

CMP: INR717

TP: INR861

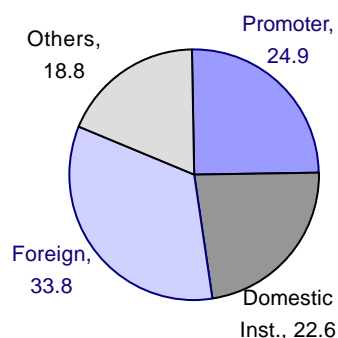
Buy



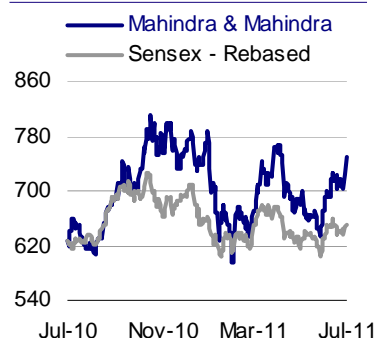
Bloomberg	MMIN
Diluted Eq. Shares (m)	613.9
52-Week Range (INR)	825/549
1,6,12 Rel.Perf.(%)	5/-6/13
M.Cap. (INR b)	420.9
M.Cap. (USD b)	10.0

Y/E March	2011	2012E	2013E
Total Inc. (INR b)	234.9	275.5	313.9
EBITDA (INR b)	34.6	36.8	43.2
Net Profit (INR b)	25.7	26.6	30.7
Adj. EPS (INR)	41.9	43.4	49.9
EPS Gr. (%)	25.8	3.5	15.1
Cons. Total Inc.	315.7	368.4	418.9
Cons Adj. PAT	24.4	28.8	31.4
Cons. EPS (INR)	46.8	51.1	63.1
BV/Sh. (INR)	175.6	203.4	240.4
P/E (x)	17.1	16.5	14.3
Cons. P/E (x)	15.3	14.0	11.4
P/BV (x)	4.1	3.5	3.0
RoCE (%)	25.6	22.7	23.0

Shareholding pattern % (Mar-11)



Stock Performance (1 year)



Model refreshes, new segments drive growth, market share

Expanding beyond tractors in agri value chain

- Domestic volumes grew 24% in FY11; 8 launches in FY12 and full benefit of 9 launches in FY11 to drive volume growth for the next 2-3 years.
- Leveraging tractor franchise to position itself across the agri-value chain.
- FY11 core auto subsidiaries losses reduced to INR4.6b (v/s INR6.8b in FY10).
- Valuations attractive at 11.2x FY13E consolidated EPS; maintain Buy.

Model refreshes, entry into new segments drive growth, market share: In FY11, M&M's domestic volumes (including auto subsidiaries) grew 24% to 560,534 vehicles, primarily driven by new product launches, entry into new segments and strong performance of its existing product range. During the year, the company launched a number of vehicles across segments, with product refreshes of Gio, Xylo and Thar. Also, it launched new products, creating new segments with the launch of Maximmo, Yuvraj, Genio and Arjun MAT. These initiatives also enabled M&M to improve market share in all segments, except UVs, where it lost share due to capacity constraints.

Expanding beyond tractors in agri value chain: M&M's strategy of expanding its scope beyond tractors to farm mechanization gained momentum in FY11. To tap the opportunity arising from shortage of farm labor and subsequent rise in cost of labor, it plans to enhance its range of mechanization solutions. The company is increasingly focusing on agri-mechanization through Mahindra AppliTrac. Further, it is operating over 133 Mahindra Samridhi Centers, which offer innovative farming technologies to farmers to help them improve productivity. The objective is to attract non-Mahindra customers to these dealerships and get converted to Mahindra tractor customers.

~9.5m ESOPs outstanding at average exercise price of INR198/share: M&M has allotted 17.35m shares (~3% of equity) to ESOP Trust at par (INR5/share), taking the trust's total holding to 26.7m shares (~4.5% of equity). Of these, ~3.2m options (~18.5%) were granted during the year at INR5/share. Staff cost for FY11 includes INR294m as amortization on account of options granted under ESOP scheme.

Core auto subsidiaries' losses reduce to INR4.6b from INR6.8b: In FY11, consolidated net sales (including non-auto subsidiaries) grew 17% to INR368b, EBITDA margin was 16.5% (v/s 17.5% in FY10), and PAT (after minority interest) grew 18% to INR28.8b. Revenue of the core automotive subsidiaries grew 78% to INR46b, restricting net loss to INR4.6b in FY11 (v/s INR6.8b in FY10). There were significant losses in Mahindra Navistar (~INR2.4b) and Mahindra Two-wheelers (~INR1.7b).

Valuation and view: Short-term headwinds notwithstanding, we remain positive on M&M's prospects, driven by dominance in its core business of UVs and tractors, with favorable competitive dynamics and strong volume growth momentum. It would be one of the biggest beneficiaries of a normal monsoon, given its high dependence on the rural market. The stock trades at attractive valuations of 14.0x FY12E and 11.4x FY13E consolidated EPS. Maintain **Buy**, with a target price of INR861 (FY13E-based SOTP).

Genio DC Double Cab pick-up**Maxximo Mini Van****Compact Cab Gio****Model refreshes, entry into new segments drive volume growth**

In FY11, M&M's domestic volumes (including auto subsidiaries) grew 24% to 560,534 vehicles, primarily driven by new product launches, entry into new segments and strong performance of its existing product range. Domestic volumes for its automotive division grew 25% to 358,021 units, whereas tractors recorded a growth of 22% to 202,513 units.

During the year, the company launched a number of vehicles across segments, which were well-received by customers. It launched product refreshes of *Gio*, *Xylo* and *Thar*. Also, it launched new products, creating new segments with the launch of *Maximmo*, *Yuvraj*, *Genio* and *Arjun MAT*. *Maximmo*, which was launched in February 2010, was rolled out nationwide in FY11. *Yuvraj* marked the entry of M&M into a new, unexplored 15 HP tractor segment, targeted at small and marginal farmers.

New product launches and model refreshes drive growth

Product	Launch Date	Segment	Remarks
Maxximo	Feb-10	0.85 tonne cargo	With full roll-out in FY11, it recorded volumes of 35,464 units in FY11, enjoying 19.1% market share in the SLCV segment
Gio Compact cab	Mar-11	0.5 tonne	Four-wheeler cab with carrying capacity of 7 people. It gives a mileage of 30km/l
Xylo D2	Jan-11	SUV	Seven-seater variant with a mileage of 14.71 kmpl
Genio Single cab	Jan-11	1.2 tonne pick-up	Caters to small and medium enterprise transportation needs, two seater
Mahindra Thar	Mar-11	SUV	A niche 4x4 SUV supporting a retro-look
Yuvraj	4QFY10	15HP tractor	It is a new segment which targets small farmers (~82% of farmers) with <5 acres of farm size. It recorded volumes of 5,776 units in FY11.
Arjun MAT			A multi-application tractor used in agricultural, combine harvester and other applications.

Launches in Q1 FY12

Maxximo Mini	Apr-11	Passenger carrier	Eight seater van diesel vehicle priced at Rs3.2 lac, targeting contract carriage segment
Genio DC	Jul-11		Double cabin pick-up vehicle, four seater

Source: Company/MOSL

Going ahead, the company plans to expand its addressable market by:

- Entering into new customer and market segments, such as mini and small trucks, and medium and heavy trucks
- Continually refreshing and updating product portfolio
- Increasing presence across the agricultural value chain
- Investing significantly in upgrading R&D and technology

M&M plans to launch 8 products in FY12, including a new SUV codenamed W201. This, coupled with the full benefit of nine launches in FY11, would drive volume growth over the next 2-3 years.

Market share improves in three-wheelers, LCVs and tractors; supply/capacity constraints lead to loss of market share in UVs

- **Tractors:** M&M's domestic tractor volumes grew 22% to 202,513 units in FY11, outperforming industry growth of 20%. As a result, its market share increased by 60bp to 42%. The growth was led by the launch of *Yuvraj*, *Arjun MAT*, and variants of *Mahindra Arjun*, *Sarpanch*, *Bhoomiputra* range and the *XM Series* from Swaraj.

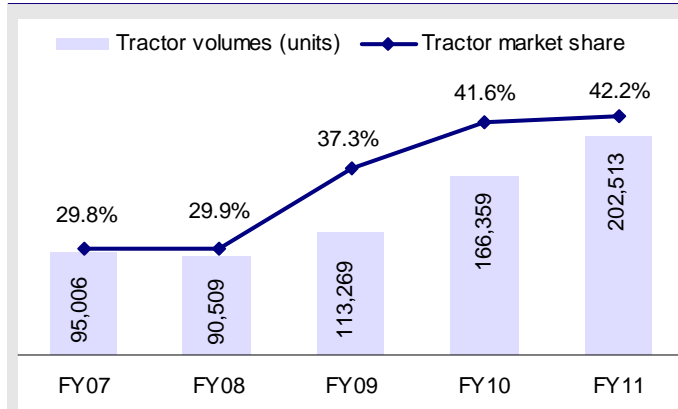
Tractor's market share increased by 60bp to 42%, led by the launch of Yuvraj

UV's market share dropped 310bp to 52.2%, due to supply side constraints

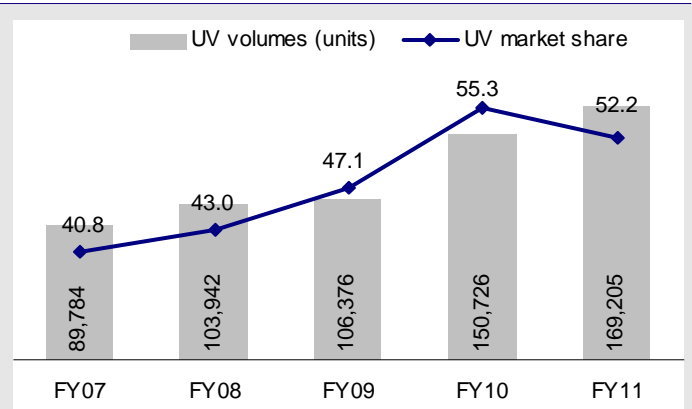
LCV segment market share improved by 170bp to 31.8% aided by the launch of Maxximo and Genio

- **UVs:** Due to significant supply and capacity constraints in UVs, M&M's domestic volumes underperformed the industry. Its UV volumes grew 12.3% to 169,205 units, against industry growth of 18.8%. Its market share dropped 310bp to 52.2%. *Bolero* recorded strong volumes of 83,000 units and continues to occupy its number-1 position for the fifth consecutive year. *Scorpio* posted growth of 19.1% to 43,438 units and *Xylo* volumes grew 14.6% to 32,062 units.
- **LCVs:** M&M's LCV sales (including JVs) outperformed the industry, registering a growth of 35.6% to 110,071 units against industry growth of 22.9%. The growth was aided by the launch of *Maxximo* and *Genio*. *Maxximo* received encouraging response, with volumes of 35,464 units, driving 200bp market share gain to 38% in the <3.5-ton segment. In the overall LCV segment, M&M is the second largest player, with a market share of 31.8% (170bp gain in FY11).
- **Three-wheelers:** Domestic three-wheeler volumes grew 40% to 62,142 units. Market share increased 170bp to 11.8%.
- **Two-wheelers:** Two-wheeler volumes witnessed further ramp-up to 163,914 units from 70,000 in FY10. M&M improved its scooter segment market share to 7.8% (v/s 5.3% in FY10).
- **Cars:** In FY11, sales of *Logan* recovered sharply, with a growth of ~88% to 10,009 units. During the year, M&M bought its JV partner's shareholding in Mahindra Automobile Distributor Private Limited (MADPL, erstwhile Mahindra Renault) and re-launched *Logan* under the Mahindra badge as *Verito*.

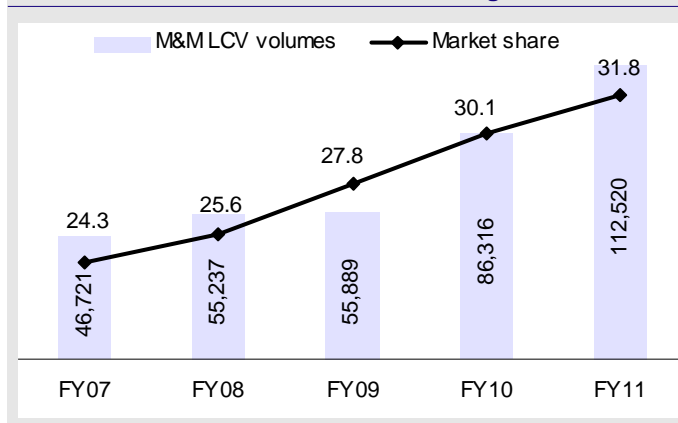
Tractors – launch of Yuvraj drives market share gains



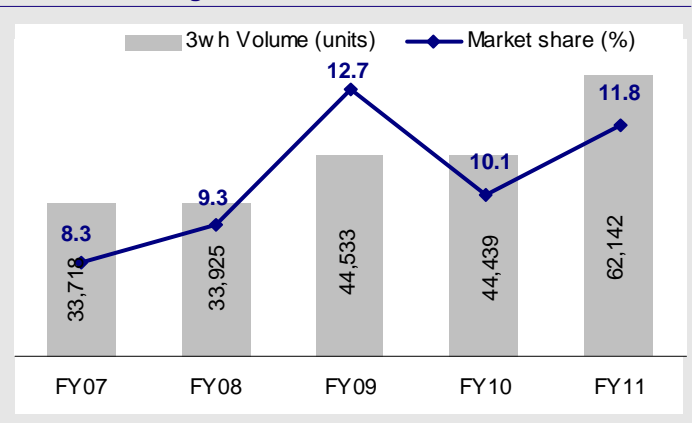
UVs – supply constraints impacts market share



LCVs – new launches drive market share gains

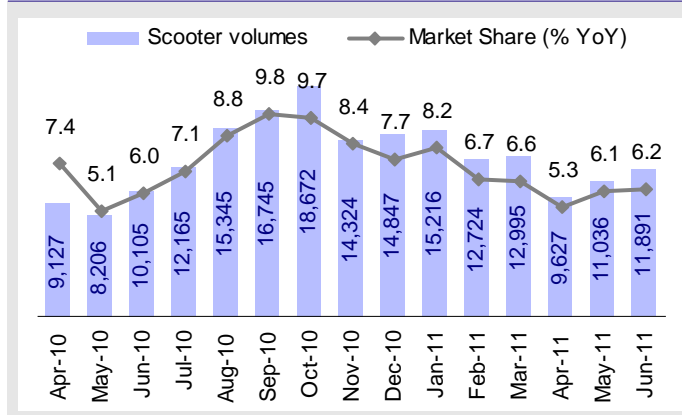


3W – recovering lost market share

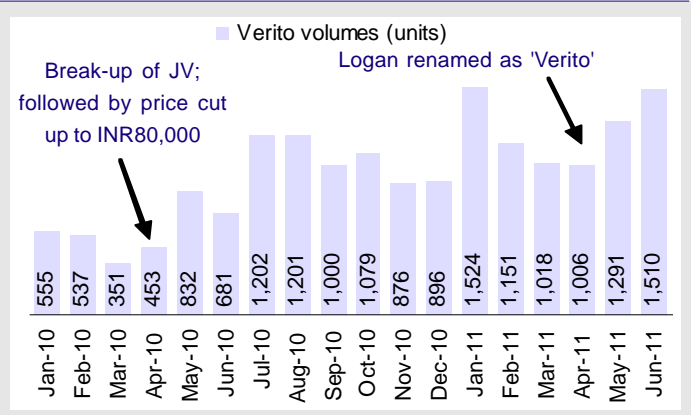


Source: Company/MOSL

Scooters: losing momentum



Cars – volumes showing improvement post-Renault's exit



Source: Company/MOSL

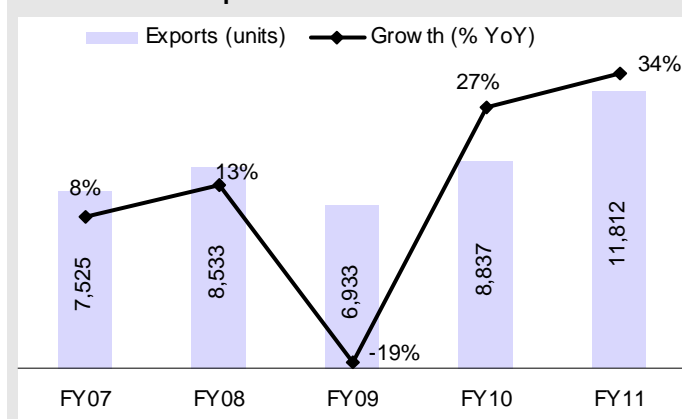
International business scaling up well

- M&M's tractor exports from India grew 34% to reach 11,812 units in FY11. Mahindra USA Inc outperformed the industry by posting 54% growth, thus gaining market share. Growth was aided by the Compact and Cabin tractor models launched last year. In the SAARC region, Nepal and Bangladesh have been key markets for M&M. Lately, M&M's tractor sales in Sri Lanka have increased, with the company now holding over 20% share in this market.
- Its Chinese tractor JV's volumes were flat, as the subsidy disbursements in China were delayed. The company retains its fifth position in the domestic market. However, export volumes from the Chinese JV grew 31%, thus achieving the third position in Chinese tractor exports.
- M&M's overseas automotive operations registered 65% growth in FY11, with the automotive segment recording exports of 19,044 vehicles. This included exports of 1,904 Logan cars through its 100% subsidiary, MADPL.

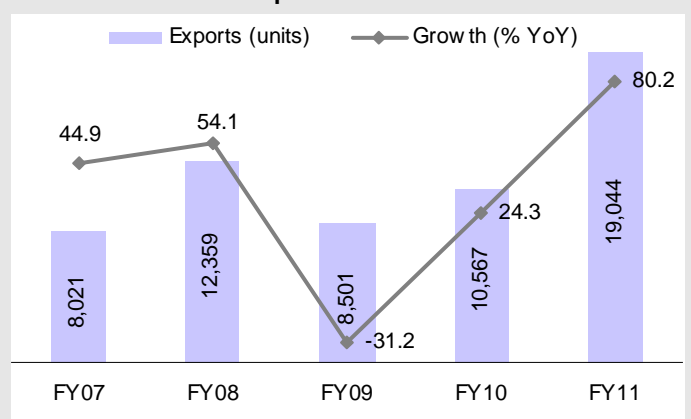
Its Chinese tractor JV's volumes were flat, as the subsidy disbursements in China were delayed

Exports witnessing strong momentum

Trend in Tractor exports



Trend in Automobile exports



Source: Company/MOSL

To tap the opportunity arising from shortage of farm labor and subsequent rise in cost of labor, it plans to enhance its range of mechanization solutions

Continued focus on evolving to farm mechanization from just tractors

- M&M's strategy of expanding its scope beyond tractors to farm mechanization gained momentum in FY11. To tap the opportunity arising from shortage of farm labor and subsequent rise in cost of labor, it plans to enhance its range of mechanization solutions. The company is increasingly focusing on agri-mechanization through Mahindra AppliTrac.

- To strengthen its offerings, *AppliTrac* has entered into an exclusive tie-up with Maschio, Italy, the world leader in rotavation equipment. In FY11, sales of *Rotavator*, which ensures more efficient land preparation, increased three-fold.
- New product launches include agri construction equipment attachments, balers, G2 13ft loaders, sugarcane lifters, straw reapers for wheat, etc.
- It is also focusing on developing mechanization solutions for the labor-intensive rice crop. This includes the rice transplanter and the tracked paddy harvester.

Mahindra Arjun MAT



Mechanized solution - paddy harvester



Source: Company/MOSL

With objective to attract non-Mahindra customers to its dealerships, it operates over 133 Mahindra Samriddhi centres, offering innovative farming technologies to farmers

Leveraging tractor franchise for deeper penetration

To penetrate deeper into the rural market, M&M has been increasing its brand presence by positioning itself across the agricultural value chain. It operates over 133 Mahindra Samriddhi Centers, which offer innovative farming technologies to farmers to help them improve productivity. As part of this concept, it has transformed several Mahindra dealerships into Samriddhi Centers, offering the farmer easy access to technological knowhow, hybrid seeds, soil and water testing facilities, demo farms, finance and insurance, internet updates, and sales and servicing of tractors and implements. The objective is to attract non-Mahindra customers to these dealerships and get converted to Mahindra tractor customers. Mahindra Samriddhi received the Golden Peacock Award for Innovation - 2010. Furthermore, it has forayed into the micro-irrigation industry by acquiring 38% stake in EPC Industrie, a company focused on micro-irrigation in India, and is making an open offer for another 20% stake.

Despite strong volume growth of ~50%, the management doesn't expect Ssangyong to breakeven at PAT level in CY11

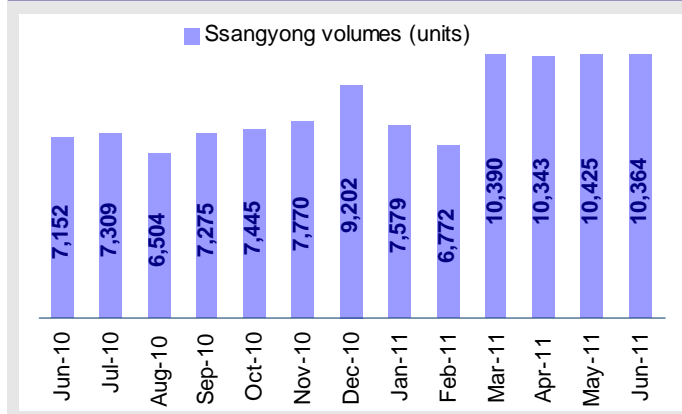
Ssangyong: Guides 50% volume growth, but PAT breakeven unlikely in CY11

In FY11, M&M acquired 70% equity stake in Ssangyong Motors (SYMC), a manufacturer of SUVs in Korea for ~USD463m (USD378m equity and USD85m debt). SYMC has a distribution network of over 130 dealers in Korea and ~1,200 dealers in more than 90 countries. The acquisition is mutually beneficial, as it gives M&M access to SYMC's product portfolio, wide distribution and sales network, while it offers financial stability to SYMC, enabling it to further strengthen its product portfolio across the globe.

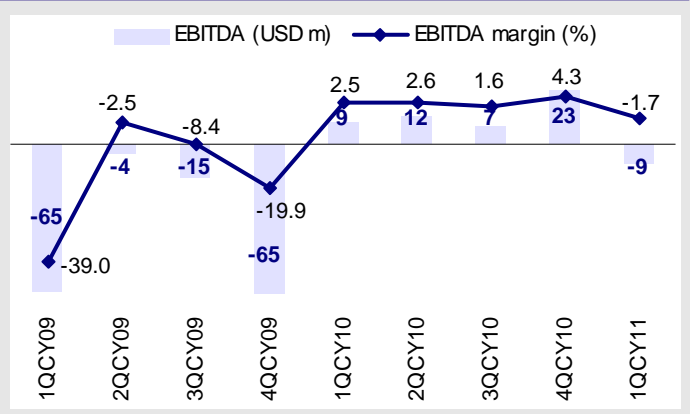
The management has guided ~50% volume growth to 120,000 units for Ssangyong in CY11, driven by recovery in its markets as well as the recent launch of *Korando-C*. It has a capacity of 120,000 units (on single shift basis), which it expects to fully utilize in CY11. As a result, it expects revenue growth of 50% to USD3b in CY11 for Ssangyong. Despite strong volume growth, the management indicated that Ssangyong would not

breakeven at PAT level in CY11. Our estimates do not yet factor in Ssangyong, given limited disclosure of its financials. However, we factor in lower interest income due to cash outflow of USD463m.

Ssangyong: Trend in volumes



Ssangyong: Trend in EBITDA



Source: Company/MOSL

Mahindra Powerol volumes declined by ~42% to 27,748 engines in FY11 impacted by slowdown in telecom

Mahindra Powerol: Adversely impacted by slowdown in Telecom

In the power genset business, Mahindra Powerol sold 27,748 engines in FY11 as against 48,011 engines in FY10. Volumes were impacted by adverse market conditions in the Telecom sector. However, Mahindra Powerol maintained focus on the customer while simultaneously looking at other growth avenues. Its growth-oriented actions include expanding offerings to 500kVA, opening up new international markets in SAARC and Africa, and growing Home UPS (HUPS) volumes to 47,217 units from 7,000 units in FY10.

It would be investing INR1.2b over three years towards promotion of the new brand positioning

Mahindra 'Rise': New brand positioning; to invest INR1.2b over three years

M&M launched a new brand positioning, expressed by the word "Rise" in January 2011. The idea of Rise rests on three brand pillars: accepting no limits, alternative thinking, and driving positive change. It would be investing INR1.2b over three years towards promotion of the new brand positioning. It had mandated Strawberry Frog, a New York based global advertising agency, to undertake anthropological and semiotic research across India and around the world, which enabled it to create this unique positioning. It involves challenging conventional thinking and innovatively using its resources to drive positive change in the lives of all its stakeholders and communities across the world, to enable them to Rise.

~9.5m ESOPs are outstanding at average exercise price of INR198.3/share, as against 26.7m shares (~4.5% of equity) held by the ESOP trust

ESOPs: ~9.5m ESOPs outstanding at average exercise price of INR198.3/share

M&M has allotted 17.35m shares (~3% of equity) to ESOP Trust at par (INR5/share), taking the trust's total holding to 26.7m shares (~4.5% of equity). Upon allotment, these options would be vesting in equal annual installments over a five year period starting January 2012. Of these, ~3.2m options (~18.5%) were granted during the year at INR5/share. The exact impact of this allotment would depend on the quantum, timing and vesting of the ESOPs. While these shares are already issued, the company reports net equity after subtracting shares issued to the trust. As a result, there would be equity dilution on exercising of these options.

In FY11, ~3.2m ESOPs were exercised at a weighted average price of INR301.7/share. Further, ~2.8m options, having weighted average price of INR303.4/share, are vested but not exercised. Staff cost for FY11 includes INR294m as amortization on account of options granted under ESOP scheme.

Summary of Stock options

	No. of options (m)	Wt. avg exercise price (INR)
Options outstanding on 1st April, 2010	9.8	298.3
Options granted during the year	3.2	5.0
Options forfeited/ lapsed during the year	0.3	294.3
Options exercised during the year	3.2	301.7
Options outstanding on 31st March, 2011	9.5	198.3
Options vested but not exercised on 31st March, 2011	2.8	303.4

Source: Company/MOSL

Options outstanding as at 31st March, 2011

Range of exercise price	No. of options (m)	Wt. avg. remaining life (yrs)
INR5	3.21	3.33
INR107.5 – INR113.5	0.32	0.20
INR180.5	0.02	0.57
INR250	2.95	5.56
INR308–INR129	0.60	2.68
INR381	1.80	4.05
INR362	0.61	6.23

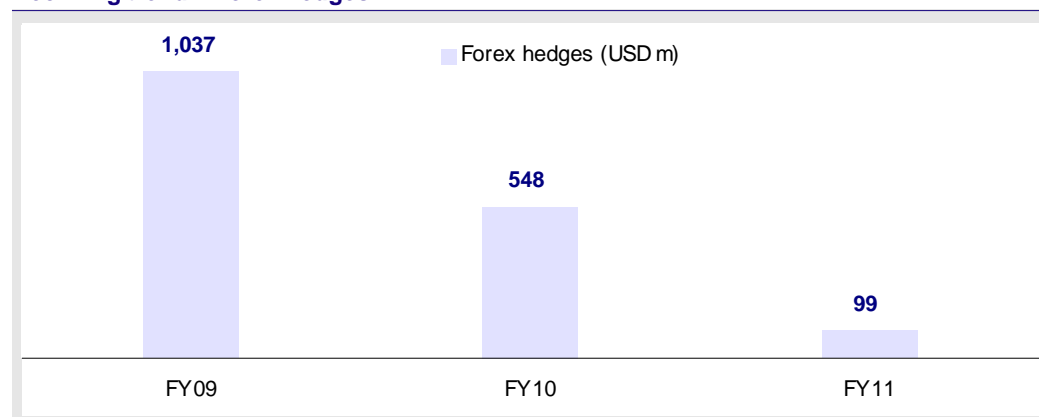
Source: Company/MOSL

Foreign exchange hedges have declined meaningfully

M&M's forex hedges have declined from USD1b in FY09 to USD99m in FY11

M&M's forex hedges have declined from USD1b in FY09 to USD99m in FY11. Its outstanding foreign exchange hedges were USD99m (FY10: USD548m), comprising Forward Contracts: USD45m (FY10: USD321m), Range Forwards: USD36m (FY10: USD72m) and USD18m (FY10: USD155m) of derivative structures in the form of 'strips'. In FY11, it had exports of INR10.5b (~USD235m) and imports of INR3.7b (~USD83m), and has ECBs of ~USD230m.

Declining trend in forex hedges



Source: Company/MOSL

Mahindra Navistar (INR2.4b) and Mahindra Two-wheelers (INR1.7b) were major contributors to automotive subsidiaries losses of INR4.6b

Core automotive subsidiaries' reported net loss reduced to INR4.6b

In FY11, consolidated net sales (including non-auto subsidiaries) grew 17% to INR368b, EBITDA margin was 16.5% (v/s 17.5% in FY10), and PAT (after minority interest) grew 18% to INR28.8b. The revenue of core automotive subsidiaries grew 78% to INR46b, restricting net loss to INR4.6b in FY11 (v/s INR6.8b in FY10). The performance of the company's major automotive subsidiaries was as follows:

- Chinese tractor JVs, Mahindra Tractor Company and Mahindra Yueda Tractor Company together reported 6% decline in revenue to INR6.1b and net loss of INR126m against INR239m loss in FY10.
- MADPL (erstwhile Mahindra Renault) revenue declined 18% to INR6.7b. It reported a loss of INR208m against loss of INR4.9b in FY10.
- Revenue for Mahindra First Choice remained flat at INR1.4b. However, loss increased to INR167m in FY11 from INR149m in FY10.
- Mahindra Navistar (including engine JV) reported 38% increase in revenue to INR8.4b. However, loss increased to INR2.4b from INR398m in FY10.
- Mahindra Two-wheeler revenue more than doubled to INR5.7b. However, loss increased to INR1.7b from INR969m in FY10.
- MVML reported revenue of INR13b, up from INR1b in FY10, resulting in a profit of INR264m in FY11 v/s a loss of INR194m in FY10.

Subsidiary performance (INR m)*

Subsidiaries	Gross Turnover			PAT		
	FY11	FY10	% YoY	FY11	FY10	% YoY
Mahindra (China) Tractor Company Limited	747	856	-12.8	-147	-134	-
Mahindra Yueda (Yancheng) Tractor Company Limited	5,394	5,655	-4.6	21	-105	-
Mahindra First Choice Services Limited	148	100	48.4	-106	-62	-
Mahindra First Choice Wheels Limited	1,218	1,267	-3.9	-61	-87	-
Mahindra Gujarat Tractor Limited	874	764	14.4	39	30	29%
Mahindra Hinoday Industries Limited	4,034	-	NA	-74	-	-
Mahindra Navistar Automotives Limited	7,843	6,039	29.9	-1,863	-257	-
Mahindra Navistar Engines Private Limited	516	5	9463.0	-504	-141	-
Mahindra Reva Electric Vehicles Private Limited	277	-	NA	-249	-	-
Mahindra Two Wheelers Limited	5,720	2,590	120.9	-1,692	-969	-
Mahindra Vehicle Manufacturers Limited	13,021	1,035	1157.6	264	-194	-
Mahindra Automobile Distributor Private Limited	6,072	7,412	-18.1	-208	-4,902	-
Core Automotive subsidiaries	45,864	25,724	78.3	-4,581	-6,820	-

* Not on pro-rata basis

Source: Company/MOSL

Trend in consolidated revenues (INR M)

	FY08	FY09	FY10	FY11
Automotive	85,320	83,234	112,760	148,930
% of total	35.1	31.1	35.7	40.4
Farm Equipment	53,537	67,138	89,933	108,411
% of total	22.0	25.1	28.5	29.4
IT Services*	39,179	46,543	48,245	25,752
% of total	16.1	17.4	15.3	7.0
Systech	33,253	36,249	25,465	34,738
% of total	13.7	13.5	8.1	9.4
Others	31,601	34,506	39,501	50,642
% of total	13.0	12.9	12.5	13.7
Total Revenues	242,890	267,670	315,905	368,473

* On pro-rata basis from FY11

Source: Company/MOSL

Trend in consolidated PBIT (INR M)

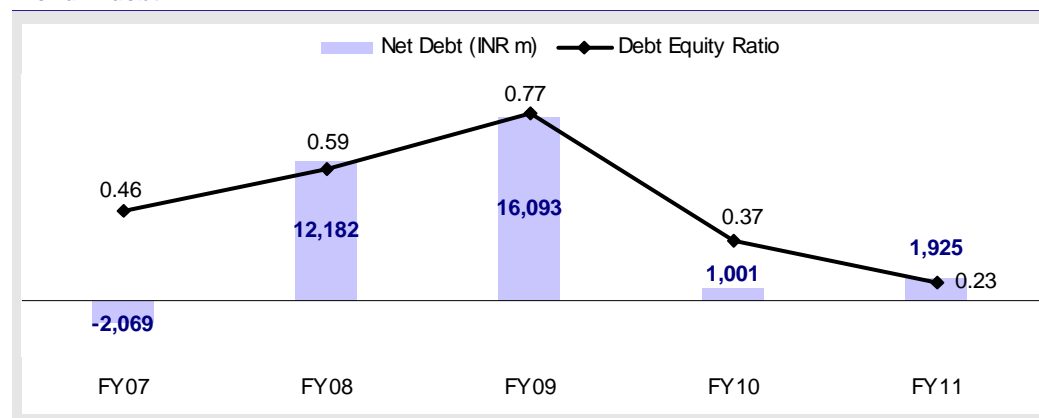
	FY08	FY09	FY10	FY11
Automotive	7,413	2,577	12,614	16,323
PBIT Margins (%)	8.7	3.1	11.2	11.0
Farm Equipment	6,035	6,679	14,067	17,015
PBIT Margins (%)	11.3	9.9	15.6	15.7
IT Services *	8,020	11,263	10,264	4,407
PBIT Margins (%)	20.5	24.2	21.3	17.1
Systech	2,013	239	-1,060	1,019
PBIT Margins (%)	6.1	0.7	-4.2	2.9
Others	6,700	5,557	7,785	9,263
PBIT Margins (%)	21.2	16.1	19.7	18.3
Total PBIT	30,180	26,314	43,670	48,026
PBIT Margins (%)	12.4	9.8	13.8	13.0

* On pro-rata basis from FY11

Source: Company/MOSL

Debt-equity ratio declines

M&M's debt-equity ratio declined to 0.23x in FY11 from 0.37x in FY10, as it redeemed FCCBs aggregating to USD140.1m and converted USD188.4m FCCBs by allotting 18.15m shares. It also repaid foreign currency loans aggregating to INR1.76b and Non-Convertible Redeemable Debentures of INR2b during the year. Additionally, the company has raised ECBs aggregating USD150m.

Trend in debt

Source: Company/MOSL

Other observations

We have made following observations, for which we are seeking clarity from the management:

- In standalone accounts, there is provision for diminution in the value of long-term investments and other assets to INR4b in FY11 (v/s INR0.7b in FY10).
- In consolidated accounts, there is provision for impairments of INR21.6b in FY11 (v/s INR3.1b in FY10).
- In consolidated accounts, there is addition to goodwill of INR4.8b in FY11, taking total goodwill to INR19.5b.
- In consolidated accounts, there is addition of capital reserve on consolidation of INR11.4b to total capital reserve of INR12.8b.

Valuation and view

Short-term headwinds notwithstanding, we remain positive on M&M's prospects, driven by dominance in its core business of UVs and tractors, with favorable competitive dynamics and strong volume growth momentum. It would be one of the biggest beneficiaries of a normal monsoon, given its high dependence on the rural market. Our estimates are yet to factor in any contribution from Ssangyong, but factor in cash outflow of USD463m and resultant lower other income. The stock trades at attractive valuations of 14.0x FY12E and 11.4x FY13E consolidated EPS. Maintain **Buy**, with a target price of INR861 (FY13E-based SOTP).

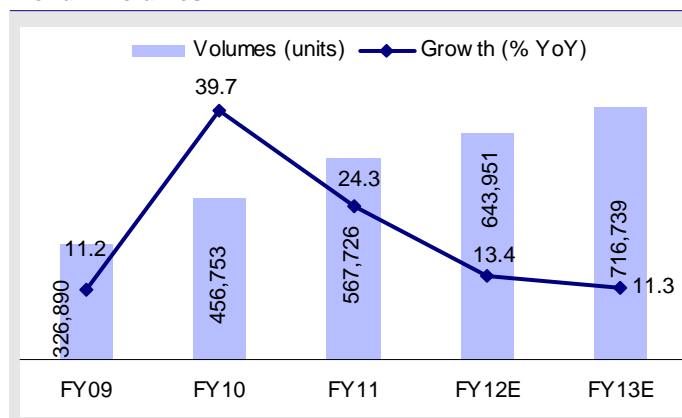
M&M: Sum-of-the-parts (INR/share)

	FY12E	FY13E
Value of core business		
Core EPS (excl. subsidiary dividend)	43.4	49.9
PE attributable (x)	14	14
Target price	608	699
Value of listed subsidiaries		
1. Tech Mahindra		
No. of shares held by M&M (m)	61	61
CMP	775	775
Value of holding (Rs m)	47,024	47,024
Value per share of M&M	77	77
Value p.s. of M&M after 20% disc.	61	61
2. M&M Financial Services		
Value per share of M&M	63	63
Value p.s. of M&M after 20% disc.	50	50
3. Mahindra Lifespaces		
Value per share of M&M	9	9
Value p.s. of M&M after 20% disc.	8	8
4. Mahindra Holidays		
Value per share of M&M	39	39
Value p.s. of M&M after 20% disc.	31	31
5. Others - Value per share of M&M	20	11
Target price (@ 20% HoldCo discount)	778	861

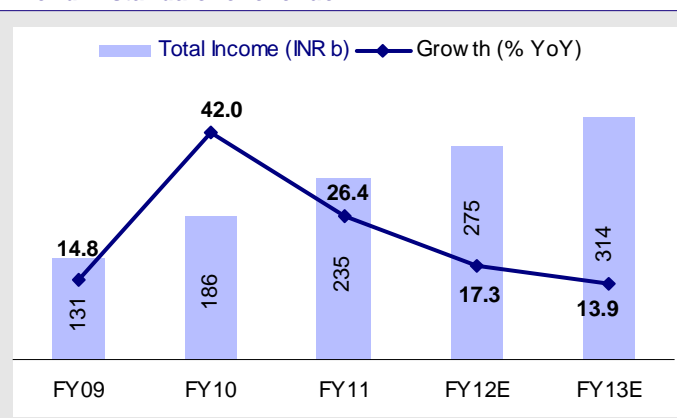
Source: Company/MOSL

Annexure

Trend in volumes

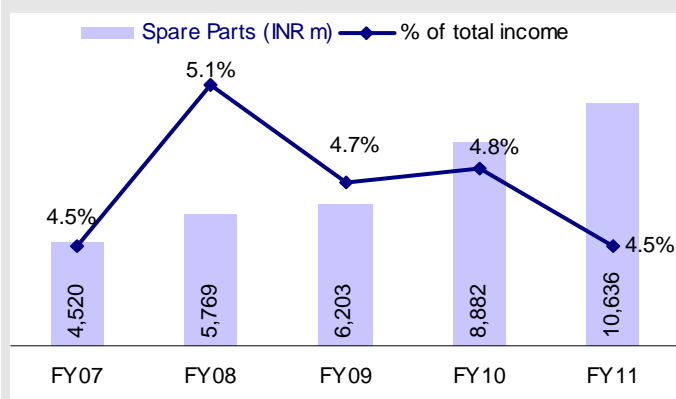


Trend in standalone revenue

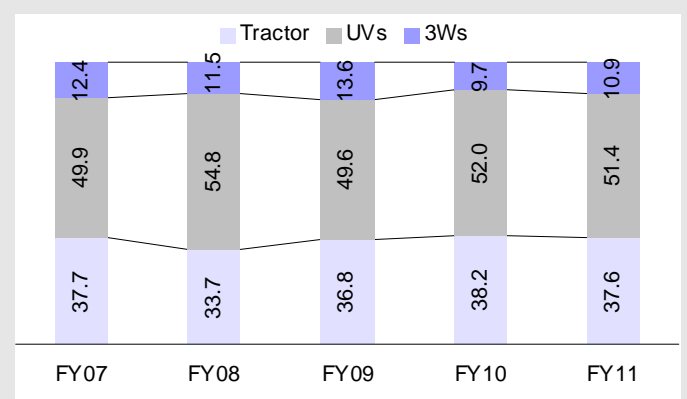


Source: Company/MOSL

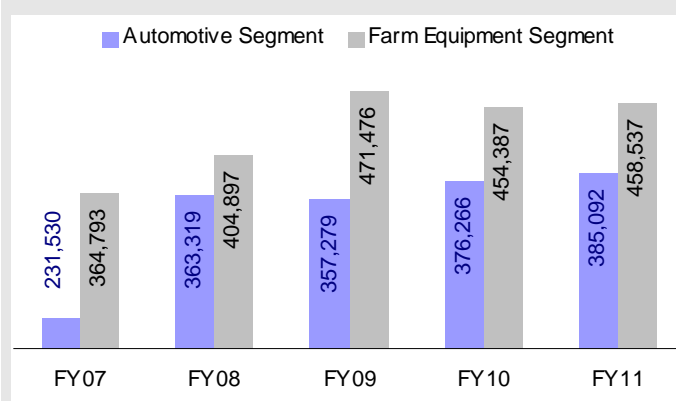
Trend in Spare Parts



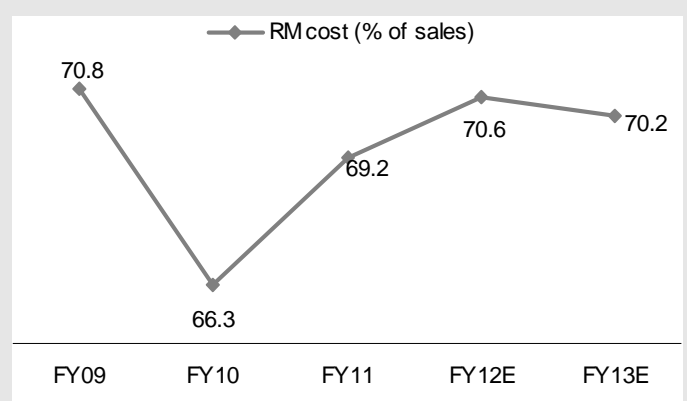
Despite deteriorating product mix (%)...



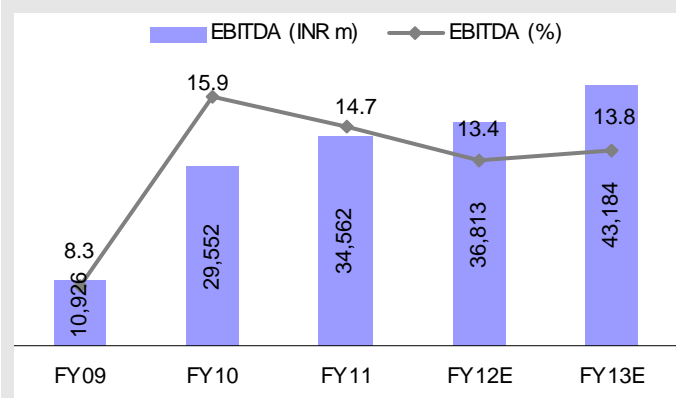
Price hikes lead to higher realizations (INR/unit)



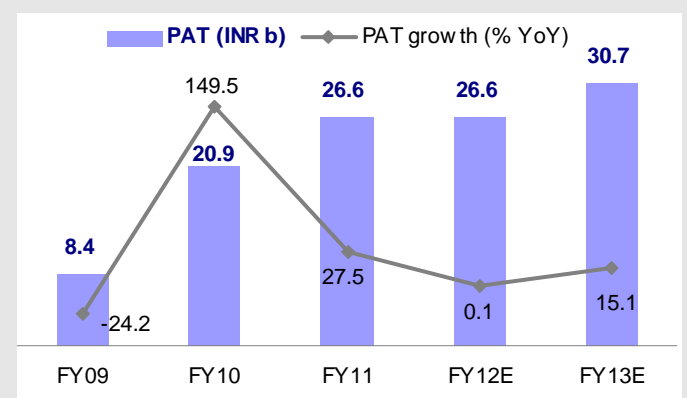
Increase in raw material cost ...



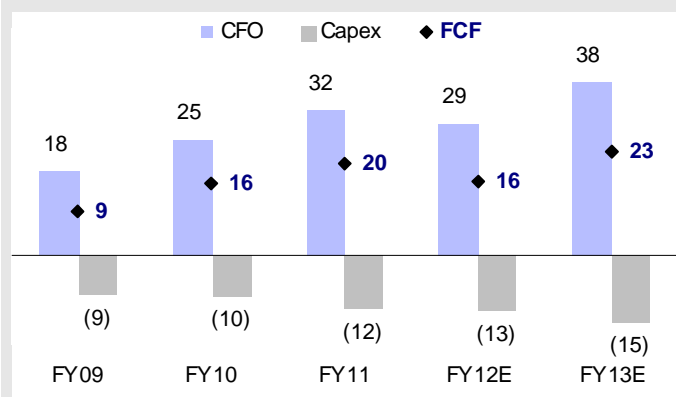
... leads to contraction in EBITDA margin



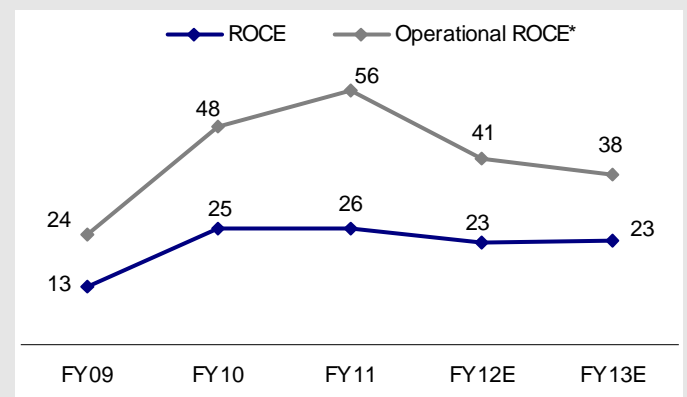
Trend in PAT



Trend in Free Cash Flow (INR b)



Trend in ROCE (%)



* Adjusted for investment in subsidiaries and dividends from subsidiaries

Source: Company/MOSL

Financials and Valuation

Income Statement					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Gross Sales	129,770	142,684	198,321	248,502	296,928	338,577
Less: Excise	15,664	16,194	18,073	20,920	24,945	28,671
Net Sales	114,106	126,491	180,248	227,582	271,983	309,906
Change (%)	14.3	10.9	42.5	26.3	19.5	13.9
Operating Other Income	0	4,446	5,641	7,362	3,500	4,000
Total Income	114,106	130,937	185,888	234,944	275,483	313,906
Change (%)	14.3	14.8	42.0	26.4	17.3	13.9
Total Expenditure	101,672	120,011	156,336	200,382	238,670	270,723
EBITDA	12,434	10,926	29,552	34,562	36,813	43,184
Change (%)	3.6	-12.1	170.5	17.0	6.5	17.3
% of Net Sales	10.9	8.3	15.9	14.7	13.4	13.8
Depreciation	2,387	2,915	3,708	4,139	4,895	5,873
EBIT	10,048	8,011	25,845	30,423	31,918	37,311
Int. & Finance Charges	242	453	278	-503	117	134
Other Income	1,682	3,936	1,994	3,095	3,487	3,710
Non-recurring Expense	75	4,888	0	0	0	0
Non-recurring Income	2,656	3,759	908	1,175	0	0
Profit before Tax	14,068	10,365	28,468	35,196	35,288	40,887
Tax	3,034	1,997	7,590	8,575	8,646	10,222
Effective Rate (%)	21.6	19.3	26.7	24.4	24.5	25.0
Profit after Tax	11,034	8,368	20,878	26,621	26,643	30,665
Adj. Profit after Tax	10,332	9,297	20,451	25,732	26,643	30,665
Change (%)	12.3	(10.0)	120.0	25.8	3.5	15.1

Balance Sheet					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Share Capital	2,431	2,726	2,830	2,936	3,008	3,008
Reserves	41,070	49,714	75,473	100,198	119,322	141,566
Net Worth	43,501	52,440	78,302	103,134	122,329	144,573
Deferred tax	567	-183	2,403	3,544	3,544	3,544
Loans	25,871	40,528	28,802	24,053	29,981	29,981
Capital Employed	69,939	92,785	109,507	130,731	155,854	178,098
Gross Fixed Assets	36,561	48,939	52,763	62,277	74,636	89,636
Less: Depreciation	18,417	23,263	25,378	28,417	33,312	39,185
Net Fixed Assets	18,145	25,676	27,385	33,860	41,324	50,451
Capital WIP	5,465	6,467	9,642	9,859	10,000	10,000
Investments	42,151	57,864	63,980	93,253	92,272	92,272
Curr.Assets, L & Adv.	36,554	50,629	60,424	61,435	89,410	113,054
Inventory	10,841	10,607	11,888	16,942	19,866	22,637
Sundry Debtors	10,049	10,437	12,581	13,547	18,869	21,500
Cash & Bank Balances	8,612	15,744	17,432	6,146	21,682	36,028
Loans & Advances	6,919	13,826	18,014	23,732	27,926	31,821
Others	133	16	509	1,067	1,067	1,067
Current Liab. & Prov.	32,510	47,978	51,965	67,676	77,152	87,679
Sundry Creditors	21,613	33,368	32,601	45,940	52,832	60,201
Other Liabilities	1,463	1,834	1,399	1,677	1,677	1,677
Provisions	9,435	12,776	17,965	20,059	22,642	25,801
Net Current Assets	4,044	2,652	8,458	-6,241	12,258	25,375
Misc. Expenditures	135	126	41	0	0	0
Application of Funds	69,939	92,785	109,507	130,731	155,854	178,098

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2008	2009	2010	2011	2012E	2013E
Basic (INR)						
EPS	21.3	17.1	36.1	43.8	44.3	51.0
Fully diluted EPS	16.8	15.1	33.3	41.9	43.4	49.9
Consolidated EPS	25.2	24.5	39.7	46.8	51.1	63.1
Cash EPS	26.2	22.4	42.7	50.9	52.4	60.7
Book Value per Share	89.5	96.2	138.4	175.6	203.4	240.4
DPS	6.3	5.0	9.5	11.5	12.5	14.0
Payout (Incl. Div. Tax, %)	28.0	38.7	29.9	30.2	33.0	32.1

Valuation (x)

P/E				17.1	16.5	14.3
Consolidated P/E				15.3	14.0	11.4
Cash P/E				14.1	13.7	11.8
EV/EBITDA				12.2	11.7	10.0
EV/Sales				1.8	1.6	1.4
Price to Book Value				4.1	3.5	3.0
Dividend Yield (%)				1.6	1.7	2.0

Profitability Ratios (%)

EBIDTA Margins	10.9	8.3	15.9	14.7	13.4	13.8
Net Profit Margins	9.7	6.4	11.2	11.3	9.7	9.8
RoE	23.8	17.7	26.1	25.0	21.8	21.2
RoCE	16.8	12.9	25.4	25.6	22.7	23.0

Turnover Ratios

Debtors (Days)	32	30	25	22	25	25
Inventory (Days)	35	31	24	27	27	27
Creditors (Days)	69	96	66	74	71	71
Asset Turnover (x)	1.6	1.4	1.6	1.7	1.7	1.7

Leverage Ratio

Debt/Equity (x)	0.6	0.8	0.4	0.2	0.2	0.2
-----------------	-----	-----	-----	-----	-----	-----

Cash Flow Statement

(INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
OP/(Loss) before Tax	11,120	8,483	26,815	31,311	31,918	37,311
Int./Dividends Received	1,346	2,170	1,880	2,370	3,487	3,710
Depreciation & Amort.	2,387	2,915	3,708	4,139	4,895	5,873
Direct Taxes Paid	-2,777	-1,003	-7,114	-7,725	-8,646	-10,222
(Inc)/Dec in Wkg. Capital	-2,472	5,918	-45	2,074	-2,963	1,229
CF from Oper. Activity	9,604	18,483	25,245	32,168	28,691	37,901
CF after EO Items	9,604	18,483	25,245	32,168	28,691	37,901
(Inc)/Dec in FA+CWIP	-7,171	-9,152	-9,607	-12,070	-12,500	-15,000
(Pur)/Sale of Invest.	-12,416	-12,302	-5,909	-27,627	981	0
CF from Inv. Activity	-19,587	-21,454	-15,516	-39,697	-11,519	-15,000
Change in Net Worth	0	0	724	87	1,350	1,432
Inc/(Dec) in Debt	10,095	11,123	-3,077	3,311	5,928	0
Interest Paid	-801	-952	-2,295	-1,016	-117	-134
Dividends Paid	-1,180	-3,203	-3,191	-6,223	-7,519	-8,421
CF from Fin. Activity	8,113	6,969	-7,839	-3,842	-359	-7,124
Inc/(Dec) in Cash	-1,872	3,998	1,890	-11,371	16,814	15,778
Add: Beginning Balance	13,618	11,746	15,744	17,432	6,146	21,682
Closing Balance	11,746	15,745	17,634	6,061	22,960	37,460

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Mahindra & Mahindra

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com