

Mahindra & Mahindra

BSE Sensex 19,485	S&P CNX 5,904
Bloomberg	MM IN
Diluted Eq. Shares (m)	598.6
M.Cap. (INR b)/(USD b)	518.4/9.9
52-Week Range (INR)	975/622
1,6,12 Rel.Perf.(%)	-8/9/19

CMP: INR883**TP: INR1,225****Buy**

- M&M's 3QFY13 results (including MVML) were below estimates, impacted by 100bp QoQ decline in Auto PBIT margins, while tractor margins improved by 70bp QoQ on price hikes, better product mix and benign RM cost pressures.
- Net sales grew 28.6% YoY (+10.2% QoQ) to INR106.4b (v/s estimate INR110.8b). EBITDA Margins (including MVML) declined 40bp QoQ (+20bp YoY) to 13.5% (v/s estimate 14.4%). Adjusted PAT (including MVML) grew 35% YoY (-6.5% QoQ) to INR9.15b (v/s estimate of INR9.8b).

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	404.4	457.5	518.7
EBITDA	45.5	53.4	60.7
NP	32.0	35.8	40.6
Adj. EPS (INR)	58.2	65.7	74.5
EPS Gr. (%)	20.5	13.0	13.4
Cons. EPS (INR)	61.4	79.8	97.5
BV/Share (INR)	247	292	345
RoE (%)	22.0	20.8	20.0
RoCE (%)	24.2	24.5	24.0
Payout (%)	30.1	30.8	27.2

Valuation

P/E (x)	15.2	13.4	11.8
Cons. P/E (x)	14.4	11.1	9.1
P/BV (x)	3.6	3.0	2.6
EV/EBITDA (x)	7.6	6.1	4.6
Div. Yield (%)	1.6	1.8	1.8

Earnings call highlights

- Expect tractor industry to remain weak in FY13, with marginal decline. M&M expected to underperform industry in FY13. Despite demand weakness, there are no unusual discounting in tractors. M&M does not expect discounting pressure to increase over near term either on auto or tractor division.
- For FY14, tractor industry likely to grow by 4-6% on normal monsoon. Driven by new launches, UV industry to grow by 15-17%. There are no major launches in the auto division over next 12-18 months. However, M&M is working on 3 brand new products (one along with Ssangyong R&D), expected to be launched from FY15-end.

Valuation and view

- While over short term there are no visible catalyst, we remain positive on M&M over medium to long term given, a) market dominance in fairly consolidated UV and tractor industry, b) long term growth potential in tractors and UVs, c) potential turnaround in CVs, 2Ws and Ssangyong, and d) valuation.
- We lower standalone (incl MVML) EPS for FY13E/FY14E/FY15E by 2.3%/0.6%/0%. We downgrade FY13 consol. EPS by 3.7%, but upgrade FY14E/FY15E EPS by 1.1%/2.6% on upgrades in Tech Mahindra and MMFSL. The stock trades at 13.4x/11.8x standalone and 11.1x/9.1x FY14E/FY15E consolidated EPS. **Buy** with target price of INR1,225 (FY15 SOTP).

Quarterly Performance (\$/A)

Y/E March	FY12				FY13				FY12	FY13E	FY13	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Total Volumes (nos)	159,197	170,701	183,228	195,478	182,149	188,412	209,266	205,717	704,935	776,962	214,541	-2.5
Change (%)	25.1	29.2	23.3	21.8	14.4	10.4	14.2	5.2	24.2	10.2	17.1	
Net Realization	416,344	424,385	451,808	472,753	507,713	512,664	508,568	502,452	445,318	513,359	516,411	-1.5
Change (%)	3.4	5.6	10.5	14.4	21.9	20.8	12.6	6.3	9.7	15.3	14.3	
Net Sales	66,281	72,443	82,784	92,413	92,479	96,592	106,426	103,363	313,920	398,860	110,791	-3.9
Change (%)	29.3	36.4	36.3	39.3	39.5	33.3	28.6	11.8	36.2	27.1	33.8	
Operating Other Income	990	1,121	1,045	1,459	1,195	1,538	1,317	1,451	4,615	5,500	1,100	19.7
EBITDA	8,954	8,830	10,230	9,694	11,094	11,189	12,113	11,112	37,707	45,508	13,763	-12.0
EBITDA Margins (%)	13.3	12.0	12.2	10.3	11.8	11.4	11.2	10.6	11.8	11.3	12.3	-110bp
EBITDA Margins (incl MVML)	14.2	13.3	13.3	12.1	13.9	13.8	13.5	13.0	13.3	13.5	14.4	-90bp
PBT	8,143	9,749	9,141	9,026	9,684	12,160	10,599	9,822	36,059	42,265	12,313	-13.9
Effective Tax Rate (%)	25.7	24.4	27.6	3.1	25.1	25.8	21.1	24.7	20.2	24.2	25.5	-440bp
Reported PAT	6,049	7,374	6,622	8,745	7,256	9,018	8,362	7,400	28,789	32,037	9,173	-8.8
Change (%)	7.6	-2.8	-9.9	44.2	20.0	22.3	26.3	-15.4	5.3	11.3	38.5	
Adj PAT	6,049	7,374	6,622	7,696	7,256	9,018	8,362	7,400	27,924	32,037	9,173	-8.8
Change (%)	7.6	1.4	7.3	26.9	20.0	22.3	26.3	-3.8	8.1	14.7	38.5	
PAT (incl MVML)	6,183	7,615	6,770	8,030	7,785	9,781	9,149	8,514	28,888	34,810	9,803	-6.7

E: MOSL Estimates

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1

Auto volume growth remains strong, tractor volumes continues to be weak

- Net sales grew by 28.6%YoY to INR106.4b (v/s est INR110.8b). Growth in net sales was driven by volume growth of 14.2% YoY (+11.1% QoQ) to 209,266 units (incl Verito). Realizations (incl Verito) were down 80bp QoQ (12.6% YoY) at INR508,568 (v/s est INR516,411/unit).
- M&M's domestic passenger UV volumes grew by 36% YoY (+12.3% QoQ) to 70,483 units. Growth was largely driven by Bolero (+22% YoY, 11% QoQ) and new launches (XUV500 & Quanto). Recently launched Quanto have been accepted well by the customers and currently enjoy a waitlist of 1 month, as per management.
- However, domestic tractor volumes de-grew by 1.5% YoY (+30% QoQ) to 64,800 units due to continued weakness of southern region as well as Gujarat and Maharashtra. M&M has underperformed the industry growth of 3.9% given its high exposure to these states which have witnessed volume decline of over 20% YoY.
- M&M has hiked prices for auto division by 1-3% (earlier hike in July-12 of ~1.5%) effective Jan-13. While in tractors, the company increased prices by 4.7% YTD (by INR12,000/ INR7,000 in Apr-12 & Oct-12 respectively).
- Inventory for both auto and tractor division remains under control (at normal levels). Dealer inventory is less than 3 weeks and 5 weeks for auto and tractor division respectively.
- The company shall commence its new tractor plant in Zaheerabad by FY13-end.

Volume break-up (units nos)

	3QFY13	3QFY12	CHG (%)	2QFY13	CHG (%)
Utility Vehicle	121,603	99,509	22.2	116,472	4.4
% of total	58.1	53.1		61.8	
Three Wheelers	19,049	17,965	6.0	17,201	10.7
% of total	9.1	9.6		9.1	
Verito	3,814	4,208	-9.4	4,899	-22.1
% of total	1.8	2.2		2.6	
Total Automotive	144,466	121,682	18.7	138,572	4.3
% of total	69.0	64.9		73.5	
Tractors	64,800	65,754	-1.5	49,840	30.0
% of total	31.0	35.1		26.5	
Total Volumes	209,266	187,436	11.6	188,412	11.1
Of which exports					
UVs	6,500	7,089	-8.3	10,349	-37.2
Tractors	0	3,745	-100.0	1,866	-100.0
Total Exports	6,500	10,834	-40.0	12,215	-46.8

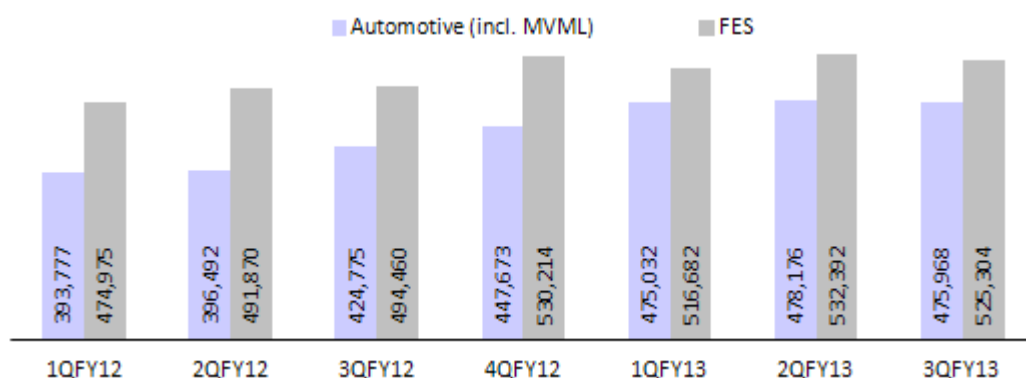
Source: Company, MOSL

Trend in business mix (INR m)

Revenues	3QFY13	3QFY12	CHG (%)	2QFY13	CHG (%)
Automotive	68,761	49,900	37.8	66,262	3.8
% of total	66.8	60.4		71.3	
Farm Eqpmnt	34,040	32,513	4.7	26,534	28.3
% of total	33.1	39.3		28.5	
Others	144	249	-42.1	151	-4.6
% of total	0.1	0.3		0.2	
Total Revenues	102,945	82,661	24.5	92,947	10.8

Source: Company, MOSL

Trend in realizations (INR/unit)

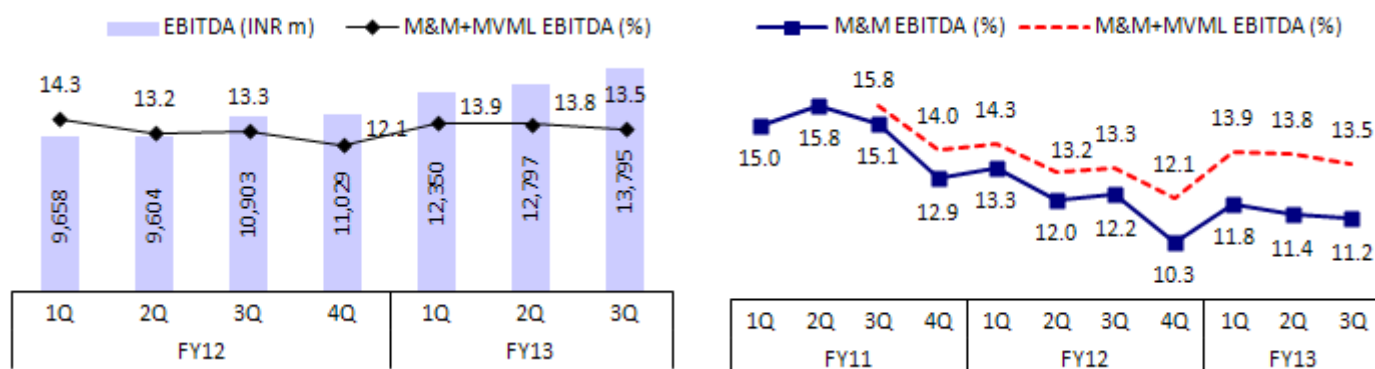


Source: Company, MOSL

Auto margins disappoints while tractor margins improves

- EBITDA margins (incl. MVML) declined by 40bp QoQ (+20bp YoY) to 13.5% (v/s est 14.4%).
- Disappointment was due 100bp QoQ (+110bp YoY) fall in Auto PBIT margins (incl MVML) to 11.2%. Tractor business PBIT margins improved by 70bp QoQ (down 10bp YoY) to 15.5%.
- Tractor margins were helped with price hike in Oct-12, better product mix and benign RM cost pressures.
- No discounts are being offered on UVs & pick-up segments. For tractors, there is no unusual discounting despite demand weakness. M&M does not expect discounting pressure to increase over near term on auto & tractor division.

Trend in EBITDA



Source: Company, MOSL

Trend in PBIT mix (INR m)

PBIT	3QFY13	3QFY12	CHG (%)	2QFY13	CHG (%)
Automotive	7,669	5,030	52.5	8,078	-5.1
% of total	59.2	49.5	970bp	67.1	-790bp
Farm Eqpmnt	5,274	5,084	3.7	3,921	34.5
% of total	40.7	50.1	-940bp	32.6	810bp
Others	12	40	-69.3	34	-63.4
% of total	0.1	0.4	-30bp	0.3	-20bp
Total PBIT	12,955	10,154	27.6	12,032	7.7

Source: Company, MOSL

Tractor: FY13 volume guidance lowered with industry expected to decline marginally; growth in FY14 expected at 4-6%

- Management indicated that rabi rains have been below normal by 20% (so far). These have impacted the demand for tractors.
- The southern states of Tamil Nadu, Andhra Pradesh and Karnataka together with Gujarat and Maharashtra have been declining over 20% YoY.
- Expect tractor industry to remain subdued in FY13 with marginally decline v/s earlier guidance of marginal growth. M&M expected to underperform industry in FY13 given its high exposure to southern states (Tamil Nadu, Andhra Pradesh, Karnataka) and Gujarat and Maharashtra. Volumes in these states have declined by over 20% YoY.
- However, despite demand weakness, there is no unusual discounting in the tractor industry.
- Plant inventory and dealer inventory remains under manageable levels of less than 3 weeks and 5 weeks respectively.
- Powerol (engine) business continues to grow at a healthy rate and expected to clock INR10b in revenues in FY13.
- The new tractor plant at Zahirabad set-up with a capex of INR4b is expected to start by FY13-end, with capacity of 50,000 units (expandable to 100,000 units in Phase 2).
- M&M to launch a brand new tractor in FY14 (prior major launch was in 2001).
- The Agri business (excl. tractors, implements and powerol business) have been growing at a rapid pace. For FY13, the division is expected to clock INR3b in revenues with INR150m in PAT.

Auto: Expects UV industry to continue to outperform car segment over next 2-3 years driven by new launches

- Management expects UV industry to continue to outperform cars segment over the next 2-3 years driven by new launches. Management guided UV industry to grow by 15-17%, ahead of 8-10% growth in cars.
- Most of the products for M&M continue to enjoy healthy demand. Thus, there are no meaningful discounts being offered either in the passenger UVs or pick-up segments. Management does not expect discounting pressure to increase over near term.
- With diesel price de-regulation, management indicated that the likelihood of tax on diesel vehicles very low.
- No major launches expected in the auto division over next 12-18 months. However, M&M is working on 3 brand new products (one along with Ssangyong R&D), expected to be launched from FY15-end onwards.
- M&M has increased prices in auto division by 1-3% effective Jan-13.
- Inventory remains under control both at the plant and dealer level. While plant inventory is less than 2 weeks, dealer inventory is less than 3 weeks.

Other highlights

- M&M has received regulatory approvals for acquisition of Navistar stake in MNAL. Transaction is expected to be completed during next week.
- Discounts remain high in MHCVs business though major players have significantly reduced discounts recently due to weak financial health.
- The company expects to launch electric car Reva NXR as well as sub-4 metre Verito. M&M is awaiting incentives from the Government on electric vehicles, excluding which it may not be able to price the car attractively for customers.
- It maintained capex/investment program of INR70-75b over FY13-15 (incl investments in subs/JVs of INR20-25b, but excluding any M&A opportunity).
- Tax rate for FY13 expected to marginal lower by 1% to ~24% due to tax benefits on R&D and optimization of operations at Rudrapur/Hardiwar plants.
- Ssangyong has recently launched a new vehicle Korando Turismo (an 11 seater vehicle). It expects to sell 149,000 units in CY13 (v/s 120,717 units in CY12).
- We model a volume growth of 10%/10% to 128,700/141,800 units, EBITDA margins of 3.5%/5% and Net loss of USD40m/USD0m for CY13E/CY14E respectively.
- International operations have been weak due to sluggish demand from Sri Lanka, Bangladesh and Bhutan markets.

Valuation and view

- Over the short term, there is no visible catalyst considering no major launches in auto division over 12-18 months. Recovery in tractors has been delayed and would depend on the vagaries of the monsoon. Possible levy of additional tax on diesel vehicles would also be an overhang, though with recent diesel de-regulation we expect the likelihood to be low.
- However, we continue to remain positive on M&M over medium to long term given:
 - Market dominance in a fairly consolidated UVs and tractor industry coupled with cheap valuations.
 - Long term growth potential in tractor (6-8%) and UV industry (12-14%)
 - Potential turnaround in CVs, 2Ws and Ssangyong.
- In view of 3Q performance, we downward revise our standalone (incl MVML) EPS for FY13/FY14/FY15 by 2.3%/0.6%/0% to ~INR58.2/65.7/74.5. We downgrade our FY13 consol. EPS by 3.7%, however upgrade FY14E/FY15E EPS by 1.1%/2.6% driven by upgrades in Tech Mahindra & MMFSL.
- The stock trades at 13.4x/11.8x standalone and 11.1x/9.1x FY14E/FY15E consolidated EPS. Maintain **Buy** with target price of INR1,225 (FY15 SOTP based).

Revised forecast (INR b)

	FY13E			FY14E			FY15E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes ('000 units)	777	786	-1.2	859	869	-1.2	952	963	-1.1
Net Sales	404	408	-1.0	458	462	-1.0	519	524	-0.9
EBITDA (% , incl MVML)	13.5	13.9	-40bp	14.0	14.0	0bp	14.1	14.1	0bp
Net Profit	32	33	-2.9	36	36	-0.5	41	41	0.1
EPS (INR)	54	55	-2.9	60	60	-0.5	68	68	0.1
EPS (incl MVML)	58.2	59.5	-2.3	65.7	66.1	-0.6	74.5	74.5	0.0
Cons EPS (INR)	61.4	63.8	-3.7	79.8	78.9	1.1	97.5	95.0	2.6

Source: MOSL

M&M: Sum-of-the-parts (INR/share)

	FY14E	FY15E	Basis
Value of core business			
Core EPS (excl. subsidiary dividend)	62.4	70.8	
PE attributable (x)	13	13	
Target price	811	922	
Value of subsidiaries @ 20% Hold Co discount			
1. Tech Mahindra	92	99	20% discount to fair value
2. M&M Financial Services	87	102	20% discount to fair value
3. Mahindra Lifespaces	9	10	20% discount to fair value
4. Mahindra Holidays	29	29	20% discount to CMP
5. Ssangyong	35	35	20% discount to CMP
6. Others - Value per share of M&M	13	27	
Target price (after 20% discount)	1,075	1,225	

Source: MOSL

Mahindra & Mahindra: an investment profile

Company background

M&M is the market leader in UV and tractors, with market share of over 48% and 40% respectively. It also has presence into CVs, 3-wheelers and 2-wheelers segments. Also, Ssangyong, its subsidiary in South Korea is focused on SUV segment in global markets. Apart from core auto business, it has subsidiaries/ associates in various businesses like IT, NBFC, Auto ancillaries, hospitality, infrastructure etc.

Key investment arguments

- Limited competition in key segment of UVs and tractors augurs well for M&M.
- M&M would be one of the biggest beneficiaries of normal monsoon, given its rural centric product portfolio.
- M&M's investments in its subsidiary and associate companies add substantially to the company's valuations. Value unlocking in these companies would act as catalyst for M&M's stock.

Key investments risks

- High dependence on monsoon, particularly for the tractor division.

- Any additional duty on diesel vehicles would adversely impact M&M as its entire portfolio is diesel based.
- Successful integration and turnaround of Ssangyong would be key challenge.

Recent developments

- Recently launched Ssangyong Rexton and Quanto have received positive response from customers and command a waiting period of 2 months and 1 month respectively.

Valuation and view

- The stock trades at 13.4x/11.8x standalone and 11.1x/9.1x FY14E/FY15E consolidated EPS.
- Maintain **Buy** with target price of INR1,225 (FY15 SOTP based).

Sector View

- We remain bullish on the macro growth picture for passenger vehicles in India
- We also believe that within passenger vehicles, UVs will increase their market share consistently over the next few years.
- We maintain an overweight stance on the sector.

Comparative valuations

		M&M	Maruti	Tata Motors
P/E (x)	FY13E	14.4	21.9	10.0
	FY14E	11.1	14.6	7.7
EPS Gr (%)	FY13E	19.9	28.3	-24.3
	FY14E	30.0	50.0	29.2
RoE (%)	FY13E	22.0	11.4	22.5
	FY14E	20.8	14.9	23.4
EV/EBITDA (x)	FY13E	7.6	10.0	4.5
	FY14E	6.1	6.6	3.9

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	61.4	63.6	-3.4
FY14	79.8	77.2	3.4

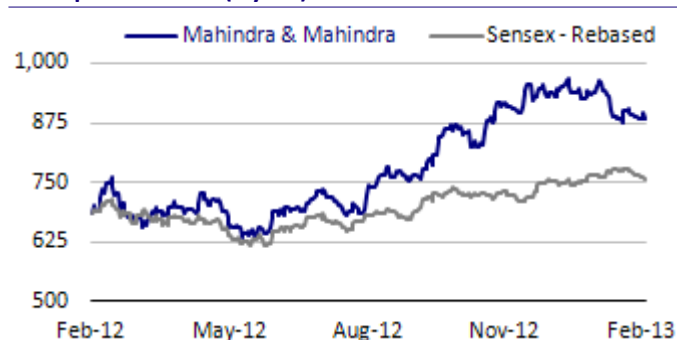
Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
883	1,225	38.7	Buy

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	25.4	25.4	25.4
Domestic Inst	16.3	18.5	20.2
Foreign	42.1	39.1	35.8
Others	16.3	16.9	18.5

Stock performance (1 year)



Financials and Valuation

Income Statement					Ratios				
(INR Million)									
Y/E March	2012	2013E	2014E	2015E	Y/E March	2012	2013E	2014E	2015E
Gross Sales	338,930	429,187	486,314	551,847	Basic (INR)				
Less: Excise	25,010	30,327	34,313	38,904	Fully diluted EPS	46.7	53.5	59.8	67.8
Net Sales	313,920	398,860	452,002	512,943	FD EPS (incl MVML)	48.3	58.2	65.7	74.5
Change (%)	36.2	27.1	13.3	13.5	Consolidated EPS	51.2	61.4	79.8	97.5
Operating Other Income	4,615	5,500	5,500	5,775	Cash EPS	57.2	66.2	74.8	84.6
Total Income	318,535	404,360	457,502	518,718	Book Value per Share	206.4	247.0	291.8	344.7
Change (%)	35.8	26.9	13.1	13.4	DPS	12.5	14.0	16.0	16.0
Total Expenditure	280,828	358,852	404,105	457,987	Payout (Incl. Div. Tax) %	29.9	30.1	30.8	27.2
EBITDA	37,707	45,508	53,396	60,732	Valuation (x)				
Margins (%)	11.8	11.3	11.7	11.7	P/E	18.3	15.2	13.4	11.8
Margins (% incl MVML)	13.3	13.5	14.0	14.1	Consolidated P/E	17.2	14.4	11.1	9.1
Depreciation	5,761	6,929	8,286	9,224	Cash P/E	15.4	13.3	11.8	10.4
EBIT	31,946	38,579	45,110	51,508	EV/EBITDA	12.0	7.6	6.1	4.6
Int. & Finance Charges	1,628	1,873	2,063	2,063	EV/Sales	1.4	0.9	0.7	0.5
Other Income	4,658	5,558	5,989	6,188	Price to Book Value	4.3	3.6	3.0	2.6
Non-recurring Expense	0	0	0	0	Dividend Yield (%)	1.4	1.6	1.8	1.8
Non-recurring Income	1,083	0	0	0	Profitability Ratios (%)				
Profit before Tax	36,059	42,265	49,036	55,633	RoE	23.0	22.0	20.8	20.0
Tax	7,270	10,228	13,240	15,021	RoCE	23.1	24.2	24.5	24.0
Eff. Tax Rate (%)	20.2	24.2	27.0	27.0	Turnover Ratios				
Profit after Tax	28,789	32,037	35,796	40,612	Debtors (Days)	23	24	24	24
Change (%)	8.1	11.3	11.7	13.5	Inventory (Days)	27	27	27	27
% of Net Sales	9.0	7.9	7.8	7.8	Creditors (Days)	56	61	61	61
Adj. Profit after Tax	27,924	32,037	35,796	40,612	Working Capital (Days)	5	16	26	41
Change (%)	8.5	14.7	11.7	13.5	Asset Turnover (x)	2.0	2.2	2.2	2.1
Adj. PAT (incl MVML)	28,888	34,810	39,320	44,596	Leverage Ratio				
					Debt/Equity (x)	0.3	0.2	0.2	0.2

Balance Sheet					Cash Flow Statement				
(INR Million)					(INR Million)				
Y/E March	2012	2013E	2014E	2015E	Y/E March	2012	2013E	2014E	2015E
Share Capital	2,945	2,945	2,945	2,945	OP/(Loss) before Tax	31,946	38,579	45,110	51,508
Reserves	118,640	142,556	168,928	200,115	Int./Dividends Received	4,658	5,558	5,989	6,188
Net Worth	121,585	145,501	171,873	203,060	Depreciation & Amort.	5,761	6,929	8,286	9,224
Deferred tax	5,271	5,271	5,271	5,271	Direct Taxes Paid	-5,543	-10,228	-13,240	-15,021
Loans	31,738	31,738	31,738	31,738	(Inc)/Dec in Wkg. Capital	2,622	3,345	291	335
Capital Employed	158,595	182,511	208,882	240,070	CF from Oper. Activity	39,444	44,183	46,437	52,234
Gross Fixed Assets	74,986	89,986	104,986	119,986	Extra-ordinary Items	1,083	0	0	0
Less: Depreciation	34,179	41,108	49,394	58,618	CF after EO Items	40,527	44,183	46,437	52,234
Net Fixed Assets	40,808	48,879	55,592	61,368	(Inc)/Dec in FA+CWIP	-17,503	-15,000	-15,000	-15,000
Capital WIP	10,000	10,000	10,000	10,000	(Pur)/Sale of Invest.	-13,848	-2,846	-5,000	0
Investments	103,105	105,950	110,950	110,950	CF from Inv. Activity	-31,351	-17,846	-20,000	-15,000
Curr.Assets, L & Adv.	85,082	125,833	152,866	192,533	Change in Net Worth	-1,723	1,528	1,602	1,602
Inventory	23,584	29,912	33,843	38,371	Inc/(Dec) in Debt	8,527	0	0	0
Sundry Debtors	19,884	26,588	30,082	34,108	Interest Paid	-1,628	-1,873	-2,063	-2,063
Cash & Bank Bal.	11,884	28,229	43,178	68,925	Dividends Paid	-7,532	-9,649	-11,027	-11,027
Loans & Advances	24,077	35,451	40,110	45,477	CF from Fin. Activity	-2,355	-9,993	-11,487	-11,487
Others	5,653	5,653	5,653	5,653	Inc/(Dec) in Cash	5,738	16,345	14,949	25,747
Current Liab. & Prov.	80,399	108,151	120,526	134,782	Add: Beginning Balance	6,146	11,884	28,229	43,178
Sundry Creditors	47,962	66,470	75,206	85,269	Closing Balance	11,885	28,229	43,178	68,925
Other Liabilities	13,985	13,985	13,985	13,985	E: MOSL Estimates				
Provisions	18,453	27,696	31,336	35,529					
Net Current Assets	4,683	17,682	32,340	57,751					
Working Capital	-7,202	-10,547	-10,838	-11,174					
Application of Funds	158,595	182,511	208,882	240,070					

N O T E S

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