

## Mahindra & Mahindra Ltd.

**Neutral**
**Target: Rs 904**
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### Slowdown in Utility vehicles space, demand to come from tractors and scooter segment, we put a Neutral rating.

We are seeing slowdown in the sales of utility vehicles as a result of the weak economic outlook for the near term, even though there was a rise in sales figures on a year on year basis, numbers were slightly disappointing on a monthly basis.

However demand for company's tractor segment will continue to post decent demands and the recent entry into the 2 wheeler space will aid the company to offset the slowdown in utility segment and we therefore put a NEUTRAL rating on the company with a Target of Rs 904.

### Sales figures released for the month of October

- Company reported a 20% rise in its auto sales numbers, which stood at 41506 units during October 2011 as against 34495 units during October 2010.
- The company's domestic sales stood at 39352 units during October 2011, as against 32491 units during October 2010, an increase of 21%. This is in spite of the planned maintenance shutdown of 5 days which the company took in October 2011, which was taken in November last year.
- The 4-wheeler commercial segment which includes the passenger and load categories has registered an impressive growth of 41%.

### Festive season failed to boost sales

Festive season which was supposed to bring in more sales for the auto industry has failed to boost domestic sales, and plunged to its lowest levels this year. We are of the view that the problem for the passenger cars and utility vehicles segment are here to continue until early next year.

### Stock Data –(Rs in Million)

Current Price	Rs 856.00
Target Price	Rs 904
Percentage Appreciation	5.70%
Stock Beta	1.00
52 week range High/Low	Rs 877.30/585
Market Cap	Rs 51208.57Cr
Shares Outstanding	293.6Cr
Average daily volume	1044191
NSE code	M&M
BSE Code	500520
Reuters code	MAHM.NS
Bloomberg code	MM:IN

Data as on 31-10-2011

### Estimates

VALUATIONS	FY09A	FY10A	FY11A	FY12E	FY13E
Equity Share Capital	273	283	294	294	294
Reserves & Surplus	4,983	7,536	9,986	13,232	18,324
EPS	15.35	36.89	45.33	53.08	65.67
P/E	58.77	24.45	19.90	16.99	13.74
ROE %	15.92	26.70	25.90	23.04	20.71
ROCE %	47.87	64.89	68.34	72.99	69.93

### Sales figures for the month of October

Segment	Oct F12	Oct F11
Passenger Vehicles (UVs & Verito)	18756	16987
4-wheelers Commercial	13101	9277
3-wheelers	6332	5410
MNAL	1163	817
<b>DOMESTIC TOTAL</b>	<b>39352</b>	<b>32491</b>
M&M EXPORTS	2154	2004
Verito Exports	0	
<b>SECTOR TOTAL</b>	<b>41506</b>	<b>34495</b>

## Financial Summary

Mahindra &amp; Mahindra Ltd

## Profit &amp; Loss Account

Rs in Cr

Key Items	2009A	2010A	2011A	2012E	2013E
Sales-Traded & Manufactured Goods	14,268.41	19,832.06	24,850.22	31138.14	40389.18
Less:Excide duty on sales(Net)	1,619.35	1,794.01	2,092.71	2441.14	2799.05
<b>Net Sales</b>	<b>12,649.06</b>	<b>18,038.05</b>	<b>22,757.51</b>	<b>28,697.00</b>	<b>37,590.13</b>
Income from Operations	444.62	564.06	736.21	960.90	1242.34
Other Income	270.34	199.35	309.52	480.58	582.16
<b>Net Income</b>	<b>13,364.02</b>	<b>18,801.46</b>	<b>23,803.24</b>	<b>30,138.47</b>	<b>39,414.63</b>
<b>Expenditure</b>					
Raw materials	9,274.23	12,332.92	16,263.94	21447.94	28363.18
Excise duty	-32.3	13.29	-0.69	0.04	0.00
Personnel	1,024.61	1,198.47	1,445.56	1743.59	2081.65
Interest & finance charges	45.26	27.81	-50.29	90.94	114.76
Depreciation & Amortization	291.51	370.78	413.86	461.95	538.56
Other expenses	1,777.34	2,161.74	2,379.60	2619.42	2980.91
<b>Total</b>	<b>12,380.65</b>	<b>16,105.01</b>	<b>20,451.98</b>	<b>26,363.87</b>	<b>34,079.05</b>
Less:Cost of goods capitalized	42.83	59.55	50.87	43.46	43.67
<b>Total</b>	<b>12,337.82</b>	<b>16,045.46</b>	<b>20,401.11</b>	<b>26,320.42</b>	<b>34,035.39</b>
<b>Profit</b> -before exceptional items & tax	<b>1,026.20</b>	<b>2,756.00</b>	<b>3,402.13</b>	<b>3,818.05</b>	<b>5,379.25</b>
<b>Add</b> -Exceptional items	<b>10.27</b>	<b>90.75</b>	<b>117.48</b>	<b>152.08</b>	<b>373.47</b>
Profit before tax	1,036.47	2,846.75	3,519.61	3,970.14	5,752.71
<b>Less:</b> Provision for tax-current tax	<b>58.51</b>	<b>749.33</b>	<b>761.67</b>	<b>774.21</b>	<b>1831.21</b>
Deferred tax	141.18	9.67	95.84	78.96	65.06
<b>Profit after tax</b>	<b>836.78</b>	<b>2,087.75</b>	<b>2,662.10</b>	<b>3,116.96</b>	<b>3,856.44</b>

## Balance Sheet Data

SHAREHOLDERS' FUNDS :					
Share Capital	272.62	282.95	293.62	293.62	293.62
Share Capital Suspense Account	0	0	0.02	0.02	0.02
Employee Stock Options Outstanding	6.55	8.01	33.95	143.90	403.01
Reserves and Surplus	4,982.91	7,535.81	9,985.80	13232.31	18323.99
<b>Total</b>	<b>5,262.08</b>	<b>7,826.77</b>	<b>10,313.39</b>	<b>13,669.85</b>	<b>19,020.64</b>
LOAN FUNDS					
Secured Loans	981	602.45	407.23	275.27	180.21
Unsecured Loans	3,071.76	2,277.70	1,998.06	1752.75	1453.78
<b>Total</b>	<b>4,052.76</b>	<b>2,880.15</b>	<b>2,405.29</b>	<b>2,028.02</b>	<b>1,633.99</b>
Deferred Tax Liability	0	240.33	354.38	522.55	770.53
Foreign currency translation difference account	0	3.46	0	0.00	0.00
<b>Total</b>	<b>9,314.84</b>	<b>10,950.71</b>	<b>13,073.06</b>	<b>16,220.42</b>	<b>21,425.17</b>
Application of funds					
FIXED ASSETS					
Gross Block	4,893.89	5,276.29	6,227.72	7350.71	8418.24
Less : Depreciation	2,326.29	2,537.77	2,841.73	3182.10	3532.35
Net Block	2,567.60	2,738.52	3,385.99	4,168.62	4,885.89
CAPITAL WORK-IN-PROGRESS(Including advances)	646.73	964.2	985.86	1008.01	1088.08
<b>Total</b>	<b>3,214.33</b>	<b>3,702.72</b>	<b>4,371.85</b>	<b>5,176.62</b>	<b>5,973.97</b>
INVESTMENTS					
5,786.41	6,398.02	9,325.29	13591.87	18067.68	
CURRENT ASSETS, LOANS AND ADVANCES					
(a) Inventories	1,097.05	1,188.78	1,694.21	2369.59	3063.05
(b) Sundry Debtors	1,043.65	1,258.08	1,354.72	1458.78	1626.68
(c) Cash and Bank Balances	1,574.43	1,743.23	614.64	216.71	111.89
(d) Other Current Assets	1.56	50.87	106.74	223.97	1172.78
(e) Loans and Advances	1,382.62	1,805.55	2,373.17	2929.38	3762.42
<b>Total</b>	<b>5,099.31</b>	<b>6,046.51</b>	<b>6,143.48</b>	<b>7,198.44</b>	<b>9,736.82</b>
CURRENT LIABILITIES AND PROVISIONS					
Current Liabilities	3,520.20	3,400.00	4,761.68	7335.34	9369.24
Provisions	1,277.56	1,796.54	2,005.88	2400.08	2961.47
<b>Total</b>	<b>4,797.76</b>	<b>5,196.54</b>	<b>6,767.56</b>	<b>9,735.42</b>	<b>12,330.72</b>
NET CURRENT ASSETS	265.17	849.97	-624.08	458.22	549.87
<b>Total</b>	<b>9,314.84</b>	<b>10,950.71</b>	<b>13,073.06</b>	<b>16,231.50</b>	<b>21,447.75</b>

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## Cash flow Statements

Mahindra &amp; Mahindra Limited

Cash Flow Statement	2009A	2010A	2011A	2012E	2013E
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Profit before exceptional items and taxation	1,026.20	2,756.00	3,402.13	3,818.05	5,379.25
Adjustments for					
Depreciation/Amortisation	333.26	370.78	413.86	461.20	514.37
(Profit)/Loss on Exchange (Net)	6.3	14.25	-25.24	-25.50	-25.50
Investment and Interest Income	-266.9	-261.8	-301.37	-320.24	-354.18
Interest, Commitment and Finance Charges	134.12	156.85	70.86	51.51	29.51
Amortisation of Expenses	11.32	6.07	30.97	51.23	148.81
Profit on sale of investments (Net)	-92.36	-10.4	-27.65	-15.13	-18.25
(Profit)/Loss on fixed assets sold/scrapped/written off (Net)	1.19	20.83	-20.54	-20.70	-20.86
Excess of cost over fair value of current investments (Net)	-1.57	-0.26	1.9	2.20	2.55
Total	125.36	296.32	142.79	152.39	276.45
Operating Profit before Working Capital changes	1,151.56	3,052.32	3,544.92	3,970.45	5,655.70
Changes in :					
Trade and other receivables	-99.37	-458.69	-682.56	-1788.89	-3532.77
Inventories	176.01	-133.84	-497.62	-123.70	-118.93
Trade and other payables	503.4	588.08	1,387.54	2303.62	4559.31
Total	580.04	-4.45	207.36	391.03	907.61
Cash generated from operations	1,731.60	3,047.87	3,752.28	4,361.48	6,563.31
Income Taxes paid (Net of refunds)	-100.3	-711.38	-772.53	-2143.99	-2143.99
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,631.30</b>	<b>2,336.49</b>	<b>2,979.75</b>	<b>2,217.49</b>	<b>4,419.32</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Purchase of fixed assets	-929.74	-967.06	-1,235.53	-1424.29	-1728.51
Sale of fixed assets	14.58	6.36	28.56	39.97	100.21
Purchase of investments	-17,118.59	-19,022.10	-27,772.15	-35,373.68	-48,238.21
Sale of investments	16,195.73	18,490.89	24,801.26	30,690.95	39,540.00
Interest received	79.87	100.74	107.77	125.19	139.55
Dividends received	137.13	87.26	129.26	125.50	150.50
Inter corporate deposits (Net)	-319.98	-133.67	60.23	-18.76	-7.03
Exceptional Items					
Sales Proceeds on sale of Long Term Investments		92.14	145.61	261.01	439.29
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-1,941.00</b>	<b>-1,345.44</b>	<b>-3,734.99</b>	<b>-5,181.09</b>	<b>-9,604.20</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from Issue of Share Capital	0	72.4	8.68	11.03	4.30
Proceeds from borrowings	2,117.39	436.32	803.73	495.18	527.53
Repayments of borrowings	-1,005.05	-743.98	-472.67	-324.15	-213.96
Dividends paid	-320.26	-311.36	-622.31	-867.48	-1,447.96
Interest, Commitment and Finance Charges paid	-95.17	-229.48	-101.15	-104.28	-70.30
Stamp Duty paid on Shares issued on Merger	0	-7.77	0	0.00	0.00
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>696.91</b>	<b>-783.87</b>	<b>-383.72</b>	<b>-789.70</b>	<b>-1,200.39</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>387.21</b>	<b>207.18</b>	<b>-1,138.96</b>	<b>-3,753.30</b>	<b>-6,385.26</b>

## Company Description

**Founded in 1945** as a steel trading company, they entered automotive manufacturing business in 1947 to bring the iconic Willys Jeep onto Indian roads. Over the years, it has diversified into many new businesses in order to better meet the needs of our customers. Company's unique business model of creating empowered companies that enjoy the best of entrepreneurial independence and Group-wide synergies. This principle has led its growth into a US \$12.5 billion multinational group with more than 137,000 employees in over 100 countries across the globe. Today, company's operation span over 18 key industries that form the foundation of every modern economy: aerospace, aftermarket, agribusiness, automotive, components, construction equipment, consulting services, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail, and two wheelers.

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**Earnings Per Share (Rs)**

Gain from its new launches in utility vehicles space and entry into the 2 wheeler segment are not expected to post positive impact in the near term and its impact could be felt only by the end of 2012 or by early 2013.

**VALUATION SOTP**

Subsidiary Name	No.of shares	Share price	value(Rs)	Value Per M&M share
Mahindra & Mahindra Ltd	N.A	856	N.A	N.A
Mahindra Lifespace Developers Limited	20846126	304.9	6355983817	2.16
Mahindra & Mahindra Financial Services Limited	58241532	683.45	39805175045	14
Mahindra Holidays & Resorts India Limited	6,99,85,642	344.85	24134548644	8.22
Tech Mahindra Limited	6,06,76,252	587.5	35647298050	12.14
Mahindra Ugine Steel Company Limited	16466789	46.4	764059009.6	0.26
Mahindra Composites Limited	1341203	51	68401353	0.023
Mahindra Satyam	501843740	70	35129061800	12

CMP of M&M : Rs 856

Expected SOTP % Upside potential : 5.70

Target Price : Rs 904

Total 48.80

As % of M&M share price 5.70

**Valuation & Price Objective**

We value the company based on SOTP(Sum of the parts valuation methodology),since company has operations in other sectors with subsidiaries. Here we have considered only the major listed entities where the parent company has got direct equity investments.

On examining the upside potential we see that it has got around 6% upside chance from current levels.By considering the present economic condition we put our target to Rs 904 which is at a P/E multiple of 17 times our FY12 EPS and 13.74 times our FY13 estimated EPS.

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### Future outlook

Volume growth in the auto sector has shown signs of slowdown and increasing raw material costs, interest rates and fuel prices has affected in posting a decline in passenger, and medium and heavy commercial vehicles.

However, two-wheelers, utility vehicles and light commercial vehicles will continue to record strong volume growth. However volume outlook in the short term is going to be affected by macro factors, that's why we have put our rating on this company as NEUTRAL However we believe long term volume outlook to improve if the economic situation in the global economy stabilizes supported by domestic factors like improved availability of finance, positive government policies and new product launches etc.

### Facts to support our view

- India's largest car maker Maruti Suzuki India Ltd which is already facing problems from the workers strike, was the hardest hit with sales falling to less than half of last year's level for the month. The firm's domestic sales dipped by 52.16 per cent at 51,458 units in October 2011, from 107,555 units sold in October, 2010.
- India's number two car maker Hyundai Motor India Ltd (HMIL) reported a 4.95 per cent drop in sales to 33,001 units from 34,720 units in October last year.
- Ford's domestic sales declined by 10.36 per cent to 8,091 units in October as against 9,026 units in the same month last year.

### Exceptional performance from Toyota & Volkswagen

Toyota Motors and Volkswagen reported sales figures which was against the trend

- Toyota Kirloskar Motor registered a growth of 63 per cent in the month of October 2011, selling 10,762 units in October compared to 6,602 units in October 2010 driven by its new launches which include Etios and Etios Liva Diesel variant.
- Volkswagen recorded 67.30 per cent increase in October sales to 7,266 units against 4,343 units sold last year. This was driven by Polo and Vento.

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### Analyst Certification

I Rethish Varma.S, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### Brokerage Rating History for Auto Sector

Brokerage Rating	Company Name	Recommended date	Recommended price	Target	Analyst
BUY	Bajaj Auto	5/7/2011	1425	1680	Rethish Varma
	TVS Motors	30/08/2011	54.8	62	Rethish Varma
	Exide Industries	7/9/2011	144	168	Rethish Varma
	Eicher Motors Ltd	7/10/2011	1605	1924	Rethish Varma
HOLD	Bajaj Auto	20/10/2011	-		Rethish Varma
	Exide Industries	21/10/2011	-	158	Rethish Varma