

Sector **Automobile**

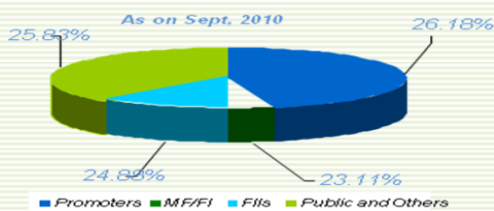
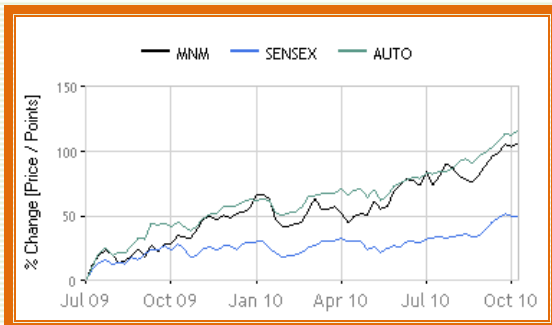
Recommendation **Buy**
 CMP Rs 705
 Target Price- Rs 910
 Face Value- 5
 Potential upside- 37%
 Tenure- 12 Months

Bloomberg- MM:IN
 Reuters - MAHDY.PK
 BSE- MnM
 NSE- M&M

Date:- **13th October, 2010**

Stock Info:

Weekly H/L- 745.60/695.00
 Monthly H/L- 758.70/652.10
 52 Weeks H/L- 758.70/432.50



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Mahindra & Mahindra Ltd.

The automobile industry posted strong sales number in the first half of this financial year though the growth rate tapered off a bit due to base effect. The passenger vehicles segment grew at 33% during the April to September,2010 period while the commercial vehicle segment grew by 41.6% growth.

Investment rationale:

➤ **Growth momentum in core business to continue :**
 M&M's UV and tractor volume growth continues to surprise positively, with 35% (40)% overall growth clocked in FY2010, primarily due to the substantial 8% market share gain in the UV segment (to 55%). The new Xylo, and the established Scorpio and Bolero contributed to the robust UV volume growth. M&M has also performed well above expectations in its farm equipment segment. Thus, we have modelled 10% CAGR in UV volumes over FY2010-12E for M&M with minimum competition in the UV space and continue to maintain tractor volume CAGR assumption of 8% (including Swaraj) over FY2010-12E.

➤ **Robust sales figures:**

In this period, your Company sold 1,66,359 tractors under its Mahindra and Swaraj brands as against 1,13,269 tractors sold in the previous year, a 46.9% increase. This resulted in the market share going up to 41.4% from 40.8% last year and marked the completion of 27 years of leadership of the Farm Equipment Sector in the Indian Tractor Market.

➤ **Increasing export:**

Exports grew 27.5% this year to touch 8,837 tractors as compared to 6,933 tractors exported last year outperforming exports registered by the Indian tractor industry which de-grew 6.5% at 36,394 tractors.

➤ **Adequate Production Capacity:**

Production capacity is quite adequate across all the plants of the company. When the two plants that company has up north are added as part of their Swaraj division, the company feels that capacity is not a problem. As far as inventory is concerned, the company thinks that they are in a very comfortable position.

➤ **Govt. Stimulus package:**

Indian Government's stimulus package (primarily comprising a 6% point reduction in excise duty) and multiple new product launches by manufacturers, the Indian Automobile Industry registered a healthy growth of 27.9% in Financial Year 2010 as compared to a decline of 4.8% in Financial Year 2009.

Capex:

The Company incurred capital expenditure of Rs.946.31 crores (previous year Rs.855.12 crores). The major items of capital expenditure were on New Product Development like the Maximmo, Capacity Enhancement and Research & Development including on the Company's research facility in Chennai. This included the purchase of Intangible assets aggregating Rs.225.28 crores (previous year Rs.170.35 crores).

Company Profile:

Mahindra & Mahindra Limited (M&M) is engaged in financial services, tourism, infrastructure development, trade and logistics. It operates in nine segments: Automotive, which consists of sales of automobiles, spare parts and related services; Farm Equipment consists of sales of tractors, spare parts and other services;

Exhibit- 1 Industry structure:

Domestic industry sales		F-08	F-09	F-10	F-09	F-10
Passenger vehicles		15,49,882	15,52,703	19,49,776	0.2%	25.6%
Cars		12,03,733	12,20,475	15,26,787	1.4%	25.1%
	*A1: Mini	69,553	49,383	63,378	-29.0%	28.3%
	A2: Compact	8,59,197	8,85,639	11,28,272	3.1%	27.4%
	A3: Mid-size	2,25,725	2,41,683	2,76,071	7.1%	14.2%
	A4: Executive	42,195	33,638	46,346	-20.3%	37.8%
	A5: Premium	6,201	9,093	11,455	46.6%	26.0%
	A6: Luxury	862	1,093	1,265	26.8%	15.7%
MPVs		1,00,865	1,06,607	1,50,256	5.7%	40.9%
UVs		2,45,284	2,25,621	2,72,733	-8.0%	20.0%
Commercial vehicles		4,88,088	3,84,194	5,31,395	-21.3%	38.3%
LCVs		2,15,912	2,00,699	2,86,337	-7.0%	42.7%
	Passenger	27,832	26,952	34,421	-3.2%	27.7%
	Goods	1,88,080	1,73,747	2,51,916	-7.6%	45.0%
M&HCVs		2,74,582	1,83,495	2,45,058	-33.2%	33.6%
	Passenger	38,647	34,892	43,081	-9.7%	23.5%
	Goods	2,35,935	1,48,603	2,01,977	-37.0%	35.9%
3 Wheelers		3,64,781	3,49,727	4,40,368	-4.1%	25.9%
	Passenger	2,34,774	2,68,463	3,49,662	14.3%	30.2%
	Goods	1,30,007	81,264	90,706	-37.5%	11.6%
2 Wheelers		96,54,435	74,37,619	93,71,231	-23.0%	26.0%
	Scooters	10,50,109	11,48,007	14,62,507	9.3%	27.4%
	Motorcycles	57,68,342	58,31,953	73,41,139	1.1%	25.9%
	Mopeds	4,13,759	4,31,214	5,64,584	4.2%	30.9%
	Electric	17,068	26,445	3,001	54.9%	-88.7%

Source: Society of Indian Automobile Manufacturers.

Exhibit-2 M&M Domestic Sales:

M&M Domestic sales	F-08	F-09	F-10	F-09	F-10
Tractors	99,042	1,20,202	1,75,196	21.4%	45.8%
Domestic	90,509	1,13,269	1,66,359	25.2%	46.9%
Exports	8,533	6,933	8,837	-18.8%	27.5%

Source: Company

Quarterly Results:

The company reported standalone earnings results for the first quarter ended June 30, 2010. The company disclosed a phenomenal rise in standalone net profit for the quarter ended June 2010. During the quarter, the profit of the company rose 85.50% to Rs 742.00 million from Rs 399.99 million in the same quarter previous year. Total income for the quarter rose 21.90% to Rs 4,014.16 million compared with the prior year period.

(in Cr.)	Jun-10	Jun-09	% change
Income Statement			
Revenue	5,160.10	4,242.59	21.6262
Other Income	20.48	23.57	-13.11
Total Income	5,180.58	4,266.16	21.4343
Expenditure	-4,384.52	-3,633.62	20.6653
Interest	22.7	-5.95	-481.51
PBDT	818.76	626.59	30.6692
Depreciation	-97.62	-88.49	10.3176
PBT	721.14	538.1	34.016
Tax	-158.75	-137.25	15.6648
Net Profit	562.39	400.85	40.2994
Equity	283.05	272.98	3.68891
OPM %	15.43	14.91	3.48759
NPM %	10.9	9.45	15.3439

Annual financial performance:

Profit after tax was Rs.2,087.75 crores as against Rs.836.78 crores in the previous year clocking an increase of 149.50%.

Net income of the Company by 40.7% to Rs.18,801 crores in the year under review from Rs.13,364 crores in the FY 2009.

Exhibit- 3 Income Statement:

In(Cr.)	2009 - 10	2008 - 09	2007 - 08	2006 - 07	2005 - 06
Revenue	18,602.11	13,093.68	11,503.48	10,050.26	8,222.68
Other Income	199.35	270.34	168.16	194.97	103.86
Total Income	18,801.46	13,364.02	11,671.64	10,245.22	8,326.54
Expenditure	-15,556.12	-11,990.78	-10,001.97	-8,787.41	-7,255.44
Interest	-27.81	-45.26	-24.24	67.45	18.4
PBDT	3,217.53	1,327.98	1,645.43	1,525.27	1,089.50
Depreciation	-370.78	-291.51	-238.66	-209.59	-200
PBT	2,846.75	1,036.47	1,406.77	1,315.69	889.49
Tax	-759	-199.69	-303.4	-369.28	-242.4
Net Profit	2,087.75	867.51	1,103.37	1,068.39	857.1
OPM %	17.45	10.49	14.51	14.51	13.03
NPM %	11.22	6.63	9.59	10.63	10.42

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Exhibit- 4 Peer Group Comparison:

Company	NPM(%)	EPS	P/E(X)	BV	P/BV(X)	EV/EBIDT A(X)	EV/NET SALES	ROE(%)
Hero Honda Motors Ltd.	14.163	111.8	16.49	173.6	10.6231	8.638908	2.219041	64.4103
Mahindra & Mahindra Ltd.	11.1058	35.97	19.6	134.9	5.22664	13.33216	2.237273	26.6659
Maruti Suzuki India Ltd.	8.58314	86.45	17.32	409.66	3.65473	6.024454	1.511305	21.1033
Tata Motors Ltd.	6.2948	44.24	24.93	295.1	3.73756	10.55653	1.898423	14.993

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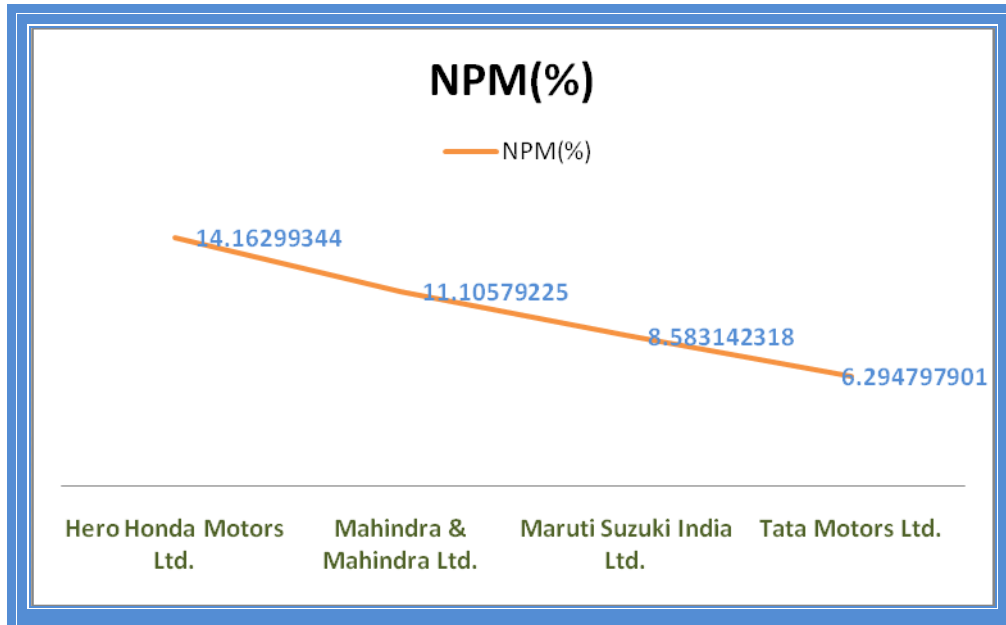
Valuation Outlook:

On the basis of relative valuation, the enterprise value of the company is Rs 42062.98 cr and stock is currently trading at Rs 705.05 of PE 19.6(x) with EPS 35.97%.

- Stock is trading at 5.22 times of book value (BV)Rs 134.89 per share and ROE is 26.66%. giving attractive return than peer group companies.
- We expect earnings to grow at a CAGR of 17% for next 3 years
- From peer group comparison M&M ltd has 11.10% net profit margin. which is showing robust profit growth.

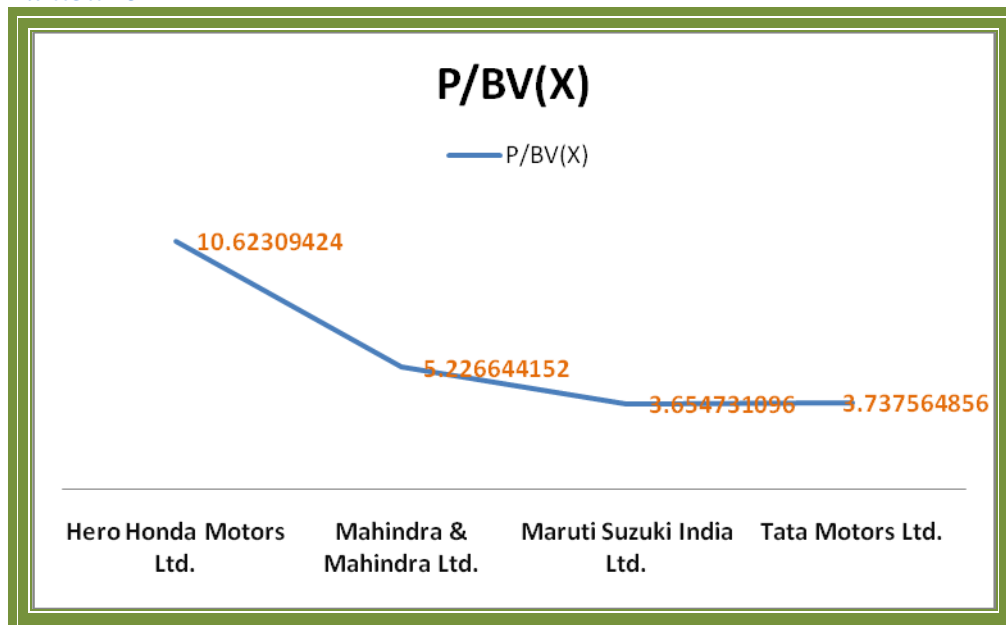
We recommend a **Buy** on the stock with target Rs 910 medium to long-term investment horizon.

Exhibit- 5



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Exhibit- 6



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