

RESULTS REVIEW

Mahindra and Mahindra

Hold

Share Data

Market Cap	Rs. 209.2 bn
Price	Rs. 750.45
BSE Sensex	14,170.45
Reuters	MAHM.BO
Bloomberg	MM IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 824/235.5
Shares Outstanding	278.8 mn

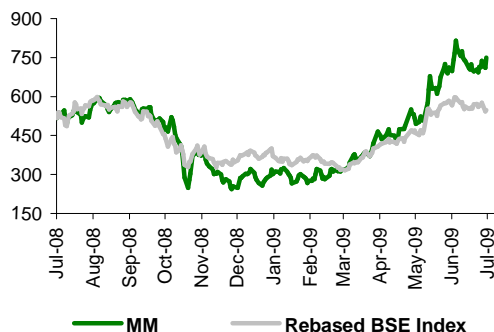
Valuation Ratios (Standalone)

Year to 31 March	2010E	2011E
EPS (Rs.)	41.6	49.3
+/- (%)	29.8%	18.6%
PER (x)	18.0x	15.2x
EV/ Sales (x)	1.5x	1.3x
EV/ EBITDA (x)	13.4x	11.3x

Shareholding Pattern (%)

Promoters	29
FII's	24
Institutions	26
Public & Others	21

Relative Performance



Moving ahead into greener pastures

For FY09, Mahindra & Mahindra Ltd. (M&M) reported a strong set of numbers. The net sales of the Company increased by 15.2% yoy to Rs. 36.2 bn, and the net profit jumped by 89.1% yoy to Rs. 4.2 bn, driven by the merger of Punjab Tractor Limited (PTL) with the Company as well as M&M's cost saving initiatives. We hold a positive outlook on the Company, particularly considering the improving consumer sentiments and credit availability, primarily in the rural areas where M&M has a strong foothold. Further, we have raised our valuations for the Company's subsidiaries; we estimate the value of M&M subsidiaries at around Rs. 306 per share.

Improving credit availability

- During the past few months, the Indian Auto sector has shown early signs of recovery, due to lower interest rates and easing financing terms. These positive signs are primarily a result of the Government of India's (Gol's) stimulus packages aimed at improving the credit situation and liquidity in the economy. M&M's management believes that financing for M&M vehicles has improved significantly in the last six months. Mahindra Finance, which finances around 30-35% of the total M&M volume, has been able to raise funds at very attractive rates.
- On July 2, 2009, Mahindra Navistar Automotives Ltd. (MNAL), the commercial vehicle joint venture between M&M and Navistar Inc., signed an MoU with Bank Of India (BoI) for vehicle finance. The Company expects to leverage the bank's vast network of 3,031 branches. With this deal, the Company expects to be able to offer an additional finance option at a lower rate of interest of 10.5% and a longer repayment period.

Key Figures (Standalone)

Quarterly Data	Q4'08	Q3'09	Q4'09	YoY%	QoQ%	2008	2009	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	31,422	25,063	36,192	15.2%	44.4%	115,413	130,937	13.5%
Adj. EBITDA	3,520	387	5,612	59.4%	NM	13,666	10,926	(20.0)%
Adj. Net Profit	2,211	12	4,181	89.1%	NM	9,731	8,285	(14.9)%
Margins(%)								
EBITDA	11.2%	1.5%	15.5%			11.8%	8.3%	
NPM	7.0%	0.1%	11.6%			8.4%	6.3%	
Per Share Data (Rs.)								
Adj. EPS	9.02	0.04	10.81	19.8%	NM	36.62	32.04	(12.5)%

New products and capacity additions to support top-line growth

- During Q4'09, the Company's UV market share increased to 63%. Its UV sales grew by 12%, as compared to a decline of 11% in the industry. The increase in its market share is attributable to the Company's new launches: Xylo and the refurbished Scorpio. During the last three months (April–June 2009), the Company has witnessed ~28% yoy increase in UV sales.
- The Company plans to launch the Scorpio's successor in Q3'11 and a few variants of the Xylo in the next 2-3 quarters. Additionally, it has plans to launch two-wheelers in the entry, executive, and premium segments.
- The Company plans to invest ~Rs 20 bn (USD 420 mn) in FY10 to implement its capacity expansion plans. A large portion of this spend will go into the Chakan plant in West India, which will enable the plant to manufacture 300,000 vehicles by the end of the year.
- The merger of PTL with the Company has added an additional capacity of 65,000 units per annum that can be further increased to 75,000 units per annum. Supported by PTL's capabilities, the Company manufactured 35,000 Swaraj tractors in FY09.

Demand for tractors to improve

- The Government has hiked the Minimum Support Price (MSP) by 30-40% for kharif crops and by 8% for wheat. Higher realisations are likely to increase farm income and generate demand for farm equipment.
- The Government, as announced in the Union budget 2009-10, plans to boost agriculture spending with an increased agriculture credit flow target of Rs. 325 bn for FY09.
- More than 75% of M&M's volume is driven by demand from rural areas. As such, the Government's increasing focus on agriculture/rural development offers substantial growth opportunity for the Company.

Valuation

We hold a positive outlook on the Company due to the lower interest rates, easing financing terms, and the Company's internal arrangements to finance vehicles. Further, the increasing demand from the Agriculture, Infrastructure and Construction sectors is expected to propel the demand for tractors.

At the current market price (CMP) of Rs. 750.5, the stock is trading at a forward P/E of 18x and 15.2x 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. 715. Since our target price does not provide any significant upside potential from the CMP, we give a Hold rating to the stock

Result Highlights and Outlook

Sustainable top-line growth

Despite a fall in net realisations, M&M's net sales jumped 15.2% yoy to Rs. 36.2 bn in Q4'09, driven by increased volumes and a better-than-expected performance of the UV segment. While net realisations fell by around 14.9% yoy to Rs. 389,971 per unit, total volume increased by 31.3% yoy to 103,764 vehicles.

During Q4'09, M&M merged its wholly-owned subsidiary, Punjab Tractors with its Farm Equipment segment. This resulted in a 30% jump in its tractor sales volume to 29,879 units. Thus, the sales of its Company's Farm Equipment segment surged by 46.8% to Rs.14.5 bn during Q4'09.

Looking 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 ~19% on account of a recovery in the Auto sector and increased volumes as a result of the PTL merger.

Volumes	Q4'08	Q3'09	Q4'09	QoQ %	YoY %
Automotive Segment					
Domestic	51,776	37,705	58,369	55%	13%
Exports	4,274	1,320	1,052	(20%)	(75%)
Total Automotive	56,050	39,025	59,421	52%	6%
Farm Segment					
Domestic	20,195	20,558	43,081	110%	113%
Exports	2,779	1,547	1,262	(18%)	(55%)
Total Farm	22,974	22,105	44,343	101%	93%
Total Sales	79,024	61,130	103,764	70%	31%

Margins to improve in FY10

M&M's Q4'09 EBITDA margin increased 430 bps to 15.5%, mainly on account of the cost-cutting initiatives adopted by the Company. Other expenses (as a % of sales) declined to 7.4% from 13.1% in Q4'08. Subsequently, EBITDA jumped by 59.4% yoy to Rs. 5.6 bn in Q4'09. Going forward, in FY10 we expect M&M's margins to improve, 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 ~11.4%.

Bullish on the capex plans

M&M is planning a capex of around Rs. 45–50 bn over the next four years to expand its capacities. Despite the current economic slowdown, M&M does not plan to postpone or terminate any of its expansion plans, indicating the management's confidence in the Company's ability to bounce back and emerge stronger post the current slowdown.

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	147,874	170,917	14.3%
Adj. EBITDA	13,949	13,666	10,926	16,914	19,975	35.2%
Adj. Net Profit	9,789	9,731	8,285	10,757	12,753	24.1%
Margins(%)						
EBITDA	13.7%	11.8%	8.3%	11.4%	11.7%	
NPM	9.6%	8.4%	6.3%	7.3%	7.5%	
Per Share Data (Rs.)						
Adj. EPS	38.4	36.6	32.0	41.6	49.3	24.1%
PER (x)	20.3x	19.0x	23.4x	18.0x	15.2x	

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