

RESULTS REVIEW

Mahindra and Mahindra

Hold

Share Data

Market Cap	Rs. 250. bn
Price	Rs. 896.45
BSE Sensex	16,866.41
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 942.7/235.5
Shares Outstanding	278.8 mn

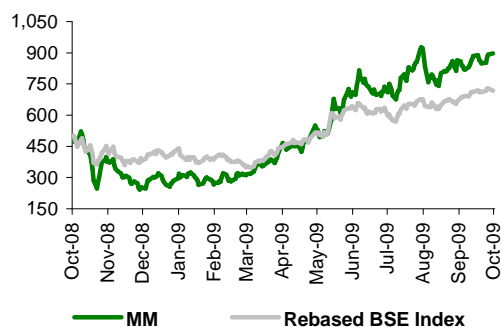
Valuation Ratios (Standalone)

Year to 31 March	2010E	2011E
EPS (Rs.)	48.8	56.7
+/- (%)	52.2%	16.2%
PER (x)	18.4x	15.8x
EV/ Sales (x)	1.6x	1.5x
EV/ EBITDA (x)	12.8x	11.9x

Shareholding Pattern (%)

Promoters	29
FII's	22
Institutions	27
Public & Others	22

Relative Performance



Long-term growth prospects remain intact

Mahindra & Mahindra Ltd. (M&M) reported another strong set of numbers in Q1'10. The net sales of the Company increased by 28.7% yoy to Rs. 42.3 bn, and the net profit jumped by 151.7% yoy to Rs. 4 bn, driven by better volumes, resulting from its merger with Punjab Tractor Limited (PTL), higher price realisations, and M&M's cost saving initiatives. We continue to hold a positive outlook on the Company, considering the improving consumer sentiments and credit availability, primarily in the rural areas where M&M has a strong foothold.

Positive Auto sector outlook; SIAM expects 8-9% industry growth:

Sales in the Auto sector are expected to remain strong in the remaining part of 2009, mainly on account of lower interest rates, improving customer sentiments, and the approaching festive season. The Society of Indian manufacturers (SIAM) has forecasted an upward trend in vehicle sales. According to SIAM, the forecast of the industry could well be revised upwards on the basis of current trends. Sugato Sen, Senior Director of SIAM, expects a high single-digit growth of 8-9% in the coming quarters.

M&M to strengthen its rural presence in the two-wheeler segment:

In September 2009, the Company launched two-wheelers in the rural market. With this launch, the Company plans to further expand its extensive presence in the rural markets. As per the Company's management, scooters, though more powerful, have been priced lower than the ones sold by competitors. The Company has three products in this segment

Key Figures (Standalone)

Quarterly Data:	Q1'09	Q4'09	Q1'10	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	32,872	36,192	42,295	28.7%	16.9%
Adj. EBITDA	2,559	5,612	6,090	138.0%	8.5%
Adj. Net Profit	1,593	4,181	4,009	151.7%	(4.1)%

Margins(%)

EBITDA	7.8%	15.5%	14.4%
NPM	4.8%	11.6%	9.5%

Per Share Data (Rs.)

Adj. EPS	6.66	15.34	14.70	120.7%	(4.2)%
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(Duro, Flyte, and Rodeo), and three Kinetic products (Nova, 4S, and Kine) that it can market. The Company also plans to roll out new models of Italjet Moto SpA, developed by an Italian scooter and motorcycle manufacturing company. M&M has inherited the rights to make powerful and stylish scooters of Italjet as a result of the buy-out of assets of the Pune-based Kinetic Motors in July 2008.

Increasing its presence in the US markets: The Company is planning to launch its Scorpio variant in the US in Q1'11. Further, the Company plans to roll out its pick-up trucks in the US and is also exploring options to acquire an US facility meant for assembling pick-up trucks, an option that should save it an import penalty. The Company already sells tractors in the US market and has three local assembly plants.

Developing "Global SUV": The Company is investing around Rs. 7-8 bn to develop its global brand, "Global SUV". It plans to launch it in foreign markets, targeting people who are looking for a value-for-money vehicle. As per the news, this new brand will be a 'crossover' (typically designed for light off-road capability, which offers the comfort of a car, while sporting the macho looks of an SUV). The new "Global SUV" is expected to hit the market during the second-half of FY11.

Valuation

We hold a positive outlook on the Company due to lower interest rates, easing financing terms and improving customer sentiments. At the current market price (CMP) of Rs. 896.45, the stock is trading at a forward P/E of 18.4x and 15.8x for FY10E and FY11E, respectively. We have valued M&M by using the SOTP method. Based on our valuation (DCF for the standalone business, and CMP for other subsidiaries), we have arrived at a target price of Rs. 862. Since our target price does not provide any significant downside potential from the CMP, we give a Hold rating to the stock.

Result Highlights and Outlook

Sustainable top-line growth

In Q1'10, M&M's net sales jumped 28.7% yoy to Rs. 42.3 bn, driven by increased volumes, improved realisations and a strong performance of the UV segment. During the quarter, net realisations increased by 1.9% yoy (17.2% qoq) to Rs. 457,083 per unit, and the total volume increased by 23.8% yoy to 102,280 vehicles.

During Q4'09, M&M merged its wholly-owned subsidiary, PTL with its Farm Equipment segment. This resulted in a 44.1% jump in the tractor sales volume of the Company to 43,383 units. Thus, the sales of its Company's Farm Equipment segment surged by 48.5% to Rs.19.8 bn during Q1'10.

Going forward, we expect a revival of demand in the Farm Equipment segment, driven by the Government's efforts to boost the Agriculture sector. Overall, we expect FY10 volumes to increase by ~24% on account of a recovery in the Auto sector and increased volumes as a result of the PTL merger.

Volumes	Q1'09	Q4'09	Q1'10	QoQ %	YoY %
Automotive Segment					
Domestic	49,315	58,369	57,752	(1%)	17%
Exports	3,187	1,052	1,145	9%	(64%)
Total Automotive	52,502	59,421	58,897	(1%)	12%
Farm Segment					
Domestic	28,004	43,081	41,963	(3%)	50%
Exports	2,102	1,262	1,420	13%	(32%)
Total Farm	30,106	44,343	43,383	(2%)	44%
Total Sales	82,608	103,764	102,280	(1%)	24%

Margins to improve in FY10

In Q1'10, the EBITDA margin increased 660 bps to 14.4%, mainly on account of lower raw material cost and other cost-cutting initiatives adopted by the Company. While raw material cost declined by 350 bps yoy to 64.8% (as a % of sales), other expenses (as a % of sales) declined to 12.3% from 16.0% in Q1'09. Subsequently, EBITDA jumped by 138% yoy to Rs. 6.1 bn in Q1'10.

Going forward, in FY10 we expect M&M to maintain healthy margins, as commodity prices have substantially fallen from the high levels witnessed during the first half of FY09. Overall, we expect the Company's FY10 EBITDA margin to be ~12.8%, as compared with 8.3% in FY09.

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	164,305	179,495	17.1%
Adj. EBITDA	13,949	13,666	10,926	20,955	22,384	43.1%
Adj. Net Profit	9,789	9,731	8,285	12,614	14,657	33.0%
Margins(%)						
EBITDA	13.7%	11.8%	8.3%	12.8%	12.5%	
NPM	9.6%	8.4%	6.3%	7.7%	8.2%	
Per Share Data (Rs.)						
Adj. EPS	38.4	36.6	32.0	48.8	56.7	33.0%
PER (x)	20.3x	19.0x	28.0x	18.4x	15.8x	

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