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Mahindra & Mahindra Ltd (M&M) is the flagship brand of the \$12.5 billion Mahindra Group, which operates with a portfolio comprising a wide spectrum of vehicles from two wheelers to heavy trucks, SUVs to school buses. M&M over the years has strengthened its position as one of the country's premier utility vehicle (UV) and farm Equipment manufacturer with market share of over 50% in UV and 40% in tractors, respectively.

Investor's Rationale

Net Profit dipped ~10% on higher raw material costs

M&M has posted a 9.9% drop in its standalone net profit for the third quarter of FY'12 at ₹6.6 billion as against ₹7.3 billion in the corresponding period last year, impacted by increased raw material costs and subdued tractor demand. The decline in profitability is primarily due to an exceptional profit of ₹1.2 billion recorded in Q3FY11 on account of sale of its holdings in building material manufacturer Owen Corning India Ltd.

Rising cost impacted the margin growth

M&M's operating profit grew by 10.5% yoy at ₹10.2 billion in Q3FY'12, backed by good volume performance by both vehicles and tractors in a difficult market and tight control of expenses. On contrary, operating profit margin (OPM) declined by 290 bps to 12.2% in Q3FY'12 mainly due to 265% and 21.2% rise in purchase of traded goods and raw material cost on yoy basis respectively. Meanwhile, NPM depreciated by 410bps to 7.9% in Q3FY'12.

UV's segment spurred the growth

Aided by incremental volumes from the XUV500 and Maxximo minivan, automotive division volumes were up 31.3% to 125k units. Passenger UV volumes were up 22.9% to 52k units including 5k dispatches of the XUV. Three wheeler volumes were up 13.7% to 18k units. Export growth too was impressive at 50%. Domestic tractor volumes, after four consecutive quarters of 20% plus growth, witnessed a moderation in growth rate at 11.8% to 62k units with a negative growth in Nov'11. Tractor exports were higher by 20%.

Electric cars to aid automobile growth in future

Besides, M&M is eyeing to launch its first compact car in 2012 after it acquired Reva Electric Car Company. Additionally, the company is on schedule to set up the world's biggest manufacturing bases for electric cars of 30,000 units per annum near Bangalore and will be ready in the next few weeks.

Market Data

| | |
|--------------------------|-------------|
| Rating | BUY |
| CMP (₹) | 758 |
| Target Price | 848 |
| Stop Loss | 720 |
| Duration | Mid-term |
| 52-week High-Low (₹) | 874.7/585.1 |
| Rise from 52WL (%) | 15.4 |
| Correction from 52WH (%) | 22.8 |
| Beta | 1.10 |
| | 3M- |
| Stock Return (%) | 15.5 |
| | 6M- |
| | 5.4 |
| | 9M- |
| | 16.8 |
| Market Cap (₹bn) | 445.1 |
| Enterprise Value (₹bn) | 463.0 |

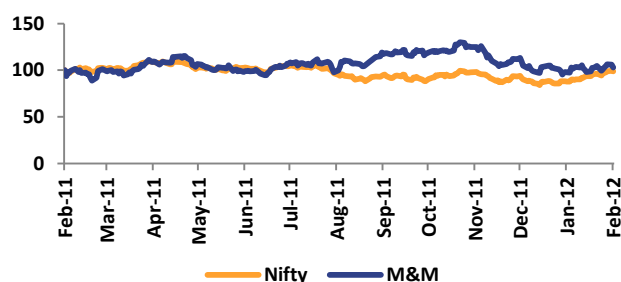
Shareholding Pattern

| | Dec'11 | Sep'11 | Chg |
|---------------------|--------|--------|--------|
| Promoters (%) | 25.3 | 25.2 | 0.16 |
| FII (%) | 26.3 | 26.4 | (0.09) |
| DII (%) | 20.3 | 20.6 | (0.33) |
| Public & Others (%) | 28.1 | 27.8 | 0.26 |

Quarterly Performance

| (₹ bn) | Q3 FY'12 | Q3 FY'11 | Q2 FY'12 | %Y-o-Y Change | %Q-o-Q Change |
|-----------------------|----------|----------|----------|---------------|---------------|
| Revenue | 83.2 | 60.7 | 73.0 | 37.1 | 14.0 |
| Operating expenditure | 73.6 | 51.9 | 64.8 | 41.7 | 13.6 |
| EBITDA | 10.2 | 9.2 | 8.7 | 10.5 | 16.8 |
| OPM (%) | 12.2 | 15.1 | 11.9 | (290bps) | 30bps |
| Net profit | 6.6 | 7.3 | 7.3 | (9.9) | (10.2) |
| NPM (%) | 7.9 | 11.9 | 9.7 | (410bps) | (190bps) |
| EPS | 11 | 12 | 12 | (12.2) | (10.2) |

One Year Price Chart





Balance Sheet (Standalone)

| (₹billion) | FY10A | FY11A | FY12E |
|--------------------------------|--------------|--------------|--------------|
| Share Capital | 2.8 | 2.9 | 2.9 |
| Reserve and surplus | 75.5 | 100.2 | 120.4 |
| Net Worth | 78.3 | 103.1 | 123.3 |
| Loan Funds | 28.8 | 24.1 | 29.8 |
| Net Deferred Tax Liability | 2.4 | 3.5 | 3.5 |
| Capital Employed | 109.5 | 130.7 | 156.7 |
| Gross fixed assets | 52.8 | 62.3 | 74.5 |
| Less: accumulated depreciation | 25.4 | 28.4 | 33.2 |
| Capital Work in Progress | 9.6 | 9.9 | 10.0 |
| Net Fixed assets | 37.0 | 43.7 | 51.3 |
| Investment | 64.0 | 93.3 | 93.3 |
| Net Current Assets | 8.5 | -6.2 | 12.1 |
| Capital Deployed | 109.5 | 130.7 | 156.7 |

Key Ratios

| | FY10A | FY11A | FY12E |
|------------------------|-------|-------|-------|
| EBITDA Margin (%) | 17.7 | 16.2 | 14.6 |
| NPM (%) | 11.1 | 11.1 | 9.5 |
| ROCE (%) | 27.1 | 26.6 | 23.4 |
| ROE (%) | 26.7 | 25.8 | 21.9 |
| ROA (%) | 20.5 | 20.9 | 17.5 |
| EPS (₹) | 36.9 | 45.3 | 45.9 |
| P/E (x) | 20.6 | 16.7 | 16.5 |
| BVPS (₹) | 138.3 | 175.6 | 210.0 |
| P/BVPS (x) | 5.5 | 4.3 | 3.6 |
| EV/Operating Income(x) | 2.4 | 2.0 | 1.6 |
| EV/EBITDA (x) | 13.2 | 11.9 | 10.9 |

Profit & Loss Account (Standalone)

| (₹billion) | FY10A | FY11A | FY12E |
|--------------------------|--------------|--------------|--------------|
| Net Sales | 185.2 | 234.9 | 279.6 |
| Other income | 3.2 | 4.3 | 4.0 |
| Total Income | 188.3 | 239.3 | 283.6 |
| Expenses | 155.0 | 200.4 | 242.1 |
| EBITDA | 33.3 | 38.9 | 41.5 |
| EBITDA Margin % | 17.7 | 16.2 | 14.6 |
| Depreciation | 3.7 | 4.1 | 4.8 |
| EBIT | 29.6 | 34.7 | 36.7 |
| Interest | 1.6 | 0.7 | 0.5 |
| Profit Before Tax | 28.1 | 34.0 | 36.2 |
| Tax | 7.6 | 8.6 | 9.2 |
| Profit after Tax | 20.9 | 26.6 | 27.0 |
| NPM % | 11.1 | 11.1 | 9.5 |

Valuation

When the peers in the industry are struggling with the falling sales, M&M has managed to post a substantial growth in sales during the fiscal and with the new launches lined-up in the coming months; the company is well-positioned to maintain its growth trajectory. Besides, M&M is also riding high on its predominant focus on diesel vehicles, strong brand and product mix, and foray into new segments, coupled with new launches and stable growth from the tractor segment. Thus, considering the above aspects we recommend 'Buy' on Mahindra & Mahindra Ltd at a price of ₹758.



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