

Mahindra & Mahindra

Performance Highlights

For 3QFY2010, Mahindra and Mahindra (M&M) clocked Net Sales of Rs4,497.1cr, up 56% yoy, but was below street expectations. This growth was aided by the 58.7% yoy growth in Core Volumes, while average realisation per vehicle declined by around 1.5%. EBITDA Margins witnessed 1,195bp yoy increase, owing to improved Operating Leverage and lower Raw Material costs, which declined by 352bp yoy and accounted for 64.6% of Sales (68.1% in 3QFY2009). M&M registered Net Profit of Rs413.7cr (Rs43.6cr) during the quarter. Management is optimistic about growth in the Utility Vehicle (UV) and Tractor Segments in 4QFY2010E and FY2011E to support future growth of the Auto and Farm Equipment Segments. **We maintain an Accumulate rating on the stock, with a Target of Rs1,238.**

Healthy performance, growth across segments: For 3QFY2010, M&M clocked Net Sales of Rs4,497.1cr, up 56% yoy. EBITDA Margins witnessed 1,195bp yoy increase, owing to lower Raw Material costs, which declined by 352bp yoy and accounted for 64.6% of Sales (68.1% in 3QFY2009). M&M registered Net Profit of Rs413.7cr (Rs43.6cr) during the quarter, which was above expectations, mainly due to the improvement in OPM and a decrease in Forex losses to Rs10.7cr (Rs120.1cr). The Adjusted profit for 3QFY2010 was Rs424.3cr (Rs163.7cr in 3QFY2009), up 159.2% yoy.

Outlook and Valuation: M&M recorded strong Volume growth in its Auto business in 9MFY2010. The Farm Division posted a substantial improvement in Volume and Operating performance, post the Punjab Tractors (PTL) merger with M&M. We maintain our Tractor Volume growth assumption at a CAGR of 11% (including Swaraj) over FY2009-11E and have modeled 13% CAGR in UV Volumes over FY2009-11E for M&M. At the CMP of Rs1,072, M&M is trading at 16.8x FY2011E and 16x FY2012E Earnings. Our SOTP Target Price for M&M works out to Rs1,238, wherein its Core business fetches Rs741 and the value of its investments works out to Rs497. **We maintain an Accumulate rating on the stock.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	12,927	17,198	19,166	21,205
% chg	14.6	33.0	11.4	10.6
Adj. Net Profit	786	1,736	1,787	1,878
% chg	(17.0)	120.9	2.9	5.1
OPM (%)	6.9	13.5	12.6	12.3
Adj. EPS (Rs)	28.8	62.0	63.9	67.1
P/E (x)	37.2	17.3	16.8	16.0
P/BV (x)	5.6	4.6	3.9	3.3
RoE (%)	16.5	26.9	23.0	20.7
RoCE (%)	6.5	18.3	16.6	15.9
EV/Sales (x)	1.9	1.5	1.3	1.2

Source: Company, Angel Research, Note: Estimated EPS adjusted for FCCB interest cost.

ACCUMULATE

CMP	Rs1,072
Target Price	Rs1,238

Investment Period	15 Months
-------------------	-----------

Stock Info

Sector	Automobile
Market Cap (Rs cr)	30,007
Beta	1.0
52 WK High / Low	1,197/260
Avg. Daily Volume	215,408
Face Value (Rs)	10
BSE Sensex	16,781
Nifty	5,008
Reuters Code	MAHM.BO
Bloomberg Code	MM@IN

Shareholding Pattern (%)

Promoters	27.2
MF/Banks/Indian FIs	34.9
FII/NRIs/OCBs	29.1
Indian Public	8.8

Abs. (%)	3m	1yr	3yr
Sensex	(0.2)	93.4	17.5
M&M	15.9	305.1	16.3

Vaishali Jajoo

Tel: 022 – 4040 3800 Ext: 344

E-mail: vaishali.jajoo@angeltrade.com

Shreya Gaunekar

Tel: 022 – 4040 3800 Ext: 331

E-mail: shreyap.gaunekar@angeltrade.com

Net Sales up 56%, Volume growth supported outstanding performance: For 3QFY2010, M&M clocked Net Sales of Rs4,497.1cr, up by 56% yoy. This growth was aided by the 58.7% yoy growth in Core Volumes, while the average realisation per vehicle declined by around 1.5%. The (PTL) consolidation, strong volumes in the Automotive and Farm Equipment Divisions combined with lower Excise rate aided Top-line growth. The UV Segment posted robust growth of 73.4% compared to the 66.2% Industry growth levels, on the back of *Xylo* and *Bolero*, which continued to see good off take and aided substantial growth in 3QFY2010. The Tractor Segment also grew by a strong 37% yoy supplementing overall growth in Volumes.

Margins at 15% on dip in Raw Material costs and favourable Operating leverage: During 3QFY2010, M&M's EBITDA Margins witnessed 1,195bp yoy increase, owing to lower Raw Material costs, which declined by 352bp yoy and accounted for 64.6% of Sales (68.1% in 3QFY2009). Operating Profit jumped 691.2% yoy, with Staff costs and Other expenditure declining by 170bp and 581bp respectively, on improved Operating Leverage. Overall, the company recorded decent improvement in its Operating performance owing to the cost rationalisation measures initiated by it and partially due to cost synergies arising post the PTL merger.

Net Profit at Rs413.7cr, Volume drives growth: M&M registered Net Profit of Rs413.7cr (Rs43.6cr) during the quarter, which was above our expectations, mainly due to the improvement in OPM and a decrease in Forex losses to Rs10.7cr (Rs120.1cr). Thus, overall, the company reported 766bp increase in NPM for the quarter on account of the positive factors that came in 3QFY2010. The Adjusted profit for 3QFY2010 was Rs424.3cr (Rs163.7cr in 3QFY2009), up 159.2% yoy.

Exhibit 1: 3QFY2010 Financial Performance

Y/E Mar (Rs cr)	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
Net Sales	4,497	2,882	56.0	13,298	9,558	39.1
Consumption of RM	2,891	1,950	48.3	8,373	6,434	30.1
(% of Sales)	64.6	68.1		63.6	68.0	
Staff Costs	330.0	259.7	27.0	932.4	757.8	23.0
(% of Sales)	7.4	9.1		7.1	8.0	
Manufacturing Exp	122.9	111.8	9.9	375.8	292.0	28.7
(% of Sales)	2.7	3.9		2.9	3.1	
Other Expenses	483.7	475.8	1.7	1,507.1	1,516.4	(0.6)
(% of Sales)	10.8	16.6		11.4	16.0	
Total Expenditure	3,828	2,798	36.8	11,188	9,001	24.3
Operating Profit	669.5	84.6	691.2	2,110	538.6	291.7
OPM (%)	14.9	2.9		15.9	5.6	
Interest	8.2	7.6	8.6	26.9	29.4	(8.6)
Depreciation	98.4	69.8	41.0	276.0	198.8	38.9
Other Income	24.4	47.5	(48.7)	181.2	193.6	(6.4)
PBT (excl. Extr. Items)	587.3	54.8	972.5	1,988	504.0	294.4
Extr. Income/(Expense)	-	-	-	(90.8)	(51.2)	-
PBT (incl. Extr. Items)	587.3	54.8	972.5	2,079	555.3	274.4
(% of Sales)	13.1	1.9		15.6	5.8	
Provision for Taxation	173.6	11.2	1,456	561.2	105.7	430.9
(% of PBT)	29.6	20.4		27.0	19.0	
Reported PAT	413.7	43.6	848.9	1,518	449.6	237.6
PATM (%)	9.2	1.5		11.4	4.7	
Equity shares (cr)	252.4	252.4		252.4	252.4	
EPS (Rs)	16.4	1.7	848.9	60.1	17.8	237.6

Source: Company Angel Research

Conference Call – Key Highlights

3QFY2010 Consolidated Results: Gross Revenues for 3QFY2010 grew 7.5% to Rs7,644.4cr (Rs5,915.2cr). Profit before Exceptional Items and Tax for the quarter stood at Rs845.2cr (Rs.216.6cr) in 3QFY2010, up 290.2% yoy. Consolidated Profit After Tax for 3QFY2010, after deducting Minority Interests, came in at Rs473.7cr (Rs39.1cr), and recorded a stupendous growth of 1,113%. We also note that the company's Systech Division has shown improvement in performance during the quarter, with Gross Operating Loss of Rs40.9cr (as against a Loss of Rs45.4cr in 3QFY2009).

Exhibit 2: Group Results (Consolidated)

Sector (Rs cr)	3QFY2010		3QFY2009		% yoy chg	
	Net External Revenue	Results	Net External Revenue	Results	Net External Revenue	Results
Automotive	2,661.8	266.0	1,540.1	(75.4)	72.8	(452.8)
Farm Equipment	2,086.3	331.0	1,585.9	151.5	31.6	118.5
IT Services	1,229.2	245.8	1,183.6	241.7	3.9	1.7
Financial Services	403.3	143.0	355.0	74.0	13.6	93.2
Trading	144.4	20.4	135.5	21.0	6.6	(2.9)
Infrastructure	120.2	32.7	76.1	19.8	58.0	65.2
Hospitality	121.5	30.7	81.6	4.7	48.9	553.2
Systech	639.9	(40.9)	799.2	(45.4)	(19.9)	(9.9)
Others	237.7	(27.8)	158.3	(18.9)	50.2	47.1
Total	7,644	1,001	5,915	373.1	29.2	168.3
Net unall.(Exp.) / Gains		46.3		100.3		(53.8)
Net unall. Interest Inc./(Exp.)		(109.5)		(56.2)		94.3
Exceptional items Inc./(Exp.)		(10.5)		2.8		(475.0)
Profit before tax		834.7		219.4		280.4
Tax		278.4		73.4		279.3
Profit After Tax		556.3		146.0		281.0
Add/(Less): Prior Year Adj.		(3.8)		(0.3)		1,167
Add / (Less): Share of Asso.		4.4		(0.7)		(728.6)
Less: Minority Interest		83.2		105.9		(21.4)
Consolidated PAT excl. MI		473.7		39.1		1,113

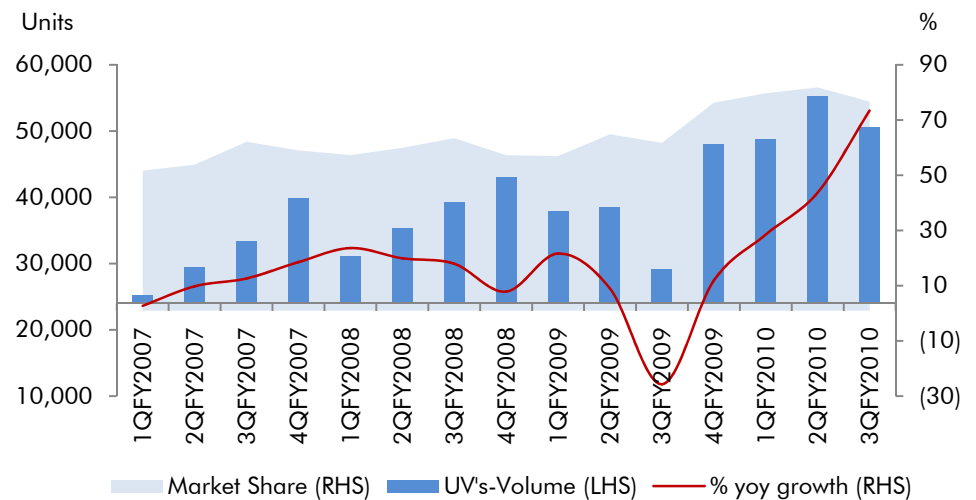
Source: Company, Angel Research

Segment-wise Performance: M&M's Farm Equipment Division, which clocked 28.4% yoy growth in Net Sales to Rs1,928cr, with a 37% yoy (including PTL) increase in Tractor volumes. The Auto Division also reported a robust 86.6% yoy increase, aided by a strong 73.4% yoy growth in UV volumes. The PBIT Margin of the Auto Equipment Division improved by 1,197bp yoy to 11.2% (-0.8%). The Farm Division reported a 743bp yoy increase in its PBIT margin to 18.3% (10.8%) during the quarter.

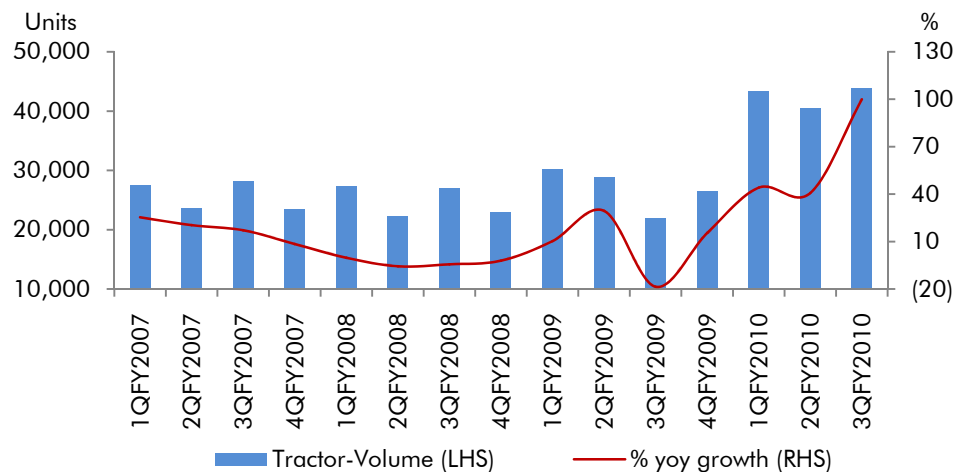
Exhibit 3: Segment-wise Performance

Y/E Mar (Rs cr)	3QFY10	3QFY09	%chg	9MFY10	9MFY09	%chg
Total Net Sales	4,506	2,889	56.0	13,324	9,661	37.9
Auto Segment	2,557	1,370	86.6	7,501	5,195	44.4
Farm Segment	1,928	1,502	28.4	5,759	4,227	36.2
Other Segments	21.2	16.9	25.0	64.0	238.9	(73.2)
Total PBIT	639.7	154.9	313.1	2,006	728.6	175.3
Auto Segment	286.8	(10.4)	-	932.4	272.3	242.4
Farm Segment	352.3	162.8	116.3	1,065	446.9	138.3
Other Segments	0.7	2.5	(72.8)	8.6	9.4	(8.4)
PBIT/ Sales (%)	14.2	5.4		15.1	7.5	
Auto Segment	11.2	(0.8)	1198	12.4	5.2	718.8
Farm Segment	18.3	10.8	742.7	18.5	10.6	792.1
Other Segments	3.2	14.5	(1136)	13.5	3.9	952.3

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

Exhibit 4: Utility Vehicle Segment Volumes


Source: SIAM, Angel Research

Exhibit 5: Tractor Segment Volumes


Source: SIAM, Angel Research

Exhibit 6: M&M Group – Product Mix

Y/E Mar (in units)	3QFY10	3QFY09	% chg	9MFY10	9MFY09	%chg
Total Volume	116,061	74,486	55.8	335,453	256,461	30.8
Utility Vehicles	50,602	29,184	73.4	154,602	105,565	46.5
LCV*	3,338	1,238	169.6	8,206	6,880	19.3
Logan#	988	2,199	(55.1)	3,889	11,416	(65.9)
Three wheelers	13,751	8,521	61.4	34,503	34,252	0.7
Exports	3,579	1,877	90.7	6,586	8,005	(17.7)
Total Auto Sales	72,258	43,019	68.0	207,786	166,118	25.1
Dom. Tractor Sales@	40,917	29,618	38.1	121,527	84,161	44.4
Export Tractor Sales	2,886	1,849	56.1	6,140	6,182	(0.7)
Total Tractor Sales	43,803	31,467	39.2	127,667	90,343	41.3

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. @ 3QFY2010 and 9MFY2010 includes PTL Volume

Capex Plan: The company has incurred around Rs400cr of capex in 1HFY2010 and is proceeding with its planned capex of around Rs7,000cr over FY2010-13. M&M is setting a new plant at Chakkan, with a capacity of 3,50,000 vehicles, which would be operational by FY2010. The company plans to manufacture UVs and light commercial vehicles (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 (successor to the *Scorpio*) and 90,000 units of *Ingenio* variants.

New Launches: The company launched the *Ingenio* MUV in January 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 a mass-market platform for cargo and passenger applications in 2009, as well as a new truck and bus platform.

The company launched its new pick-up, the 0.5tonner '*Mahindra-Gio*', in October 2009. The company also plans to launch its new pick up 0.8tonner '*Maxximo*' in February 2010 and expects robust volumes from the segment. It also expects to launch M&HCV trucks from its JV with Navistar (Mahindra International) by 4QFY2010. The company stated that it expects the 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 market share. It has indicated that it will 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, aiming to clock volume of 2,500-3,000 vehicles per month, thereby increasing its market share.

Outlook and Valuation

M&M recorded strong volume growth in its Auto business in 9MFY2010. The Farm Division has posted a substantial improvement in volume and operating performance, after the PTL merger with M&M. We believe that fears of a significant decline in Tractor volumes is overdone, as Retail demand continues to remain firm, driven by an improvement in the financing scenario and increasing mechanisation. Hence, we maintain our Tractor volume growth assumption at a CAGR of 11% (including Swaraj) over FY2009-11E. M&M's UV volume growth continues to surprise positively, with 36% YTD growth, primarily due to a substantial 15% market share gain in the UV Segment to around 57%. The new Xylo, and the established Scorpio and Bolero contributed to robust UV Volume growth. We have modeled 17% CAGR in UV Volumes over FY2009-11E for M&M.

Systech's cost-rationalisation measures place it well for good Earnings upside from an improvement in European CV volumes. Systech should be a key beneficiary of the growing trend of component sourcing from lower cost countries, given its existing relationship with global OEMs. Systech's management is focused in creating shareholder value and has set a goal of achieving Rs500-600cr in EBITDA, with 75% coming from Europe and the rest from India. Management believes that this is achievable even at 30% below the peak levels. We believe that these moves will start contributing positively to M&M's consolidated EPS, when the global industry cycle takes a positive turn.

M&M also has majority stakes in various listed companies in other sectors (including Technology, Property and Finance). Investments in these companies constitute more than 50% of M&M's Balance Sheet (Standalone). The high growth potential of M&M's subsidiaries is expected to unlock actual value of the stock over the years. Listing of its subsidiaries has been supporting M&M's valuation in the recent past, and may continue to do so in the long term as well.

Exhibit 7: SOTP Valuation

Key Subsidiary	No. of Shares Held (cr)	CMP (Rs)	Value (Rs cr)
Mahindra Financial Services	5.8	351	2,044
Mahindra Lifespace	1.5	394	607
Tech Mahindra	5.4	1,052	5,657
Mahindra Forgings	4.2	119	494
Mahindra Holidays	7.0	461	3,229
Other Investments			4,333
Total value			16,364
No. of share o/s of M&M (cr)			28
Per share value of Investments (15% discount)			497
M&M's Core Business per share value (13x core EPS)			741
M&M's price target with investments			1,238

Source: Company, C-line, Angel Research; Price as January 25, 2010

Owing to a better-than-expected performance in 3QFY2010, we upgrade our Adj. EPS estimates for FY2011E to Rs64.3 (Rs60.4 earlier) and for FY2012E to Rs67.6 (Rs64.3 earlier). At the CMP of Rs1,072, M&M is trading at 16.8x FY2011E and 16x FY2012E Earnings. Our SOTP Target Price for M&M works out to Rs1,238, wherein its Core business fetches Rs741 and the value of its investments works out to Rs497. **We maintain an Accumulate rating on the stock.**

Research Team Tel: 022-4040 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 Securities, 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 Securities 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 Securities 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 Securities 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.

Note: Please refer important 'Stock Holding Disclosure' report on Angel web-site (Research Section).

Disclosure of Interest Statement	M&M
1. Analyst ownership of the stock	Yes
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

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

**Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.
Tel : (022) 3952 4568 / 4040 3800**

Angel Broking Ltd: BSE Sebi Regn No : INB 010996539 / CDSL Regn No: IN - DP - CDSL - 234 - 2004 / PMS Regn Code: PM/INP000001546 Angel Securities Ltd: BSE: INB010994639/INF010994639 NSE: INB230994635/INF230994635 Membership numbers: BSE 028/NSE:09946
 Angel Capital & Debt Market Ltd: INB 231279838 / NSE FNO: INF 231279838 / NSE Member code -12798 Angel Commodities Broking (P) Ltd: MCX Member ID: 12685 / FMC Regn No: MCX / TCM / CORP / 0037 NCDEX : Member ID 00220 / FMC Regn No: NCDEX / TCM / CORP / 0302