

RESULTS REVIEW

Mahindra and Mahindra

Hold

Share Data

Market Cap	Rs. 287. bn
Price	Rs. 1029.2
BSE Sensex	16,848.83
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 1053/235.5
Shares Outstanding	278.8 mn

Valuation Ratios (Standalone)

Year to 31 March	2010E	2011E
EPS (Rs.)	67.3	76.6
+/- (%)	110.0%	13.8%
PER (x)	15.3x	13.4x
EV/ Sales (x)	1.8x	1.6x
EV/ EBITDA (x)	12.2x	10.6x

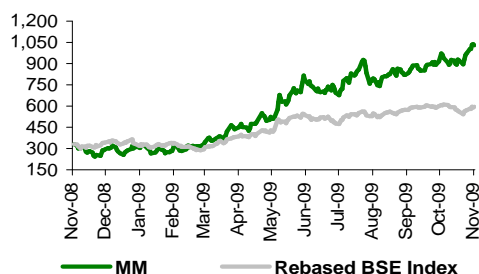
Shareholding Pattern (%)

Promoters	27.4
FII's	21.9
Institutions	28.1
Public & Others	22.6

Holding >1% (Non-Promoter)

Life Insurance Corporation of India	17.6
ICICI Prudential Life Insurance Company Ltd	2.5
General Insurance Corporation of India	1.8
HSBC Global Investment Fund	1.7
New India Assurance Company	1.6

Relative Performance



Utility Vehicles to remain the mainstay

In Q2'10, Mahindra & Mahindra Ltd. (M&M)'s net sales increased 35.1% yoy to Rs. 44.7 bn mainly due to surge in volumes in the utility vehicle (UV) segment. The EBITDA margins improved 12.6 pps yoy to 18.6% on account of lower commodity prices and cost re-engineering besides a low base of Q2'09. Going forward, we expect the Company would witness growth on the back of continuing good show of the domestic UVs and the tractor segment. Thus, we maintain our Hold rating with the target price of Rs. 1,098.

Growth in domestic utility vehicle to continue: In Q2'10, M&M's domestic utility vehicle segment grew by 43.7% yoy (as against industry growth of 21.4% yoy) on account of success of its newly launched UV Xylo and new versions of Scorpio and Bolero. Consequently, the Company's market share increased to 64.9% in the Q2'10 from 54.8% in the Q2'09. In coming quarters, we expect the Company would continue to witness strong growth due to the upsurge in UV demand, its market positioning, and the positive response to its new launches. In addition, we expect the Company should also get a boost from the launch of its mini-truck Gio which comes with better fuel efficiency and lower price than the Tata's Ace, and thus having the potential to capture the market of 0.5 tonnage carriers.

Tractor segment to grow in sync with the sector: In coming quarters, we expect the tractor segment to witness growth in spite of bad monsoon season on account of increasing demand from the non-agri infrastructure development projects, offsetting the short-lived softening in the demand from agriculture segment. However, the rural demand is expected to pick up from the next Rabi season with Government incentives for the rural development. Currently, tractor ownership is as low as 10/100 rural households as against a high usage of 35/100 rural households. We expect M&M to continue on its growth path (grew by 27.1% yoy in Q2'10) in sync with the sector primarily on the backdrop of synergies from the acquisition of Punjab Tractors Ltd and its dominant market share.

Key Figures (Standalone)

Quarterly Data	Q2'09	Q1'10	Q2'10	YoY%	QoQ%	H1'09	H1'10	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	33,057	42,295	44,650	35.1%	5.6%	65,929	86,945	31.9%
Adj. EBITDA	1,981	6,090	8,312	319.6%	36.5%	4,540	14,402	217.2%
Adj. Net Profit	2,467	4,009	7,029	185.0%	75.4%	4,059	11,038	171.9%

Margins(%)

EBITDA	6.0%	14.4%	18.6%	6.9%	16.6%
NPM	7.5%	9.5%	15.7%	6.2%	12.7%

Per Share Data (Rs.)

Adj. EPS	8.15	14.70	25.73	215.7%	75.0%	14.81	40.43	173.0%
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Pressure on margins: Going forward, we expect EBITDA margins for FY10 and FY11 to be 14.8% and 15%, respectively as against 18.6% in Q2'10 on account of pressure on its margins due to recovery in the commodity prices and stiff competition in the UV segment.

Result Highlights

In Q2'10, the net sales increased 35.1% yoy to Rs. 44.7 bn as against Rs. 33 bn in Q2'09. The Company reported strong set of numbers for the quarter largely due to strong sales performance by both automotive (primarily UV) and tractor segment coupled with the Company's continued focus on cost re-engineering and cost control. Consequently, the Company reported EBITDA margins of 18.6%.

Following were the key operating highlights for the quarter;

- M&M sales volume increased 38.6% yoy to 109,344 units during the quarter.
- The net sales increased 35.1% yoy to Rs. 44.7 bn mainly due to surge in volumes in the UV segment.
- The realizations declined 5.1% yoy to Rs. 450,932.
- The raw material cost percentage of net sales declined 978 bps yoy to 67% mainly due to lower commodity prices and continued focus on cost reduction.
- The other expenses percentage of net sales decreased 424 bps yoy to 11.3% in Q2'10.
- The EBITDA margins improved 12.6 pps (percentage points) yoy to 18.6%.
- The Company reported net profit of Rs. 7 bn in Q2'10 as against Rs. 2.5 bn in Q2'09.

Segment performance

- The automotive segment contributed 63% to the total sales volume. The domestic sales increased 27% yoy to 67,000 units, under which UV sales increased 43.7% yoy to 55,280 units. However, the 3-wheeler sales declined 18% yoy to 11,720 units. The exports volume, on the other hand, declined 37% yoy to 1,862 units. Thus, the automotive segment grew by 24% yoy to 68,862 units.

- The farm segment contributed 37% to the total sales volume. The domestic sales increased 84% yoy to 38,647 units. The exports volume, on the other hand, declined 13% yoy to 1,835 units. Thus, the farm segment grew by 75% yoy to 40,482 units

Key Figures (Standalone)

Year to March	FY07	FY08	FY09	FY10E	FY11E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY09-11E)
Net Sales	101,584	115,413	130,937	171,802	195,731	22.3%
Adj. EBITDA	13,949	13,666	10,926	25,488	29,434	64.1%
Adj. Net Profit	9,789	9,731	8,285	17,400	19,800	54.6%
Margins(%)						
EBITDA	13.7%	11.8%	8.3%	14.8%	15.0%	
NPM	9.6%	8.4%	6.3%	10.1%	10.1%	
Per Share Data (Rs.)						
Adj. EPS	38.4	36.6	32.0	67.3	76.6	54.6%
PER (x)	20.3x	19.0x	32.1x	15.3x	13.4x	

Valuation

We believe that the demand outlook for the UV and the tractor segment would remain strong in the near-to-medium term. Consequently, we expect the Company's volume in both the segments would also grow on the back of new launches and strong market positioning. Moreover, we expect realizations to pick up from FY11, once the demand stabilizes. We maintain our Hold rating with an upside potential of ~7% from the CMP.

At the current market price (CMP) of Rs. 1029.2, the stock is trading at a forward P/E of 15.3x and 13.4x for FY10E and FY11E, respectively. We have valued M&M by using the SOTP method (DCF valuation for the standalone businesses and CMP for other subsidiaries).

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