

Mahindra & Mahindra Ltd ₹ 824**With a Pipeline of Products****Buy**

April 12, 2013

Company Background

Mahindra & Mahindra Ltd. (M&M) is the flagship company of the Mahindra Group. M&M is the market leader in Utility Vehicles (UV's) & tractors in India, having ~56% & ~42% market share respectively. It derives 62% of its revenues from automotive division which encompasses utility vehicles, LCVs (Pick-ups), MPVs and 3-wheelers. It derives 38% of its revenues through tractors division & farm implements. It has got interests across the economic spectrum with investments in the areas of hospitality, trade & financial services, auto components, IT, telecom and infrastructure development. It has been expanding its portfolio with the aim to become one big conglomerate and has added M&HCVs, 2-wheelers (Mahindra 2-wheelers) and Electric vehicles (Mahindra Reva) under its ambit. It has even strengthened its focus on the defence segment.

Key Highlights

- ➔ M&M Ltd's Farm Equipment Sector (FES), maintained its leadership position in the Indian tractor industry during FY 13. Domestic Sales stood at 211,596 units as against 221,730 units during FY 12. Total tractor sales during the FY stood at 223,885 units, as against 235,452 units for same period last year.
- ➔ M&M Ltd have registered 17% growth in its auto sales numbers for the FY 13, with a sales figure of 563,373 units. It's auto sales numbers for the month of March 2013 stood at 51,904 units as against 46,919 units during March 2012, a growth of 11%. It's domestic sales stood at 49,225 units during March 2013, as against 44,260 units during March 2012, an increase of 11%.
- ➔ The Passenger Vehicles segment (which includes the UVs and Verito) has registered a growth of 13%, having sold 25,847 units in March 2013.
- ➔ The 4 wheeler commercial registered a sale of 17,212 units, while the 3 wheelers segment clocked 48,321 units in March 2013. Exports for the month of March 2013 stood at 2,679 units.
- ➔ Mahindra unveiled its future - ready, next generation all-electric, zero emission Mahindra e2o. Mahindra e2o is a manifestation of Mahindra's vision of the Future of Mobility, expressed by the 5C's framework - Clean, Convenient, Connected, Clever and Cost Effective.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	190,082.2	240,394.8	324,279.2
Rev. growth (%)	40.79	26.47	34.89
EBITDA (INR mn)	30,917.1	35,674.2	38,104.2
Net profit (INR mn)	20,877.5	26,621.0	28,788.9
Shares outstanding (mn)	565.9	587.3	589.0
EPS (INR)	36.9	45.3	48.9
EPS growth (%)	19.61	22.88	7.82
P/E (x)	14.8	15.4	14.3
RONW (%)	32.3	28.9	24.3
ROCE (%)	21.1	22.4	19.2

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Info Codes

Reuters	: MAHM.BO
Bloomberg	: MM@IN
NSE	: M&M
BSE	: 500520

Market Data

52 Wk Range (₹)	: 975 / 622
Shares in Issue (mn)	: 3.5
Mkt. Cap (₹ bn)	: 589.0
BSE 2 Wk Avg Vol	: 57000

Share Holding Pattern (%)

Promoters	: 25.30
DII's	: 16.40
FII's	: 32.86
Others	: 25.44

Investment Theme

M&M is the market leader in UV's & tractors in India. With ramp up of capacity at Chakan, success of XUV500, several launches lined-up in the coming months, rebound in tractors sales & investments in subsidiaries viz. Reva, Defence & Ssangyong providing second leg of growth opportunities in the years to come, we expect M&M's standalone revenues & profits to register a CAGR of 18.0% & 12.9% respectively over FY12E-FY14E. Demand of M&M's products are primarily driven by rural sales, with 55-60% of its sales in automotive segment coming from rural area, whereas 100% contribution comes from rural area in case of tractors. This favorable mix acts as a hedge for M&M in case of slowing urban demand. Given the M&M's thrust on new product developments, success of XUV500 and attractive valuations, we initiate a "BUY"

In the Fifth Gear !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	203961.2	255381.4	25.21	343536.3	34.52
Other Income	3985.7	5933.6	48.87	5927.2	(0.11)
Change in Stocks	236.9	2022.3	753.65	5973.3	195.37
Raw Material Con.	115186.8	144980.9	25.87	185090.5	27.67
Employee Exp.	11984.7	14315.2	19.45	17019.0	18.89
Indirect Taxes	18238.3	21091.5	15.64	25380.3	20.33
Other Exp.	31856.9	47275.5	48.40	89842.8	90.04
Operating Exp.	177029.8	225640.8	27.46	311359.3	37.99
Operating Profit	26931.4	29740.6	10.43	32177.0	8.19
Total Interest	1568.5	724.9	(53.78)	1627.5	124.51
Gross Profit	29348.6	34949.3	19.08	36476.7	4.37
Net Dep.	881.1	(246.8)	(128.01)	417.8	(269.29)
Total Taxation	7590.0	8575.1	12.98	7270.0	(15.22)
Net Profit/Loss	20877.5	26621.0	27.51	28788.9	8.14

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	93,027.5	106,952.5	127,066.8	157,409.4
Equity Share Capital	2,726.2	2,829.5	2,936.2	2,945.2
Share Application Money	0.0	0.0	0.2	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	49,773.7	75,321.5	100,085.7	118,656.6
Long Term Loans	32,697.6	26,777.1	23,972.5	35,805.9
Short Term Loans	7,830.0	2,024.4	72.2	1.7
USES OF FUNDS	93,027.5	106,952.5	127,066.8	157,409.4
Gross Block	48,938.9	52,762.9	58,325.4	74,769.2
Less : Revaluation Reserves	120.9	116.7	111.8	109.1
Less : Accumulated Depreciation	23,262.9	25,377.7	27,639.3	33,925.7
Net Block	25,555.1	27,268.5	30,574.3	40,734.4
Capital Work in Progress	6,467.3	9,642.0	8,379.8	9,964.0
Investments	55,853.9	61,315.9	89,413.3	103,104.6
Current Assets	55,648.1	63,419.3	69,630.5	88,027.3
Less : Current Liabilities	50,622.4	54,693.2	70,931.1	84,420.9
Total Net Current Assets	5,025.7	8,726.1	(1,300.6)	3,606.4
Misc. Expenses not written	125.5	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	32,736.3	37,264.2	47,689.9	61,086.4
Mkt Val. Quoted Investments	40,493.1	130,299.6	158,676.0	145,087.4
Contingent Liabilities	15,045.7	20,426.5	23,001.0	22,331.3
Dividend (%)	10	9.5	11.5	12.5

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	93,871.70	93,673.90	98,129.60	107,742.80
Cost Of Sales	84,178.10	82,579.60	86,940.40	95,630.10
Operating Profit	9,693.60	11,094.30	11,189.20	12,112.70
Recurring Income	956.20	598.50	3,228.90	742.40
Adjusted PBDIT	10,649.80	11,692.80	14,418.10	12,855.10
Financial Expenses	709.40	460.20	474.70	465.90
Depreciation	1,997.30	1,548.40	1,783.90	1,789.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	7,943.10	9,684.20	12,159.50	10,599.40
Tax Charges	281.00	2,427.80	3,141.50	2,237.50
Adjusted PAT	7,662.10	7,256.40	9,018.00	8,361.90
Non Recurring Items	1,082.70	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	8,744.80	7,256.40	9,018.00	8,361.90

52 Week Index Relative Percentage Appreciation



M&M vs SENSEX vs Auto

Risks Associated

- ➔ Tractors sales are highly correlated with monsoons. Weak monsoons can adversely affect tractor demand, thereby affecting the future prospects of M&M. Weakness in MSPs and agri-credit also determine tractor demand. Recent slowdown in agri-credit due to rising NPAs has raised concerns over cash flows to the farmers; however it is not a major concern as growth in rural income has always been the Government's 1st priority.
- ➔ More than 75% of the tractor sales are on finance. However, as financing to tractor industry is done on priority basis, it is usually done at subsidized rates of 8-10% by banks while NBFCs finance it at ~17-18%. Interest subventions are also provided for early payment by farmers.
- ➔ M&M's portfolio is skewed towards diesel as 99% of its products are diesel oriented. Although Finance Minister has ruled out any additional tax on diesel vehicles in Union Budget 2012-13, which could otherwise have made the diesel passenger cars dearer, the possibility of imposition of diesel tax or phased diesel deregulation still remains. Passenger UV's account for ~29% of M&M's total volumes.
- ➔ Government has stopped paying VAT incentives for sales outside Maharashtra, on account of which M&M's EBITDA margins have been impacted, as all of its new products are coming from Chakan through its subsidiary MVML. Even in case of partial roll-back this would have a positive impact on M&M's earnings, led by improvement in EBITDA margins to the tune of ~0.50-0.60%.

M&M In a Nutshell

M&M, flagship company of the Mahindra group, is the market leader in Utility Vehicles (UV's) & tractors in India, having ~56% & ~42% market share respectively. It is one of the most diversified conglomerates in the Indian automobile space with presence across segments viz. passenger vehicles, LCVs, Tractors, 3-wheelers, 2-wheelers & M&HCVs. Post success of XUV500, M&M plans to further enhance its product portfolio with several launches lined up in the coming months. It plans to launch Maxximo- passenger van in Q1FY13 & Compact SUV in Q3FY13. It also plans to launch variants of Reva & Verito in H2FY13. Apart from this, M&M plans to launch two models from the Ssangyong's stable viz. Korando C & Rexton (luxury SUVs) in the automotive segment over the next 15 months. M&M has got strong traction in the pick-ups segment i.e. in the less than 3.5 tonnes category. It has strong presence with ~ 22% market share in the sub 2 tonnes category & ~68% market share in the 2-3.5 tonnes category. M&M is expanding its tractor capacity by 100000 units scheduled to commence operations by July 2012, by incurring a capex of INR 3bn. Tractors being highly dependent on monsoons & rural income, its demand is very erratic in nature. Ssangyong (SMC) has recently approved investments to the tune of \$263 mn to develop a new global strategic model following the Korando and plans to develop 4 new models by 2016. SMC intends to invest more than \$1.2 bn in the next 3-5 years to make India its manufacturing base & may also look at manufacturing of smaller compact SUVs jointly manufactured with M&M. The strengths of the company lie in the buoyancy in volumes in rural market and automobile financing market, diversified product mix & increase in dealerships. The earnings momentum going ahead is largely dependent upon continued spending by the Govt. and monsoons.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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