

February 07, 2012

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Rating	Accumulate
Price	Rs690
Target Price	Rs748
Implied Upside	8.4%
Sensex	17,622
Nifty	5,335

(Prices as on February 07, 2012)

Trading data

Market Cap. (Rs bn)	399.2
Shares o/s (m)	578.9
3M Avg. Daily value (Rs m)	2011.5

Major shareholders

Promoters	25.18%
Foreign	26.39%
Domestic Inst.	20.64%
Public & Other	27.79%

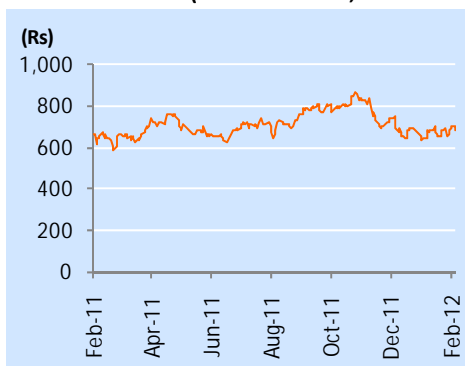
Stock Performance

(%)	1M	6M	12M
Absolute	5.5	5.6	3.2
Relative	(5.6)	3.7	5.5

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	46.0	48.0	-4.2
2014	50.9	53.0	-4.0

Price Performance (RIC: MAHM.BO, BB: MM IN)



Source: Bloomberg

■ **Revenues stem a surprise; PAT below estimates:** Mahindra & Mahindra (M&M) reported 14.0% QoQ growth in its top-line at Rs83.9bn (PLe: Rs79bn). Tractor volumes grew by 14.6% QoQ, whereas the automotive segment volumes grew by 5.3% QoQ. The positive surprise came in on ASP/Vehicle which was higher by 5.1% QoQ led by price hikes. Raw material/sales ratio increased by 170bps QoQ on account of higher contribution of traded goods from Mahindra Vehicle Manufacturers (MVML). Due to tight cost control over other expenditure (adj. for Forex reversal of Rs398.6m charge), the EBITDA margins decline was restricted to 60bps QoQ at 11.7% (PLe-12.4%). Absolute EBITDA grew by 6.3% YoY to Rs9.8bn (PLe: Rs9.6bn). On account of higher than expected depreciation, the Adj. PAT grew by a muted 1.0% YoY at 6.2bn (PLe-Rs6.5bn).

■ **Automotive segmental performance disappoints:** Automotive segment reported 47.4% YoY growth in the revenues at Rs51.1bn and a 8.2% PBIT margin (9.9% in Q2FY12). Farm Equipment Segment (FES) reported a revenue growth of 35.5% YoY at Rs32.5bn, with PBIT margins at 15.6% (15.3% in Q2FY12).

■ **M&M + MVML PAT grew by 9.7% YoY:** The combined revenue grew by 33.9% YoY at Rs82.1bn (Rs83.0bn in Q2FY12). OPM of the combined entity improved by 20bps QoQ to 13.5%. EBITDA for the combined entity grew by 12.6% YoY with Adj. PAT (for forex) growing by 9.7% at Rs6.7bn.

■ **Outlook & Valuation:** We expect M&M to outperform the volume growth of the auto industry given strong traction for its recently launched products (XUV 500). On sum-of-parts valuation, excluding Rs170/share assigned to its subsidiaries, the stock currently trades at 11.3x its standalone FY13E EPS, which in our view is fair. We expect combined entity profit to be higher by ~5% to the standalone profit in FY13E. We value the combined entity at 12.0x FY13E EPS of Rs48.3. Maintain '**Accumulate**' on account of 8.4% upside from the current levels.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	234,210	306,205	348,044	382,471
Growth (%)	26.4	30.7	13.7	9.9
EBITDA (Rs m)	34,094	37,738	43,012	47,672
PAT (Rs m)	24,892	26,488	30,131	33,303
EPS (Rs)	38.0	40.5	46.0	50.9
Growth (%)	8.2	6.4	13.8	10.5
Net DPS (Rs)	10.2	11.0	11.5	11.5

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	14.6	12.3	12.4	12.5
RoE (%)	27.4	23.6	22.8	21.5
RoCE (%)	20.4	18.7	18.6	18.1
EV / sales (x)	2.0	1.5	1.4	1.2
EV / EBITDA (x)	13.8	12.6	11.0	9.8
PE (x)*	13.7	12.8	11.3	10.2
P / BV (x)	4.4	3.7	3.2	2.7
Net dividend yield (%)	1.5	1.6	1.7	1.7

Source: Company Data; PL Research

*Adj. for subs. Value of Rs 170/share

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Exhibit 1: Q3FY12 Result Overview – Standalone (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	83,868	61,211	37.0	73,606	224,810	166,429	35.1
Expenditure							
Raw Materials	62,354	42,358	47.2	53,414	164,104	114,757	43.0
<i>% of Net sales</i>	<i>74.3</i>	<i>69.2</i>		<i>72.6</i>	<i>73.0</i>	<i>69.0</i>	
Personnel	4,497	3,475	29.4	4,302	12,832	10,195	25.9
<i>% of Net sales</i>	<i>5.4</i>	<i>5.7</i>		<i>5.8</i>	<i>5.7</i>	<i>6.1</i>	
Mfgr & Other Exp.	7,199	6,140	17.2	6,831	20,022	16,261	23.1
<i>% of Net sales</i>	<i>8.6</i>	<i>10.0</i>		<i>9.3</i>	<i>8.9</i>	<i>9.8</i>	
Total Expenditure	74,049	51,973		64,546	196,957	141,212	39.5
EBITDA	9,819	9,238	6.3	9,060	27,852	25,216	10.5
<i>EBITDA Margin (%)</i>	<i>11.7</i>	<i>15.1</i>		<i>12.3</i>	<i>12.4</i>	<i>15.2</i>	
Depreciation	1,408	1,022	37.8	1,257	3,764	2,968	26.8
EBIT	8,411	8,216	2.4	7,803	24,088	22,248	8.3
Net Interest	68	(27)		49	97	(345)	
Non-operating income	408	419	(2.6)	2,315	2,972	2,621	13.4
PBT	8,751	8,662	1.0	10,069	26,964	25,214	
Tax-Total	2,519	2,490	1.2	2,376	6,989	6,560	6.5
<i>Tax Rate - Total (%)</i>	<i>28.8</i>	<i>28.7</i>		<i>23.6</i>	<i>25.9</i>	<i>26.0</i>	
Adj. PAT	6,232	6,172	1.0	7,694	19,975	18,654	7.1
Extraordinary Income	390	1,175		(320)	70	1,902	
Reported PAT	6,622	7,347	(9.9)	7,374	20,044	20,556	(2.5)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Tractors segment	65,754	58,608	12.2	57,394	183,300	154,264	18.8
Automotive segment	124,507	93,730	32.8	118,207	327,701	232,461	41.0
Total Sales Volume	190,261	152,338	24.9	175,601	544,150	418,138	30.1
Net Realisation/vehicle	440,806	401,810	9.7	419,167	413,139	398,023	3.8
Material cost / vehicle	327,727	278,052	17.9	304,175	301,578	274,447	9.9
Contribution/vehicle	113,078	123,758	(8.6)	114,992	111,561	123,576	(9.7)
Other expenses / vehicle	37,836	40,306	(6.1)	38,901	36,794	38,889	(5.4)
EBITDA/vehicle	51,607	60,639	(14.9)	51,595	51,185	60,306	(15.1)
Net Profit/vehicle	32,754	40,515	(19.2)	43,814	36,708	44,612	(17.7)

Source: Company Data, PL Research

Exhibit 3: Q3FY12 Result Overview – M&M + MVML (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	9MFY12	9MFY11	YoY gr. (%)
Net Sales	82,156	61,342	33.9	222,770	167,349	33.1
Raw Materials	59,027	41,699	41.6	158,092	113,418	39.4
<i>% of Net sales</i>	<i>71.8</i>	<i>68.0</i>		<i>71.0</i>	<i>67.8</i>	
Personnel	4,753	3,618	31.4	13,505	10,530	28.2
<i>% of Net sales</i>	<i>5.8</i>	<i>5.9</i>		<i>6.1</i>	<i>6.3</i>	
Mfgr & Other Exp.	7,466	6,338	17.8	21,072	16,683	26.3
<i>% of Net sales</i>	<i>9.1</i>	<i>10.3</i>		<i>9.5</i>	<i>10.0</i>	
Total Expenditure	71,246	51,655		192,668	140,631	37.0
EBITDA	10,910	9,687	12.6	30,102	26,719	12.7
<i>EBITDA Margin (%)</i>	<i>13.3</i>	<i>15.8</i>		<i>13.5</i>	<i>16.0</i>	
Depreciation	1,644	1,188	38.5	4,435	3,403	30.3
EBIT	9,266	8,499	9.0	25,667	23,316	10.1
Net Interest	345	188	83.9	933	246	
Non-operating income	408	415	(1.7)	2,971	2,618	13.5
PBT	9,329	8,727	6.9	27,705	25,687	7.9
Tax-Total	2,659	2,645	0.5	7,238	6,715	7.8
<i>Tax Rate - Total (%)</i>	<i>28.5</i>	<i>30.3</i>		<i>26.1</i>	<i>26.1</i>	
Adj. Profit after tax	6,670	6,082	9.7	20,468	18,972	7.9
Extraordinary Income / Exp	390	1,175		390	1,175	
Reported profit	7,060	7,257	(2.7)	20,858	20,147	3.5

Source: Company Data, PL Research

Exhibit 4: Q3FY12 Segmental Performance – M&M + MVML (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	9MFY12	9MFY11	YoY gr. (%)
Revenue						
Automotive	49,900	34,849	43.2	133,861	96,949	38.1
Farm Equipment	32,513	26,383	23.2	89,387	69,971	27.7
Other Segments	249	210	18.6	700	695	0.7
Total	82,661	61,442	34.5	223,947	167,615	33.6
Less: Inter Segment Revenues	506	100	404.7	1,178	266	342.6
Net Sales/Income from Operations	82,156	61,342	33.9	222,770	167,349	33.1
PBIT						
Automotive	5,030	4,548	10.6	14,697	13,323	10.3
Farm Equipment	5,084	4,872	4.4	13,983	12,327	13.4
Other Segments	36	6		78	36	115.3
Total	10,154	9,426	7.7	28,758	25,686	12.0
Less :						
Interest (Net)	436	(479)		663	(1,176)	
Other un-allocable expenditure	390	1,175		390	1,175	
PBT(adj. for forex)	9,329	8,730	6.9	27,705	25,687	7.9
Division PBIT (%)						
Automotive	10.1	13.1	(297)bps	11.0	13.7	(276)bps
Farm Equipment	15.6	18.5	(283)bps	15.6	17.6	(197)bps
Total	12.3	15.3	(306)bps	12.8	15.3	(248)bps

Source: Company Data, PL Research

Key Highlights of the Conference Call

- XUV 500 has received good response, with bookings over 8,000 units in December and around 25,000 units in the second round of bookings. M&M is looking to produce 3,000 units in February which would be ramped up to 5,000/month by June 2012.
- UV segment is likely to grow at 14-15% in FY12E. M&M faced constraints on production on account of demand outstripping supply on the auto side which would be corrected by increasing supply by February 2012.
- M&M had taken a price increase to the tune of 1-2.0% in October'11 as well as in Jan'12. For XUV 500 which has seen huge response, the prices are upped by 3% for the high end model effective Jan'12.
- No major respite on the material cost expected in Q4FY12. The increase in the cost has been lower compared to H1FY12.
- Tractor demand continues to be strong and the management pegged the growth to be around 18% YoY for FY12E. Management was cautiously optimistic with a guidance of 8-10% growth in volumes for FY13E.
- M&M+MVML are likely to spend Rs50bn over the next 3 years for capacity expansion. In addition to this, they are looking for investments of Rs20bn spread over the next 3 years.
- M&M has reversed the Forex charge to the tune of Rs398.6m pertaining to the H1FY12. This reversal in the charge is reflected in the other expenditure. Adjusted for the same, the margins would have been 11.7% on the operating level.

Exhibit 5: SOTP

Y/e March	Parameter	Value (Rs / share)
M&M + MVML	12.0x FY13E EPS of Rs48.3	578
Subsidiaries	at 30% discount	170
SOTP Valuation		748

Source: PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	234,210	306,205	348,044	382,471
Raw Material Expenses	162,639	224,307	256,551	283,047
Gross Profit	71,571	81,897	91,492	99,424
Employee Cost	14,196	17,292	18,931	20,388
Other Expenses	23,281	26,867	29,550	31,363
EBITDA	34,094	37,738	43,012	47,672
Depr. & Amortization	4,139	5,187	5,859	6,420
Net Interest	(503)	164	223	244
Other Income	3,095	3,400	3,500	3,600
Profit before Tax	33,553	35,787	40,430	44,609
Total Tax	8,661	9,300	10,299	11,306
Profit after Tax	26,621	26,418	30,131	33,303
Ex-Od items / Min. Int.	1,729	(70)	—	—
Adj. PAT	24,892	26,488	30,131	33,303
Avg. Shares O/S (m)	654.7	654.7	654.7	654.7
EPS (Rs.)	38.0	40.5	46.0	50.9

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	37,152	31,131	34,568	37,248
C/F from Investing	(44,273)	(25,000)	(24,000)	(23,000)
C/F from Financing	(4,124)	(3,070)	(10,546)	(9,546)
Inc. / Dec. in Cash	(11,245)	3,062	22	4,702
Opening Cash	17,391	6,146	9,208	9,230
Closing Cash	6,146	9,208	9,230	13,933
FCFF	22,970	16,972	21,568	24,248
FCFE	18,221	24,972	19,568	23,248

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	26.4	30.7	13.7	9.9
EBITDA (%)	13.8	10.7	14.0	10.8
PAT (%)	21.7	6.4	13.8	10.5
EPS (%)	8.2	6.4	13.8	10.5
Profitability				
EBITDA Margin (%)	14.6	12.3	12.4	12.5
PAT Margin (%)	10.6	8.7	8.7	8.7
RoCE (%)	20.4	18.7	18.6	18.1
RoE (%)	27.4	23.6	22.8	21.5
Balance Sheet				
Net Debt : Equity	0.2	0.2	0.1	0.1
Net Wrkng Cap. (days)	(48)	(37)	(32)	(28)
Valuation				
PER (x)*	13.7	12.8	11.3	10.2
P / B (x)	4.4	3.7	3.2	2.7
EV / EBITDA (x)	13.8	12.6	11.0	9.8
EV / Sales (x)	2.0	1.5	1.4	1.2
Earnings Quality				
Eff. Tax Rate	25.8	26.0	25.5	25.3
Other Inc / PBT	9.2	9.5	8.7	8.1
Eff. Depr. Rate (%)	6.6	6.7	6.5	6.2
FCFE / PAT	73.2	94.3	64.9	69.8

Source: Company Data, PL Research. *Adj. for subs value of Rs170/share

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	103,134	121,255	142,840	167,597
Total Debt	24,053	32,053	30,053	29,053
Other Liabilities	3,544	—	—	—
Total Liabilities	130,730	153,308	172,893	196,650
Net Fixed Assets	43,719	53,532	60,673	67,253
Goodwill	—	—	—	—
Investments	93,253	103,253	114,253	124,253
Net Current Assets	(6,240)	(3,477)	(2,033)	5,143
<i>Cash & Equivalents</i>	<i>6,146</i>	<i>9,208</i>	<i>9,230</i>	<i>13,932</i>
<i>Other Current Assets</i>	<i>55,288</i>	<i>75,672</i>	<i>80,570</i>	<i>89,164</i>
<i>Current Liabilities</i>	<i>67,675</i>	<i>88,357</i>	<i>91,832</i>	<i>97,953</i>
Other Assets	—	—	—	—
Total Assets	130,732	153,308	172,893	196,650

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	67,782	67,335	73,606	83,868
EBITDA	8,619	8,973	9,060	9,819
<i>% of revenue</i>	<i>12.7</i>	<i>13.3</i>	<i>12.3</i>	<i>11.7</i>
Depr. & Amortization	1,171	1,099	1,257	1,408
Net Interest	(158)	(20)	49	68
Other Income	474	249	2,315	408
Profit before Tax	8,080	8,143	10,069	8,751
Total Tax	2,015	2,095	2,376	2,519
Profit after Tax	6,065	6,049	7,374	6,662
Adj. PAT	6,065	6,049	7,694	6,232

Key Operating Metrics

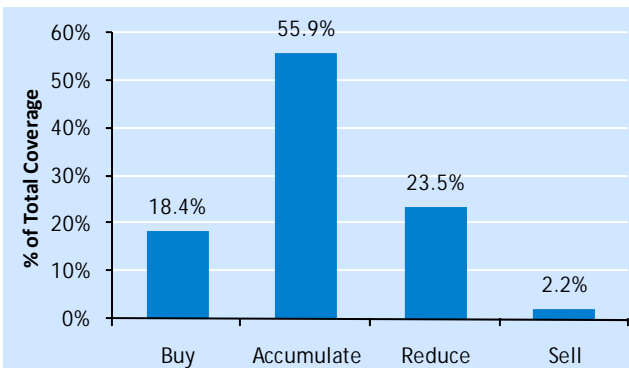
Y/e March	2011	2012E	2013E	2014E
UV sales	186,343	222,167	263,144	295,685
3 wheeler Sales	62,142	65,249	68,511	71,937
LCV Sales including pick up	105,588	141,006	154,907	171,597
Automotive Sales	364,082	448,422	511,561	564,219
Tractor sales	214,325	256,118	281,730	298,634
Total Vol.	578,407	704,540	793,291	862,853
Net Real. / Veh.	404,923	434,616	453,010	456,489
Material Cost / Veh.	281,185	318,374	333,925	337,824
Other Exp. / Veh.	40,250	38,134	38,462	37,433
EBITDA / Veh.	58,944	53,564	55,984	56,898
Net Profit / Veh.	43,036	37,596	39,218	39,748

Source: Company Data, PL Research.



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Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
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Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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