7.3		31.2	23.6	

Financials

Profit & Loss Account - Standalone

Mar ending (Rs mn)	FY08	FY09	FY10E	FY11E
Net Sales	112,058	127,776	148,591	161,442
Growth YoY %	14.2	14.0	16.3	8.6
Operating Expenses				
Raw Materials	77,441	92,764	105,961	115,201
% of sales	69.1	72.6	71.3	71.4
Staff Costs	8,525	10,246	11,548	12,394
% of sales	7.6	8.0	7.8	7.7
Other Expenses	15,625	14,729	17,166	18,598
% of sales	13.9	11.5	11.6	11.5
EBIDTA	10,468	10,038	13,916	15,249
Growth %	1.8	-4.1	38.6	9.6
EBIDTA %	9.3	7.9	9.4	9.4
Depreciation	2,387	2,915	2,733	2,978
EBIT	8,082	7,123	11,184	12,271
Other Income	4,064	3,099	5,003	5,392
Interest	876	1,341	2,158	2,153
PBT	11,270	8,881	14,028	15,510
Extraordinary inc/(exp)	2,877	1,203	0	0
Tax	3,034	1,997	3,086	3,412
Net Profit	11,114	8,086	10,942	12,098
NPM %	9.9	6.3	7.4	7.5
Adj Net Profits	8,567	6,814	10,942	12,098
NPM %	7.6	5.3	7.4	7.5
EPS	35.8	25.0	40.1	44.4
Adj EPS	34.9	23.6	37.9	41.9

Balance Sheet - Standalone

Mar ending (Rs mn)	FY08	FY09P	FY10E	FY11E
Share Capital	2,391	2,726	2,726	2,726
Reserves	41,110	49,343	54,938	61,291
Misc Exp	-135	0	0	0
Owned Funds	43,365	52,069	57,664	64,016
Secured Loans	6,173	6,173	6,173	6,173
Unsecured Loans	19,698	33,089	36,989	36,889
Loan Funds	25,871	39,262	43,162	43,062
Deferred Tax Liability	567	-18	-18	-18
Total	69,803	91,313	100,808	107,060
Gross Fixed Assets	36,561	42,561	51,561	59,561
Acc. Depreciation	18,417	21,332	24,065	27,043
Net Fixed Assets	18,145	21,229	27,497	32,519
Capital WIP	5,465	11,000	10,000	8,000
Net Block	23,609	32,229	37,497	40,519
Investments	42,151	57,864	63,864	66,864
Sundry Debtors	10,049	10,723	11,987	13,047
Inventory	10,841	11,871	13,271	14,445
Cash & Bank	8,612	7,165	7,056	7,847
Advances	6,919	7,827	8,750	9,525
Other Current Assets	133	133	133	133
Current Assets	36,554	37,719	41,197	44,998
Liabilities	23,076	26,744	30,590	33,207
Provisions	9,435	9,755	11,159	12,113
Current Liabilities	32,510	36,499	41,749	45,320
Net Current Assets	4,044	1,220	-552	-322
Total	69,803	91,313	100,808	107,060

Cash Flow

Mar ending (Rs mn)	FY08	FY09P	FY10E	FY11E
Net Profit before tax	11,270	8,881	14,028	15,510
Add: Depreciation	2,387	2,915	2,733	2,978
Add: Interest exp	876	1,341	2,158	2,153
Less: Other income	4,064	3,099	5,003	5,392
Dec/ (Inc) in Working capital	-2,472	1,376	1,663	562
Other non operating items	-3,039	4,036	-1,570	-1,570
Less: Tax paid	2,777	1,997	3,086	3,412
Cash from operations	8,258	13,453	10,923	10,829
Capex	-7,171	-11,536	-8,000	-6,000
Investments and Others	-14,926	-15,713	-6,000	-3,000
Other income	1,346	3,099	5,003	5,392
Cash from Investing activities	-20,751	-24,149	-8,997	-3,608
Borrowings/Equity raising	10,095	13,726	3,900	-100
Interest paid	-801	-1,341	-2,158	-2,153
Dividend paid	-823	-3,136	-3,777	-4,176
Cash from financing activities	8,470	9,249	-2,035	-6,429
Cash generation during the year	-4,022	-1,448	-109	791
Opening Balance	13,261	8,612	7,165	7,056
Forex (loss) / gain	-627			
Closing balance	8,612	7,165	7,056	7,847

Valuation Summary

Mar ending (Rs mn)	FY07	FY08	FY09P	FY10E
Per Share Data				
EPS*	34.9	23.6	37.9	41.9
Cash EPS*	44.6	33.7	47.4	52.2
BVPS*	176.5	180.4	199.8	221.8
Net cash per share*	-48.0	-90.6	-101.0	-91.0
*based on diluted hare capital of 289 mn shares				
Valuation ratios				
P/E	19.2	28.4	17.7	16.0
Cash P/E	15.0	19.9	14.1	12.8
P/BV	3.8	3.7	3.4	3.0
EV/EBIDTA	12.9	15.6	11.1	9.9
Return Ratios (%)				
AROE	28.2	16.9	19.9	19.9
AROCE	20.0	12.7	16.9	17.0
DuPont				
NPM (%)	9.9	6.3	7.4	7.5
Sales/TA	1.1	1.0	1.0	1.1
TA/Equity	2.4	2.5	2.5	2.4
Other key ratios				
D/E	0.6	0.8	0.7	0.7
NCA/Sales (%)	3.6	1.0	-0.4	-0.2

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions 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. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Global Financial Services Ltd.,
Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.
Tel: +91-22-66121212, Fax: +91-22-66242410