

RESULTS REVIEW
Mahindra and Mahindra
Buy
Share Data

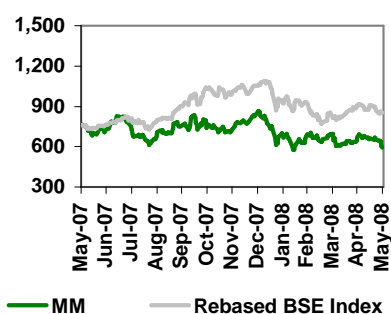
Market Cap	Rs. 145.6 bn
Price	Rs. 592.5
BSE Sensex	16,415.57
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 872/543
Shares Outstanding	245.7 mn

Valuation Ratios (Standalone)

Year to 31 March	2009E	2010E
EPS (Rs.)	36.5	40.3
+/- (%)	(0.8)%	10.2%
PER (x)	16.2x	14.7x
EV/ Sales (x)	1.2x	1.1x
EV/ EBITDA (x)	10.3x	9.1x

Shareholding Pattern (%)

Promoters	23
FII's	25
Institutions	26
Public & Others	25

Relative Performance

Going strong

Mahindra & Mahindra Ltd. (M&M) reported impressive results for FY08, despite the slowdown in the Indian auto industry, rising steel prices, and the appreciating rupee, which impacted the Company's exports. Standalone net sales increased 14.5% yoy, owing to the Automotive segment's strong performance. This segment witnessed a significant jump of 29.8% yoy in volumes to 231k units. Led by the unmatched success of Bolero, M&M's core Utility Vehicle (UV) business registered a 16.4% yoy growth, compared with the industry's growth rate of 5.1%. However, reduced availability of credit, high interest rates, and increasing NPAs continued to hit the domestic tractor industry. As a result, the Farm Equipment Segment (FES) reported a 3.8% yoy decline in volumes for FY08, partially offset by higher export sales volume.

Going forward, the launches of Scorpio in the international markets, Ingenio in FY09E, and another SUV in FY11E should boost M&M's growth in the UV segment. Further, FES sales should regain momentum with increased government focus on the rural economy due to the upcoming elections and rising disposable incomes. Thus, we expect the Company's top line to grow at a healthy pace in the near future. However, rising steel prices and the appreciating rupee will pressurise M&M's margins.

At the current market price (CMP) of Rs. 592.5, the stock trades at a forward P/E of 16.2x FY09E and 14.7x FY10E. With subsidiaries performing strongly and the listing of Mahindra Holidays & Resorts expected to unlock value, we believe that the stock has a significant upside potential. Based on SOTP valuation, we reiterate our Buy rating with a revised target price of Rs.800.

Key Figures (Standalone)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY07	FY08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	27,200	29,402	31,482	15.7%	7.1%	99,634	114,106	14.5%
Adj. EBITDA	3,453	3,554	3,683	6.7%	3.6%	13,949	14,197	1.8%
Adj. Net Profit	2,487	2,782	2,112	(15.1)%	(24.1)%	9,789	9,785	(0.03)%
Margins(%)								
EBITDA	12.5%	12.0%	11.6%			13.7%	12.3%	
NPM	9.0%	9.4%	6.7%			9.6%	8.5%	
Per Share Data (Rs.)								
Adj. EPS	9.3	10.7	8.6	(6.9)%	(19.8)%	38.4	36.8	(4.1)%

Result Highlights (Standalone)

For FY08, net sales increased 14.5% yoy to Rs. 114.1 bn on the back of a 17.6% yoy improvement in volumes, despite lower average realisations. While the Automotive Segment continued to witness a healthy growth in volumes, particularly in the UV segment, FES volumes were adversely impacted by stringent financing norms in the domestic market.

Automotive Segment: The Automotive Segment reported an impressive 29.8% yoy surge in volumes on the back of the Company's core UV business. While industry growth was restricted to a mere 5.1% yoy, M&M reported an increase of 16.4% yoy, driven by outstanding performances of Bolero and Scorpio. The Company's market share in the domestic UV business increased to 51.5% in comparison to 46.6% during the previous year. With the launch of Logan in FY08, M&M has forayed into the passenger vehicle segment and gained a market share of 11.2% in the C-segment category. LCVs reported a 20.2% yoy jump in volumes, led by the strong performance of the Maxi truck during the year. As a result, the domestic market improved 28.7% yoy and exports soared a whopping 54.1% yoy. With the expected launch of Ingenio during the current year and a new SUV in FY11E, we expect M&M to strengthen its position.

Ingenio to be launched during FY09

Farm Equipment Segment (FES): Reduced availability of credit, high interest rates, and increasing NPAs continued to hit the domestic tractor industry. As a result, the Farm segment reported a 3.8% yoy decline in volumes for FY08. However, tractor exports remained unaffected and moved up 14.8% yoy to 9k units. We believe that the government's increased focus on the rural economy due to the upcoming elections and rising disposable incomes due to the increase in the minimum support prices would help FES to start regaining momentum in FY09E. Further, the loan waiver given to the farmers will also act as a catalyst.

Stricter financing norms for FES due to increasing NPAs

Sales volume

Auto Segment	FY07	FY08	YoY%
Scorpio	38,015	39,935	5.1%
UV's excluding Scorpio	89,841	108,826	21.1%
Total UV's	127,856	148,761	16.4%
LCV's	8,652	10,401	20.2%
Logan	-	25,907	NM
Total 4-Wheelers	136,508	185,069	35.6%
3-Wheelers	33,672	33,927	0.8%
Total Domestic Vehicles	170,180	218,996	28.7%
Exports	8,021	12,359	54.1%
Total Vehicles	178,201	231,355	29.8%
Farm Segment	FY07	FY08	YoY%
Domestic	95,004	90,037	(5.2)%
Exports	7,525	8,637	14.8%
Total Tractor	102,529	98,674	(3.8%)
Total Volumes	280,730	330,029	17.6%

Source: Company data, Indiabulls research

Higher staff costs and other expenses continued to affect EBITDA margin

Adj. EBITDA for the year improved marginally by 1.8% yoy, but EBITDA margin fell sharply by 140 bps yoy to 12.3%. The dip in EBITDA margin was due to an increase in staff costs and other expenses. While staff costs went up 80 bps yoy, to 7.4% of net sales, other expenses increased 120 bps yoy, to 13.7% of net sales. However, the decline in EBITDA margin was contained by a fall in raw material costs, which declined 50 bps yoy to 66.7% of net sales.

Effective tax rate reduced from 26.6% in FY07 to 24.4% (down by 220 bps)

Adj. net profit for FY08 declined marginally to Rs. 9.8 bn, while net profit margin dipped by a steep 110 bps yoy to 8.5%. The decline in net profit was a result of a higher net interest expense of Rs. 242 mn as against the net interest income of Rs. 675 mn during the previous year.

Key Events

- In order to fund its CAPEX plans, the Company will raise Rs. 7 bn by selling a 3.7% stake to Golboot Holding Ltd., a Goldman Sachs unit, through the issue of compulsory foreign convertible debentures (FCD). Each FCD will be converted into one equity share of Rs. 10 each at a price of Rs. 745 per share.
- M&M has launched a new business vertical to tap the opportunities available in the after-market sector. This business will consist of :
 - Mahindra First Choice Services Ltd. (multi-brand service chain)
 - Mahindra First Choice Ltd. (for purchase and sale of pre-owned vehicles)
 - Mahindra Spares Business (for both Mahindra and non-Mahindra spares)
- The Company has signed an agreement with ICICI Venture to acquire 100% stake in Metalcastello S.p.A, a leading Italian gear manufacturer. Further, M&M and ICICI Venture are planning to acquire Belgium gear maker VCST Industrial Products for around Rs. 15.5 bn.
- After withdrawing from the agreement to set up a manufacturing facility in collaboration with Renault SA and Nissan Motors, the Company now plans to set up its own tractor factory in Tamil Nadu.

Key Risks

Key risks to our rating include:

- A delay in the launch of Ingenio
- A prolonged slowdown in the Indian auto industry

Outlook

The Company opened complete knock down (CKD) assembly plants in Egypt and Brazil

M&M continues to be a market leader in the domestic UV segment with a current market share of 51.5%. It plans to increase its international presence by launching Scorpio in the US and Chile markets. With the expected launch of Ingenio by FY09E and another SUV in FY11E, we believe that the UV business would attain new heights. In the passenger vehicle market, the Company's tie-up with Renault has helped it to launch Logan and capture an 11.2% share in the C-segment. This market share should increase with the launch of new variants of Logan in FY10. All in all, the Company's Automotive segment is well poised for growth.

In contrast, the Farm Equipment segment is currently going through a rough phase due to high interest rates and stringent financing norms in the domestic market. However, an increased focus on the rural economy due to upcoming elections, waiver of the farmers' loans, and rising disposable incomes should help push the demand for tractors in FY09E.

M&M plans to invest Rs. 75-80 bn over the next three years

In order to meet the increased demand, the Company plans to incur a CAPEX of Rs. 75-80 bn over the next three years and has started the drive by raising Rs. 7 bn from Goldman Sachs. It is building a Rs. 40 bn facility at Chakan with an initial capacity of 300,000 units p.a. This facility, likely to start production in 2010, would be a production base for the Company's medium and heavy commercial vehicles, a mass-market platform, the variants of Ingenio, and the new SUV.

Acquisition of Metalcastello has strengthened the Company's position in Europe

Furthermore, M&M is entering into various JV and acquisitions. The recent acquisition of Metalcastello has helped M&M to strengthen its grip of the European markets. Further, the foray into the auto-market sector will help the Company to tap the huge potential available in the sector.

Thus, we expect M&M's standalone net sales to be around Rs. 131.2 bn and Rs. 150.9 bn for FY09E and FY10E, respectively. However, rising steel prices, strengthening rupee, and increasing fuel costs will continue to pressurise the Company's margins. At the CMP of Rs. 592.5, the stock trades at a forward PE of 16.2x FY08E and 14.7x FY09E. With its major subsidiaries reporting a strong performance, and the fact that substantial value will be unlocked with the listing of Mahindra Holidays & Resorts, we believe that there is a significant upside potential in the stock. Based on the

SOTP valuation method, we reiterate our Buy rating for the stock with a revised target price of Rs. 800.

Key Figures (Standalone)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	79,888	99,634	114,106	131,222	150,905	15.0%
Adj. EBITDA	10,711	13,949	14,197	15,863	17,828	12.1%
Adj. Net Profit	7,050	9,789	9,785	9,702	10,696	4.6%
Margins(%)						
EBITDA	12.9%	13.7%	12.3%	11.9%	11.7%	
NPM	8.5%	9.6%	8.5%	7.3%	7.0%	
Per Share Data (Rs.)						
Adj. EPS	28.7	38.4	36.8	36.5	40.3	4.6%
PER (x)	21.8x	20.3x	16.1x	16.2x	14.7x	

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