

## RESULTS REVIEW

## Mahindra and Mahindra

Buy

### Share Data

Market Cap	Rs. 143. bn
Price	Rs. 581.95
BSE Sensex	14,483.83
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 872/430
Shares Outstanding	245.7 mn

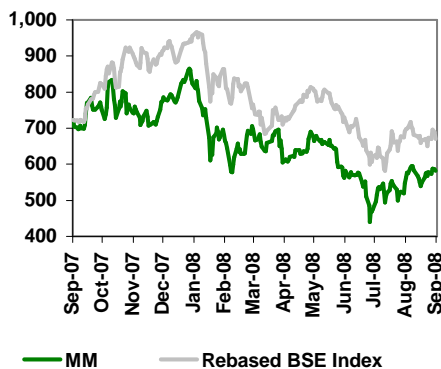
### Valuation Ratios (Standalone)

Year to 31 March	2009E	2010E
EPS (Rs.)	33.6	38.2
+/- (%)	(8.9)%	14.0%
PER (x)	17.3x	15.2x
EV/ Sales (x)	1.2x	1.1x
EV/ EBITDA (x)	10.9x	9.1x

### Shareholding Pattern (%)

Promoters	23
FII's	25
Institutions	28
Public & Others	25

### Relative Performance



### Going Steady

**Amalgamation with Punjab Tractors Limited (PTL):** Mahindra & Mahindra (M&M) has approved the amalgamation of PTL with itself at a swap ratio of one share for every three shares held. We believe that the amalgamation will lead to greater integration benefits and reduced administration costs for the Company. However, it will also result in an equity dilution of around 2.8%. M&M plans to manufacture Mahindra tractors from the PTL facilities and aims to improve PTL's capacity utilisation from 45% to 55% in FY09.

**Foray into two-wheeler segment:** M&M has forayed into the two-wheeler segment with the acquisition of Kinetic Motors. M&M has also acquired an Italian design firm, and is in talks to buy Malaguti Moto, an Italian motorcycle and scooter maker, to strengthen its entry into the two-wheeler segment.

**Sluggish sales volume:** Due to the adverse macroeconomic conditions the Indian auto industry is going through a rough phase. As a result, growth in sales volumes for M&M has fallen drastically. However, with the launch of the Ingenio, we expect M&M to marginally outperform the 10-12% growth expected in the UV industry. For the tractor segment, the management expects the industry to grow at 6-8% yoy and since M&M is a market leader, we believe it will witness a similar growth rate, if not more. Thus, over all we expect volume growth to be subdued.

**Margins to be under pressure:** With the prices of fuel, steel, and other raw materials increasing sharply in the last few months, we expect margins to reduce in FY09. On the other hand, demand for raw materials has begun to falter due to the slowdown in the global economy. As a result, commodity prices, including oil and steel, have started to trend downward. Overall, we expect margins to decline in FY09 but improve gradually in FY10.

### Key Figures (Standalone)

Quarterly Data	Q1'08	Q4'08	Q1'09	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	26,128	31,482	32,934	26.1%	4.6%
Adj. EBITDA	3,131	3,822	3,435	9.7%	(10.1)%
Adj. Net Profit	1,957	2,171	2,027	3.6%	(6.6)%
<b>Margins(%)</b>					
EBITDA	12.0%	12.1%	10.4%		
NPM	7.4%	6.8%	6.1%		
<b>Per Share Data (Rs.)</b>					
Adj. EPS	6.3	9.5	7.9	26.0%	(16.0)%

### Valuation

At the current market price, the stock trades at a forward PE of 17.3x FY09E and 15.2x FY10E. Based on the SOTP valuation method, we reiterate our Buy rating for the stock with a revised target price of Rs. 680, which suggests a potential upside of 16.8% from the current market price of Rs. 581.95.

### Result Highlights (Standalone)

Net sales for the quarter increased 26.1% yoy to Rs. 32.9 bn on the back of a higher sales volume and improved realisations. The sales volume for M&M grew 18.9% yoy to 90,160 units on the back of a strong growth in the automotive segment. Moreover, realisations improved as the Company increased prices for tractors and UVs to pass on the higher raw material costs to the customers.

**Automotive Segment:** Despite the slowdown in the auto industry, the sales volume for the segment increased 23.7% yoy to 60,054 units, with the UV sales volume growing by a strong 21.6% yoy to 37,919 units. The three-wheeler sales volume jumped 55.3% to 11,396 units on the back of new product launches into the market. As a result, net sales from the segment stood at Rs. 18.7 bn, up 24.5% yoy. The segment EBIT jumped 14% yoy to Rs. 1.5 bn, but EBIT margin decreased 74 bps to 8% due to higher raw material costs.

**Farm Equipment Segment (FES):** Revenues from the FES shot up 27.5% yoy to Rs. 13.2 bn on account of a 10.3% increase in the sales volume and higher realisations. EBIT increased 12.3% yoy to Rs. 1.6 bn, while EBIT margin fell 159 bps yoy 11.8%. The increase in tractor sales was supported by the farm loan waiver by the government, which increased the liquidity available with the farmers.

Adj. EBITDA for the quarter grew 9.7% yoy to Rs. 3.4 bn. The increase in EBITDA was restricted by a 29.6% jump in raw material expenses. Despite the price hikes undertaken by the Company to pass on the increasing costs,

*Logan sales volume have dropped 25.9% yoy for Apr-Aug*

*M&M raised tractor and UV prices by around Rs. 10,000 and Rs. 8,500, respectively, in Q1'09*

*Numbers have been adjusted for the Rs. 582 mn loss, booked on account of mark-to-market valuation of foreign currency debt*

adj. EBITDA margin fell 156 bps yoy to 10.4% due to a sharp increase in raw material expenses and other expenditure (as a percentage of net sales).

Adj. net profit for Q1'09 increased only 3.6% yoy to Rs. 2 bn, restricted by the increase in interest expenses and depreciation charges. Net interest expense for the quarter stood at Rs. 97.3 mn, against a net interest income of Rs. 51.2 mn in Q1'08, due to the increased utilisation of credit limits to fund the expansion plans. As a result, despite a lower effective tax rate, adj. net profit margin decreased 131 bps yoy to 6.1%.

### Key Events

#### *M&M acquires Kinetic Motors*

M&M has forayed into the two-wheeler market by buying an 80% stake in the JV firm Mahindra Kinetic Scooters & Motorcycles Ltd, which will acquire all the operating assets of Kinetic Motors for Rs. 1.1 bn. Kinetic Motors will hold the remaining 20% stake in the new JV with an option to sell it after seven years.

#### *M&M in talks to acquire an Italian company*

M&M is in talks with Italian motorcycle and scooter maker Malaguti Moto for a possible takeover. Malaguti, which has strong connections with Ducati, has some top-end products in the 250cc range, which could be of interest to M&M for its two-wheeler foray.

#### *JV with a Chinese tractor company*

In order to become the largest tractor manufacturer in the world, M&M has entered into a JV with Jiangsu Vueda Yancheng Tractor Manufacturing Company (JVYTMC), a leading Chinese tractor manufacturer. JVYTMC, which owns the third largest tractor brand in China, will transfer its tractor-related assets and current liabilities to this JV. M&M will hold a 51% stake in the venture through its subsidiary Mahindra Overseas Investment Company.

### Key Risks

The following factors can pose a threat to our rating:

- A delay in the launch of Ingenio
- A prolonged slowdown in the US, European, and Indian auto markets

### Outlook

The Indian auto industry is going through a rough phase due to the weak macroeconomic conditions. With inflation at unacceptably high levels, interest rates unlikely to reduce in the near future, and decreased consumer spending, we expect automobile sales to be under pressure in the coming quarters. M&M's total sales volume increased by a marginal 3.3% yoy during the months of July and August 2008, mainly driven by the new product launches in the three-wheeler segment. With the management expecting single-digit growth on a year-on-year basis during the festive months of October and November, overall FY09 revenue growth will be subdued. However, we believe the launch of the Ingenio, later in FY09, should stir up the sluggish volumes in the automotive segment.

The FES has shown a healthy 10.6% yoy growth in the sales volume in the April – August 2008 period. We believe this was partly due to the farm loan waiver, which has led to improved liquidity, and the lower base of FY08. With the expectations of a normal monsoon and the farm loan waiver, we further believe that the FES will register an improved performance in FY09. Further, with the amalgamation of PTL with itself, the Company will gain synergies benefit. The tractor industry is expected to grow at 6-8% in FY09; since M&M is a leader in this segment, we expect it to grow at least at a similar rate, if not more.

For the long term, M&M has aggressive expansion plans and targets to become a leading player in the global tractor market. To meet this objective, it has formed a JV to purchase the assets of the third largest tractor company in China. M&M has also forayed into the two-wheeler segment by forming a JV to acquire the operating assets of Kinetic Motors. M&M plans

*Management expects the UV industry to grow at a rate of 10-12% yoy in FY09*

*CAPEX during the quarter stood at Rs. 1,700 mn*

*The management expects to be under the MAT regime in FY09*

to use the expertise and technology provided by its recently acquired Italian design company, G.R Graphica Ricerca Design S.r.l, in its two-wheeler foray. To further augment its two-wheeler segment strategy, M&M is in talks to buy another Italian firm, Malaguti Moto, which has high-end products in the 250cc segment.

Though there are concerns over the rising raw material prices, which resulted in lower margins for Q1'09, we expect commodity prices to decline in the near future due to the continuing downturn in the global economy. Prices of commodities such as crude oil and steel have already started to decline as global demand is weakening. Thus, we expect margins to be under pressure in FY09 but improve in FY10.

At the current market price, the stock trades at a forward PE of 17.3x FY09E and 15.2x FY10E. Based on the SOTP valuation method, we reiterate our Buy rating for the stock with a revised target price of Rs. 680, which suggests a potential upside of 16.8% from the current market price of Rs. 581.95.

#### 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	144,344	12.5%
Adj. EBITDA	10,711	13,949	14,197	14,647	17,577	11.3%
Adj. Net Profit	7,050	9,789	9,785	9,036	10,432	3.3%
<b>Margins(%)</b>						
EBITDA	12.9%	13.7%	12.3%	11.0%	12.0%	
NPM	8.5%	9.6%	8.5%	6.8%	7.1%	
<b>Per Share Data (Rs.)</b>						
Adj. EPS	28.7	38.4	36.8	33.6	38.2	1.9%
PER (x)	21.8x	20.3x	15.8x	17.3x	15.2x	

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