

**RESULTS REVIEW**
**Mahindra and Mahindra**
**Hold**
**Share Data**

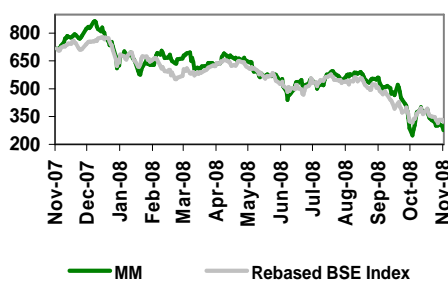
Market Cap	Rs. 71.5 bn
Price	Rs. 276.65
BSE Sensex	8,695.53
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 872/236
Shares Outstanding	258.6 mn

**Valuation Ratios (Standalone)**

Year to 31 March	2009E	2010E
EPS (Rs.)	28.4	29.9
+/- (%)	(23.0)%	5.6%
PER (x)	9.8x	9.2x
EV/ Sales (x)	0.8x	0.8x
EV/ EBITDA (x)	8.5x	7.5x

**Shareholding Pattern (%)**

Promoters	26
FII's	25
Institutions	27
Public & Others	22

**Relative Performance**

**Turbulent Times**

We have reduced our estimates for Mahindra & Mahindra Ltd. (M&M) on account of a sharper-than-expected slowdown in the sales volume growth because of the current global financial crisis. The Company's total sales volume has fallen 8.2% yoy in the festive month of October to 30,139 units. Subsequently, we have downgraded our rating on the Company from Buy to Hold.

We believe the current economic slowdown and tight liquidity scenario will continue adversely impacting the automobile industry for the rest of FY09 and most of FY10. Though interest rates are expected to decline in the coming months, credit availability will still remain tight as banks are hesitant to provide loans in the current adverse macroeconomic environment. Thus, we expect the Company's sales volume to be in the range of 290–300k units in FY09 and FY10, supported by the launch of the Xylo in late Q3'09. Further, M&M's tractor sales are expected to get a boost from the farm loan waiver and the good monsoons during the year.

The slowdown in the global economy will also have an adverse affect on the Company's subsidiaries. Mahindra Holidays & Resorts India Limited (MHRIL) will be negatively impacted by the current downturn in the global economy, as travellers would be forced to cut their travel and holiday expenses. However, we believe MHRIL will be able to restrict the effect of the current crisis due to its unique business model and a wide network of resorts. MHRIL's base of 85,000 member families provides it with a recurring source of revenue.

**Key Figures (Standalone)**

Quarterly Data	Q2'08	Q1'09	Q2'09	YoY%	QoQ%	H1'08	H1'09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	27,041	32,934	30,930	14.4%	(6.1)%	53,118	62,881	18.4%
Adj. EBITDA	3,882	3,051	2,718	(30.0)%	(10.9)%	6,953	5,769	(17.0)%
Adj. Net Profit	2,830	2,027	2,750	(2.8)%	35.6%	4,742	4,855	2.4%
<b>Margins(%)</b>								
EBITDA	13.8%	9.3%	8.7%			12.4%	9.1%	
NPM	9.9%	6.2%	8.5%			8.6%	7.5%	
<b>Per Share Data (Rs.)</b>								
Adj. EPS	10.6	7.9	10.5	(1.0)%	31.8%	16.7	18.8	12.0%

### Valuation

We have valued M&M by using the SOTP method. We have valued the standalone Company by using the DCF methodology, with a WACC calculated at 12.2%. We have explicit forecasts for two years and a long-term growth of 5% from 2016 onwards. M&M's stake in Tech Mahindra has been valued at the stock's fair value estimate of Rs. 433 per share. We have valued MHRIL based on its PE deal with SBI of Rs. 800 mn for a 2% stake. However, we believe valuations have declined since the deal took place in January 2008; hence, we have discounted the PE deal price by 40%. Based on our SOTP valuation, we arrive at a target price of Rs. 316 per share. Hence, we downgrade our rating from Buy to Hold.

### Result Highlights (Standalone)

For the quarter ended September 2008, net sales for the Company increased 14.4% yoy to Rs. 30.9 bn on the back of a 13.7% rise in the sales volume coupled with the price hikes undertaken by the Company. However, the results are not comparable due to the merger of Mahindra Holding & Finance Ltd. and the hiving-off of the Company's logistics business into a separate subsidiary.

**Automotive Segment:** Revenues from the segment increased 7.8% yoy on the back of an 18.1% increase in the sales volume to 55,738 units, driven by a 57.2% jump in 3-wheeler sales. The average realisation stood at Rs. 349,455 per unit.

**Farm Equipment Segment (FES):** Revenues from the segment jumped 28% yoy to Rs. 11.8 bn on the back of a 4.2% increase in the sales volume and higher realisations. The segment's average realisation rate increased 22.9% yoy to Rs. 508,984 as the Company undertook price hikes to pass on the increase in raw material costs to the end users.

Adjusted EBITDA for the quarter declined 30% yoy to Rs. 2.7 bn and EBITDA margin fell 5.1 pts yoy to 8.7%, due to a higher cost of raw

materials consumed. Adjusted net profit declined 2.8% yoy to Rs. 2.7 bn; the decline was restricted by an 89% jump in other income. The adjusted net profit margin reduced 140 bps yoy to 8.5%; this decline in the margin was partially contained by a lower effective tax rate.

### Key Events

#### *M&M forms a JV with TMI Pacific*

M&M entered into a JV agreement with its existing partner, TMI Pacific, to form a new company called Mahindra Automotive Australia. The new Company will be involved in the marketing, promoting, and selling of M&M's vehicles in Australia. M&M will hold an 80% stake in the new JV, while TMI Pacific would hold the remaining 20%.

#### *M&M to enter into a distribution tie-up with Renault*

M&M announced that it will sign an MoU with Renault India to distribute the latter's products in the country. As per the agreement, M&M will distribute cars that Renault imports into the country as well as the ones that Renault will roll out from its Chennai plant from the first half of 2010.

### Key Risks

The following factors can pose a threat to our rating:

- A delay in the launch of the Xylo
- Slower-than-expected recovery in the domestic economy

### Outlook

The global auto industry is witnessing a major slowdown because of the downturn in the global economy and tight credit availability. The Indian automotive industry has also been adversely affected by the prevailing macroeconomic factors. As a result, the industry witnessed a 9.1% yoy fall

*M&M's total sales volume declined 8.2% in October 2008*

in domestic passenger vehicle sales volume even during the festive month of October.

As the advanced countries fall into a recession and the emerging economies slow down, we believe the prevailing adverse macroeconomic conditions will continue to impact the automobile industry for the rest of FY09 and most of FY10. Moreover, even though interest rates are expected to decline in the coming months, credit availability will remain tight as banks have become extremely cautious in their lending policies.

We expect Xylo's launch (expected in late Q3'09) to boost M&M's UV sales volume and help limit the effect of the slowdown. Further, the demand for tractors should get support from the farm loan waiver and the good monsoon during the year. Thus, we believe the Company will be able to sell 290k–300k units in FY09 and FY10. We also expect the margins to improve in FY10 as the sharp fall in commodity prices on account of the slowdown in the global economy will lead to lower raw material prices for M&M.

The slowdown in the global economy will also have an adverse affect on the Company's major subsidiaries, such as Tech Mahindra, Mahindra Holidays & Resorts India Limited (MHRIL), and Mahindra & Mahindra Financial Services Limited.

We believe that a large number of travellers would be forced to cut on their travel and holiday expenditure because of the prevailing economic conditions, adversely affecting the Indian hospitality industry. However, MHRIL will be able to contain the effect of the slowdown in the hospitality industry due to its unique business model and a wide network of resorts. The Company has around 85,000 members, providing it with recurring revenue source. Despite the slowdown, the management expects to increase its member base to 100,000 by March 2009, and it is rapidly expanding its room capacity to cater to the same.

M&M has planned a CAPEX of around Rs. 60–70 bn over the next 2-3 years to expand its capacities. The Company is in the process of building a new manufacturing facility at Chakan, which will have an initial production capacity of 300,000 units per annum. Despite the current economic

*MHRIL has planned a CAPEX of Rs. 4 bn to double its room capacity to 1,500 rooms*

slowdown, M&M does not plan to halt any of its expansion plans. However, the Company is working towards reducing the cost of its CAPEX by around 10%. Thus, M&M will have the ability to significantly increase its production volumes once the demand situation improves.

At the current market price (CMP) of Rs. 276.65, M&M's stock trades at a forward P/E of 9.8x FY09E and 9.2x FY10E earnings. Based on the SOTP valuation method, we have arrived at a revised price target of Rs. 316. Hence, we downgrade our rating from Buy to Hold.

### 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	114,428	115,428	0.6%
Adj. EBITDA	10,711	13,949	14,197	10,400	11,771	(8.9)%
Adj. Net Profit	7,050	9,789	9,785	7,335	7,744	(11.0)%
<b>Margins(%)</b>						
EBITDA	12.9%	13.7%	12.3%	8.9%	10.0%	
NPM	8.5%	9.6%	8.5%	6.3%	6.6%	
<b>Per Share Data (Rs.)</b>						
Adj. EPS	28.7	38.4	36.8	28.4	29.9	(9.8)%
PER (x)	21.8x	20.3x	7.5x	9.8x	9.2x	

### Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.