

## Mahindra and Mahindra

### Performance Highlights

Y/E March (₹ cr)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)
<b>Net Sales</b>	<b>10,774</b>	<b>8,383</b>	<b>28.5</b>	<b>9,813</b>	<b>9.8</b>
EBITDA	1,211	1,023	18.4	1,119	8.3
EBITDA Margin (%)	11.2	12.2	(96)bp	11.4	(16)bp
<b>Adj. PAT</b>	<b>836</b>	<b>662</b>	<b>26.3</b>	<b>902</b>	<b>(7.3)</b>

Source: Company, Angel Research

Mahindra and Mahindra (MM) reported a slightly lower-than-expected bottom-line performance for 3QFY2013, primarily due to the contraction in EBITDA margin, led by sequential decline in net average realization. The overall performance was driven by the continued volume traction in the automotive segment (AS) backed by the new launches. We broadly retain our top-line and EBITDA margin estimates for FY2013/14. However our earnings estimates are revised slightly upwards to factor in the lower tax-rate going ahead as guided by the Management. We expect AS to drive the total volume growth of the company led by the success of new launches (XUV500, Quanto and Rexton) in the utility vehicle (UV) segment. We expect tractor volumes to recover in FY2014 and clock a growth rate of 8% after posting a decline of 4% in FY2013. **We retain our positive bias on MM and recommend a Buy rating on the stock.**

**3QFY2013 performance driven by AS:** MM's top-line registered a strong growth of 28.5% yoy (9.8% qoq) to ₹10,774cr; however it was lower than our expectations of ₹11,070cr, largely due to the sequential decline in net average realization in the AS (1% qoq) and farm equipment segment (FES, 1.3% qoq). The top-line growth on a yoy basis was driven by a robust volume (17.5% yoy) and net average realization growth in the AS (22.5% yoy). Total volumes, however, posted a growth of 10.9% yoy (10.8% qoq) as tractor sales witnessed a decline of 1.6% yoy on account of weak domestic demand. The EBITDA margin contracted 96bp yoy (16bp qoq) to 11.2% owing to raw-material cost pressures, which as a percentage of sales increased 153bp yoy (97bp qoq) to 75.9%. As a result, the bottom-line came in at ₹836cr, a growth of 26.3% yoy; however it was down 7.3% qoq largely due to absence of dividend income from the subsidiaries. The bottom-line benefitted from the reduced tax rate on account of higher R&D spends.

**Outlook and valuation:** At ₹883, MM is trading at 13.7x FY2014E earnings. We retain our positive bias on MM and recommend a Buy rating on the stock. Our sum of the parts (SOTP) target price works out to ₹1,019, wherein the company's core business fetches ₹739/share and the value of its investments works out to ₹280/share.

#### Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
<b>Net Sales</b>	<b>23,460</b>	<b>31,854</b>	<b>40,060</b>	<b>46,301</b>
% chg	27.8	35.8	25.8	15.6
<b>Net Profit</b>	<b>2,550</b>	<b>2,753</b>	<b>3,255</b>	<b>3,787</b>
% chg	25.7	8.0	18.2	16.3
EBITDA (%)	14.7	11.8	11.5	11.7
<b>EPS (₹)</b>	<b>43.4</b>	<b>46.7</b>	<b>55.3</b>	<b>64.3</b>
P/E (x)	20.3	18.9	16.0	13.7
P/BV (x)	5.0	4.3	3.6	3.0
RoE (%)	28.1	24.6	24.5	23.8
RoCE (%)	24.8	21.2	22.0	22.3
EV/Sales (x)	1.7	1.3	1.0	0.8
EV/EBITDA (x)	12.9	11.8	9.3	7.5

Source: Company, Angel Research

## BUY

CMP	₹883
Target Price	₹1,019

Investment Period 12 Months

#### Stock Info

Sector	Automobile
Market Cap (₹ cr)	54,202
Net Debt (₹ cr)	1,423
Beta	0.8
52 Week High / Low	875/622
Avg. Daily Volume	126,643
Face Value (₹)	5
BSE Sensex	19,485
Nifty	5,904
Reuters Code	MAHM.BO
Bloomberg Code	MM@IN

#### Shareholding Pattern (%)

Promoters	25.3
MF / Banks / Indian Fls	24.6
FII / NRIs / OCBs	42.1
Indian Public / Others	8.0

Abs. (%)	3m	1yr	3yr
Sensex	3.4	10.0	22.3
MM	(3.3)	28.5	76.3

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**Exhibit 1: Quarterly financial performance (Standalone)**

Y/E March (₹ cr)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)	9MFY13	9MFY12	% chg (yoy)
<b>Net Sales</b>	<b>10,774</b>	<b>8,383</b>	<b>28.5</b>	<b>9,813</b>	<b>9.8</b>	<b>29,955</b>	<b>22,466</b>	<b>33.3</b>
Consumption of RM	5,722	4,659	22.8	4,817	18.8	15,303	13,215	15.8
(% of Sales)	53.1	55.6		49.1		51.1	58.8	
Staff Costs	498	447	11.4	474	5.0	1,424	1,272	11.9
(% of Sales)	4.6	5.3		4.8		4.8	5.7	
Purchases of TG	2,457	1,577	55.8	2,538	(3.2)	7,266	3,195	127
(% of Sales)	22.8	18.8		25.9		24.3	14.2	
Other Expenses	886	677	30.8	865	2.4	2,522	1,982	27.2
(% of Sales)	8.2	8.1		8.8		8.4	8.8	
<b>Total Expenditure</b>	<b>9,563</b>	<b>7,360</b>	<b>29.9</b>	<b>8,694</b>	<b>10.0</b>	<b>26,515</b>	<b>19,665</b>	<b>34.8</b>
<b>Operating Profit</b>	<b>1,211</b>	<b>1,023</b>	<b>18.4</b>	<b>1,119</b>	<b>8.3</b>	<b>3,440</b>	<b>2,801</b>	<b>22.8</b>
OPM (%)	11.2	12.2		11.4		11.5	12.5	
Interest	47	35	34	47	(2)	140	92	53
Depreciation	179	141	27.1	178	0.3	512	376	36.1
Other Income	74	67	11.3	323	(77.0)	457	370	23.5
<b>PBT (excl. Extr. Items)</b>	<b>1,060</b>	<b>914</b>	<b>16.0</b>	<b>1,216</b>	<b>(12.8)</b>	<b>3,244</b>	<b>2,703</b>	<b>20.0</b>
Extr. Income/(Expense)	-	-	-	-	-	-	-	-
<b>PBT (incl. Extr. Items)</b>	<b>1,060</b>	<b>914</b>	<b>16.0</b>	<b>1,216</b>	<b>(12.8)</b>	<b>3,244</b>	<b>2,703</b>	<b>20.0</b>
(% of Sales)	9.8	10.9		12.4		10.8	12.0	
Provision for Taxation	224	252	(11.2)	314	(28.8)	781	699	11.7
(% of PBT)	21.1	27.6		25.8		24	26	
<b>Reported PAT</b>	<b>836</b>	<b>662</b>	<b>26.3</b>	<b>902</b>	<b>(7.3)</b>	<b>2,464</b>	<b>2,004</b>	<b>22.9</b>
<b>Adj PAT</b>	<b>836</b>	<b>662</b>	<b>26.3</b>	<b>902</b>	<b>(7.3)</b>	<b>2,464</b>	<b>2,004</b>	<b>22.9</b>
Adj. PATM	7.8	7.9		9.2	(15.5)	8.2	8.9	
Equity capital (cr)	295.0	294.2		295.0		295.0	294.2	
<b>Adjusted EPS (₹)</b>	<b>14.2</b>	<b>11.3</b>	<b>26.0</b>	<b>15.3</b>	<b>(7.3)</b>	<b>41.8</b>	<b>34.1</b>	<b>22.6</b>

Source: Company, Angel Research

**Exhibit 2: 3QFY2013 – Actual vs Angel estimates**

Y/E March (₹ cr)	Actual	Estimates	Variation (%)
<b>Net Sales</b>	<b>10,774</b>	<b>11,070</b>	<b>(2.7)</b>
EBITDA	1,211	1,339	(9.6)
EBITDA margin (%)	11.2	12.1	(86)bp
<b>Adj. PAT</b>	<b>836</b>	<b>876</b>	<b>(4.5)</b>

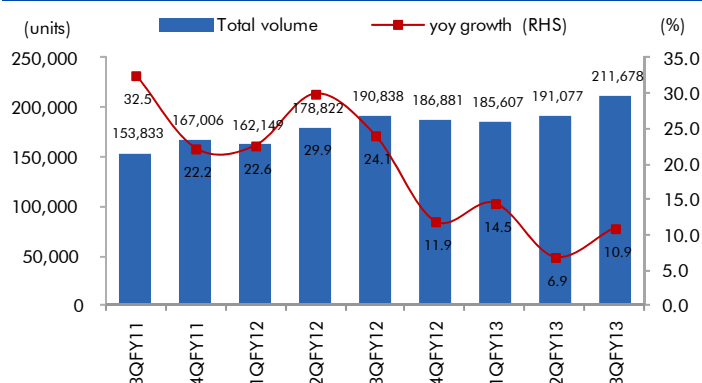
Source: Company, Angel Research

**Exhibit 3: Quarterly volume performance**

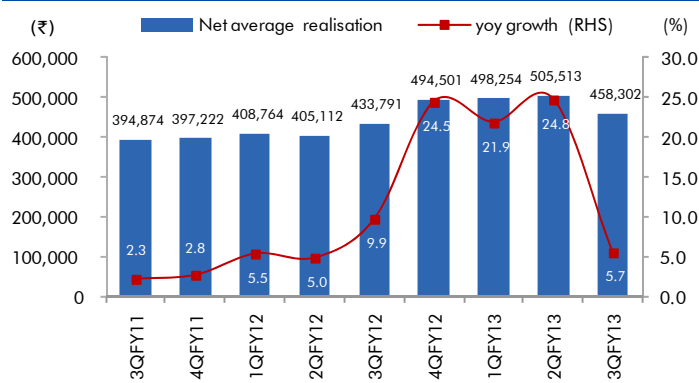
Volume (units)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)	9MFY13	9MFY12	% chg (yoy)
<b>Total volumes</b>	<b>211,678</b>	<b>190,838</b>	<b>10.9</b>	<b>191,077</b>	<b>10.8</b>	<b>588,362</b>	<b>531,809</b>	<b>10.6</b>
Auto Sales - Domestic	140,378	117,402	19.6	130,888	7.3	389,454	327,897	18.8
Auto Sales - Exports	6,500	7,587	(14.3)	10,349	(37.2)	24,690	20,543	20.2
<b>Total Auto Sales</b>	<b>146,878</b>	<b>124,989</b>	<b>17.5</b>	<b>141,237</b>	<b>4.0</b>	<b>414,144</b>	<b>348,440</b>	<b>18.9</b>
Tractor Sales - Domestic	62,341	62,009	0.5	46,797	33.2	165,699	173,519	(4.5)
Tractor Sales - Exports	2,459	3,840	(36.0)	3,043	(19.2)	8,519	9,850	(13.5)
<b>Total Tractor Sales</b>	<b>64,800</b>	<b>65,849</b>	<b>(1.6)</b>	<b>49,840</b>	<b>30.0</b>	<b>174,218</b>	<b>183,369</b>	<b>(5.0)</b>

Source: Company, Angel Research

**Slightly lower-than-expected growth in the top-line:** MM posted a strong top-line growth of 28.5% yoy (9.8% qoq) to ₹10,774cr; however it was lower than our expectations of ₹11,070cr largely due to the sequential decline in net average realization in the AS (1% qoq) and FES (1.3% qoq). The top-line growth on a yoy basis was driven by a robust volume (17.5% yoy) and net average realization growth in the AS (22.5% yoy). Total volumes, however, posted a growth of 10.9% yoy (10.8% qoq) as tractor sales witnessed a decline of 1.6% yoy on account of weak domestic demand. While the AS registered an impressive revenue growth 43.9% yoy (2.9% qoq); the FES posted a sluggish revenue growth of 4.8% yoy.

**Exhibit 4: Volume growth led by automotive segment**


Source: Company, Angel Research

**Exhibit 5: Net average realization down sequentially**


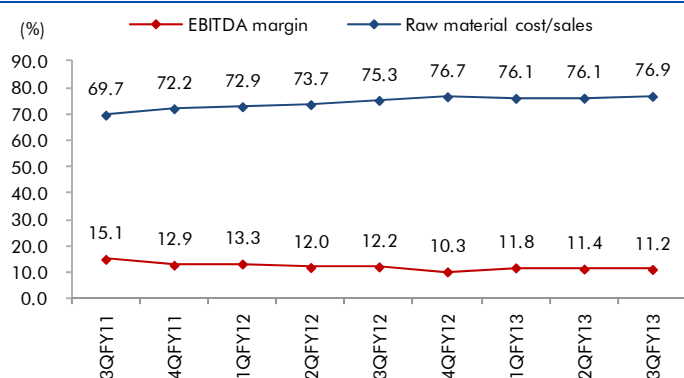
Source: Company, Angel Research

**Exhibit 6: Segmental performance**

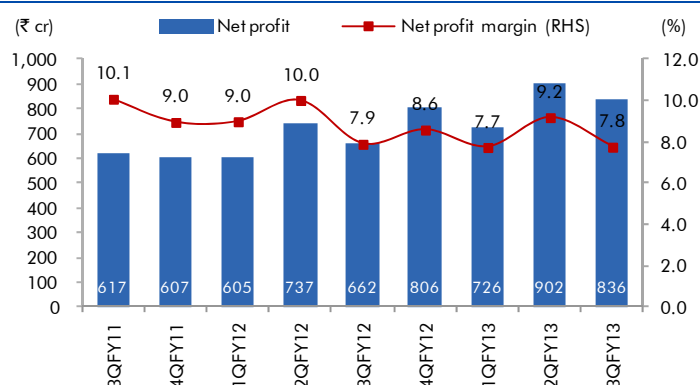
Y/E March (₹ cr)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)	9MFY13	9MFY12	% chg (yoy)
<b>Total Net Sales</b>	<b>10,779</b>	<b>8,389</b>	<b>28.5</b>	<b>9,818</b>	<b>9.8</b>	<b>29,971</b>	<b>22,493</b>	<b>33.2</b>
Auto segment	7,361	5,115	43.9	7,150	2.9	20,789	13,490	54.1
Farm segment	3,404	3,249	4.8	2,653	28.3	9,136	8,933	2.3
Other segments	14	25	(42.0)	15	(4.6)	46	70	(33.6)
<b>Total PBIT</b>	<b>1,154</b>	<b>930</b>	<b>24.1</b>	<b>1,067</b>	<b>8.1</b>	<b>3,260</b>	<b>2,686</b>	<b>21.4</b>
Auto segment	625	418	49.6	672	(6.9)	1,850	1,280	44.5
Farm segment	527	508	3.7	392	34.5	1,402	1,398	0.2
Other segments	1.2	3.6	(65.9)	3.4	(63.4)	8.6	7.8	10.3
<b>PBIT/ Sales (%)</b>	<b>10.7</b>	<b>11.1</b>	<b>(38)bp</b>	<b>10.9</b>	<b>(16)bp</b>	<b>10.9</b>	<b>11.9</b>	<b>(106)bp</b>
Auto segment	8.5	8.2	33bp	9.4	(90)bp	8.9	9.5	(59)bp
Farm segment	15.5	15.7	(16)bp	14.8	72bp	15.3	15.7	(31)bp
Other segments	8.5	14.5		22.3		18.4	11.1	

Source: Company, Angel Research

**EBITDA margin remains under pressure, down to 11.2%:** On the operating front, the EBITDA margin contracted 96bp yoy (16bp qoq) to 11.2% largely due to raw-material cost pressures. As a result, the total raw-material cost as a percentage of sales increased 153bp yoy (97bp qoq) to 75.9%. However, the employee expenditure as a percentage of sales declined by 70bp yoy which arrested further contraction in margins. The EBIT margin in the AS expanded marginally by 33bp, however the FES witnessed a decline of 16bp yoy. Led by a strong volume growth in the AS, the automotive EBIT registered an impressive growth of 49.6% yoy.

**Exhibit 7: EBITDA margins at 11.2%**


Source: Company, Angel Research

**Exhibit 8: Bottom-line slightly lower than estimates**


Source: Company, Angel Research

**Bottom-line slightly below our estimates:** MM's net profit for 3QFY2013 was 4.5% below our estimate at ₹836cr, a growth of 26.3% yoy; however it was down 7.3% qoq largely due to absence of dividend income from the subsidiaries. The bottom-line benefitted from the reduced tax rate on account of higher R&D spends.

**Exhibit 9: Quarterly financial performance (MM + MVML)**

Y/E March (₹ cr)	3QFY13	3QFY12	% chg (yoy)	2QFY13	% chg (qoq)	9MFY13	9MFY12	% chg (yoy)
<b>Net sales</b>	<b>10,243</b>	<b>8,212</b>	<b>24.7</b>	<b>9,253</b>	<b>10.7</b>	<b>28,374</b>	<b>22,262</b>	<b>27.5</b>
<b>Total expenditure</b>	<b>8,863</b>	<b>7,080</b>	<b>25.2</b>	<b>7,973</b>	<b>11.2</b>	<b>24,479</b>	<b>19,204</b>	<b>27.5</b>
Material cost	7,375	5,903	24.9	6,571	12.2	20,295	15,809	28.4
% of net sales	72.0	71.9	12	71.0	99	71.5	71.0	51
Employee expense	532	473	12.5	507	4.9	1,520	1,340	13.5
% of net sales	5.2	5.8	(57)	5.5	(29)	5.4	6.0	(66)
Other expenses	956	704	35.9	895	6.8	2,665	2,055	29.7
% of net sales	9.3	8.6	77	9.7	(34)	9.4	9.2	16
<b>Operating profit</b>	<b>1,380</b>	<b>1,132</b>	<b>21.9</b>	<b>1,280</b>	<b>7.8</b>	<b>3,894</b>	<b>3,058</b>	<b>27.3</b>
OPM (%)	13.5	13.8	(32)	13.8	(36)	13.7	13.7	(1)
Depreciation	205	164	24.9	204	0.5	590	443	33.0
EBIT	1,174	968	21.3	1,075	9.2	3,304	2,615	26.4
Interest	72	64	12.6	74	(2.2)	218	177	22.9
Other income	76	69	10.6	326	(76.8)	468	372	25.8
<b>PBT</b>	<b>1,177</b>	<b>972</b>	<b>21.2</b>	<b>1,327</b>	<b>(11.3)</b>	<b>3,554</b>	<b>2,810</b>	<b>26.5</b>
Exceptional items	-	-	-	-	-	-	-	-
<b>PBT after Exceptional item</b>	<b>1,177</b>	<b>972</b>	<b>21.2</b>	<b>1,327</b>	<b>(11.3)</b>	<b>3,554</b>	<b>2,810</b>	<b>26.5</b>
Tax expense	262	266	(1.3)	349	(24.8)	883	724	22.0
% of PBT	22.3	27.4		26.3		24.8	25.8	
<b>Reported PAT</b>	<b>915</b>	<b>706</b>	<b>29.6</b>	<b>978</b>	<b>(6.5)</b>	<b>2,672</b>	<b>2,086</b>	<b>28.1</b>
<b>Adj. PAT</b>	<b>915</b>	<b>706</b>	<b>29.6</b>	<b>978</b>	<b>(6.5)</b>	<b>2,672</b>	<b>2,086</b>	<b>28.1</b>

Source: Company, Angel Research

**Strong MM + MVML performance:** For 3QFY2013, the net revenues for MM + Mahindra Vehicle Manufacturers Ltd (MVML) posted a strong growth of 24.7% yoy (10.7% qoq) to ₹10,243cr. The strong performance was led by a 10.9% yoy (10.8% qoq) growth in volumes and 12.5% yoy (flat qoq) increase in net average realization. The net average realization improved led by a superior product-mix and price hikes in the AS and FES. The AS continued its strong revenue performance witnessing a growth of 37.8% yoy, led by strong volume traction in the UV portfolio. The EBITDA margin contracted marginally by 32bp yoy (36 qoq) to 13.5% primarily due to raw-material cost pressures. The AS' EBIT margins improved 100bp yoy to 11.1% benefitting from the price hikes and superior product-mix and operating leverage benefits. The EBIT margins in the FES remained stable on a yoy basis despite the poor performance on the volume front. Nonetheless, the net profit surged 29.6% yoy to ₹915cr largely due to strong operating performance. The lower tax rate also benefited the bottom-line to some extent. Sequentially, the bottom-line declined 6.5% mainly due to lower other income (absence of dividend income from the subsidiaries).

## Conference call – Key highlights

- According to the Management, the demand for tractors remains subdued. The poor winter monsoon has affected demand in Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra and Gujarat which are also the key states for the company. The company's market share in the tractor segment has declined by ~1% to 41.5% as of YTD FY2013.
- The Management remains cautious of recovery in tractor demand and expects the industry to grow at a rate of 4-5% in FY2014. However, good Rabi crop and pent up demand in the Sothern markets (down since the last two years) can lead to higher growth in FY2014.
- MM is planning to launch a new tractor and 3-4 refreshes in FY2014. The tractor inventory remains at ~3 weeks at the plant and ~5 weeks at the dealers end.
- The new Zaheerabad plant is expected to start production by the end of FY2013. The new plant has an installed capacity of 50,000 tractors (can be expanded to 100,000 units) and has been set-up with a capex of ₹400cr.
- In the AS, the company has hiked prices across the products by 1-3% from January 2013. The company expects the UV segment to continue to do well. MM currently has a waiting period of one and two months for *Quanto* and *Rexton* respectively. The Management stated that the capacity for XUV500 will be maintained at 4,500units/month. The inventory in the AS remains ~2 weeks at plants and ~3 weeks at the dealers end. According to the Management, the pricing power of the company remains strong, led by strong demand for new launches.
- The Reva electric car and a sub four-meter *Verito* are expected to be launched over the next two months. The company does not intend to launch any major product in the UV segment in the next twelve months. However, it would be launching 3-4 refreshes in the UV segment.
- The Management stated that Ssangyong posted a marginal growth in CY2012. However, its market share improved ~150bp in CY2012. The company (Ssangyong) is expected to clock volumes of ~149,000 units in CY2013.
- For FY2013, MM expects the effective tax rate to be at 24.3% largely due to higher spends towards R&D.
- Exports in the AS and FES segments have been severely impacted due to the slowdown in the major markets of Sri Lanka and Bangladesh.
- On budget expectations, the Management stated that the recent announcement of diesel deregulation is positive for the company as this mitigates the possibility of an additional tax on diesel vehicles.

## Investment arguments

- Strong growth in AS to offset slowdown in FES:** The outlook for tractor sales appears to be challenging given that the industry has witnessed a slowdown in demand over the past six months. As a result, the Management has lowered its volume guidance. However, MM's automotive volume growth continues to surprise positively, with an 18.9% yoy growth in 9MFY2013. Further, a positive response to the recently launched *XUV500*, *Quanto* and *Rexton* should sustain automotive sales going ahead and somewhat offset weak tractor demand. We expect AS to register a volume CAGR of 15.1% over FY2012-14 leading to an overall volume CAGR of 11% over the same period.
- New ventures firming up well:** MM's new ventures in the commercial vehicle (CV) space are firming up well. New product launches such as the *Gio* and the *Maxximo* have received a good response. Further, launch of new products in the medium and heavy commercial vehicle (MHCV) space has positioned the company in line with other major domestic CV players such as Ashok Leyland and Tata Motors. This is expected to substantially augment the company's overall volume growth, supported by its well-known brand equity and extensive sales network.
- Investments constitute ~65% of the balance sheet:** MM also has majority stakes in various listed companies in other sectors, including technology, property and finance. The high-growth potential of MM's subsidiaries is expected to unlock the actual value of the stock over the years. Listing of its subsidiaries has been supporting the company's valuation in the recent past and may continue to do so in the long term as well.

## Outlook and valuation

We broadly retain our top-line and EBITDA margin estimates for FY2013/14. However our earnings estimates are revised slightly upwards to factor in the lower tax-rate going ahead as guided by the Management. We expect AS to drive the total volume growth of the company led by the success of the new launches (*XUV500*, *Quanto* and *Rexton*) in the utility vehicle (UV) segment. We expect tractor volumes to recover in FY2014 and clock a growth rate of 8% after posting a decline of 4% in FY2013.

### Exhibit 10: Change in estimates

Y/E March	Earlier Estimates		Revised Estimates		% chg	
	FY2013E	FY2014E	FY2013E	FY2014E	FY2013E	FY2014E
Net Sales (₹ cr)	40,035	46,272	40,060	46,301	0.1	0.1
OPM (%)	11.5	11.6	11.5	11.7	(0)bp	10bp
EPS (₹)	54.4	62.1	55.3	64.3	1.6	3.5

Source: Company, Angel Research

At ₹883, MM is trading at 13.7x FY2014E earnings. **We retain our positive bias on MM and recommend a Buy rating on the stock.** Our sum of the parts (SOTP) target price works out to ₹1,019, wherein the company's core business fetches ₹739/share and the value of its investments works out to ₹280/share.

**Exhibit 11: SOTP valuation**

Key Subsidiary	No. of Shares (cr)	CMP (₹)	Value (₹ cr)
Mahindra Financial Services	5.8	1,026	5,973
Mahindra Lifespace Developers	2.1	409	851
Tech Mahindra	6.1	1,002	6,070
Mahindra Forgings	4.9	43	208
Mahindra Holidays and Resorts	7.0	295	2,062
Mahindra Ugine Steel	1.6	62	102
Other Investments (at book value)			8,306
<b>Total value (₹ cr)</b>			<b>23,572</b>
<b>Per share value of investments (30% discount)</b>			<b>280</b>
<b>MM's Core Business/share value (11.5x FY14E EPS)</b>			<b>739</b>
<b>MM's Target Price with investments (₹)</b>			<b>1,019</b>

Source: Company, Angel Research

**Exhibit 12: Key assumptions**

Y/E March (units)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Passenger Utility Vehicles (UV)	214,128	150,726	169,205	202,276	262,959	305,032
4-wheeler pick-up	-	76,387	105,588	152,691	172,541	194,971
LCV	9,792	9,829	11,077	13,823	12,026	12,988
Logan	5,332	5,332	10,009	17,839	16,769	19,284
Three wheelers	57,424	44,439	62,142	67,440	65,417	68,688
Exports	10,815	11,567	19,042	29,177	32,678	39,214
<b>Total Automotive Sales</b>	<b>297,491</b>	<b>298,280</b>	<b>377,063</b>	<b>483,246</b>	<b>562,389</b>	<b>640,177</b>
Domestic Tractor Sales	165,581	165,633	201,785	221,730	213,969	231,087
Exports Tractor Sales	8,999	9,001	11,868	13,722	12,350	13,338
<b>Total Tractor Sales</b>	<b>174,580</b>	<b>174,634</b>	<b>213,653</b>	<b>235,452</b>	<b>226,319</b>	<b>244,425</b>
<b>Total Volume</b>	<b>472,071</b>	<b>472,914</b>	<b>590,716</b>	<b>718,698</b>	<b>788,709</b>	<b>884,602</b>

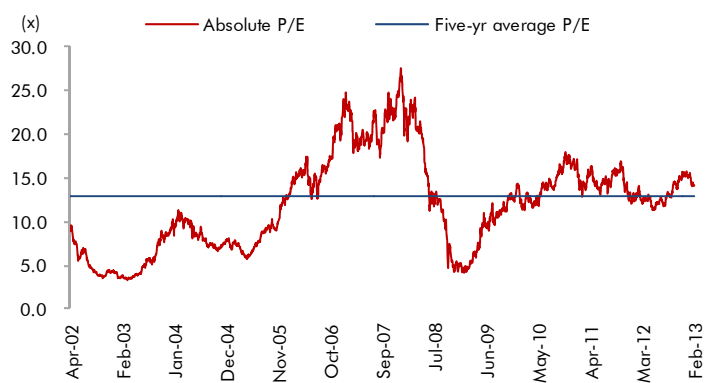
Source: Company, Angel Research

**Exhibit 13: Angel vs consensus forecast**

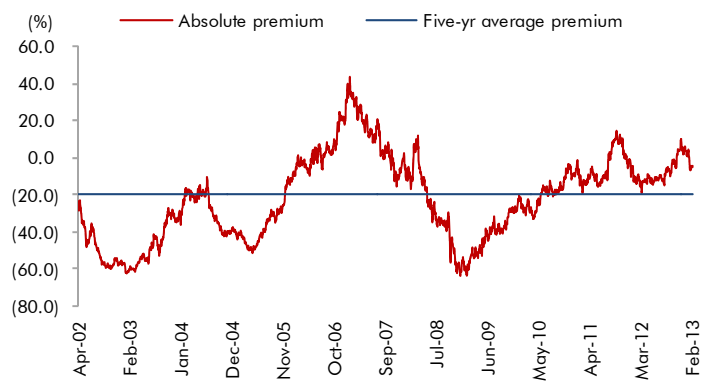
	Angel estimates		Consensus		Variation (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Total op. income (₹ cr)</b>	<b>40,060</b>	<b>46,301</b>	<b>39,415</b>	<b>45,953</b>	<b>1.6</b>	<b>0.8</b>
EPS (₹)	55.3	64.3	53.1	60.8	4.1	5.7

Source: Bloomberg, Angel Research



**Exhibit 14: One-year forward P/E chart**


Source: Company, Angel Research

**Exhibit 15: Premium/Discount to Sensex P/E**


Source: Company, Angel Research

**Exhibit 16: Automobile - Recommendation summary**

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY12-14E EPS CAGR (%)
					FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
Ashok Leyland	Buy	24	28	20.1	16.0	10.7	6.4	5.2	9.3	13.3	2.7
Bajaj Auto	Neutral	2,044	-	-	19.0	16.2	13.3	10.8	45.8	42.8	8.9
Hero MotoCorp	Accumulate	1,724	1,923	11.6	16.3	14.3	8.2	6.7	44.3	40.9	5.3
Maruti Suzuki	Neutral	1,588	-	-	24.7	16.6	12.0	8.0	11.6	15.3	37.5
<b>Mahindra &amp; Mahindra</b>	<b>Buy</b>	<b>883</b>	<b>1,019</b>	<b>15.5</b>	<b>16.0</b>	<b>13.7</b>	<b>9.3</b>	<b>7.5</b>	<b>24.5</b>	<b>23.8</b>	<b>17.3</b>
Tata Motors	Buy	286	337	18.0	8.0	6.7	4.1	3.6	30.2	27.6	12.3
TVS Motor	Buy	40	47	18.5	9.4	7.6	3.5	2.7	16.4	18.0	0.4

Source: Company, Angel Research

## Company background

Mahindra and Mahindra, the flagship company of the Mahindra Group, is the largest manufacturer of UVs and tractors in India with an ~52% and ~42% market share in these segments, respectively. The company is also the second largest player in the light commercial vehicle (LCV) space, with an ~33% market share. MM is also the only company in India that is present across all the automotive segments. MM has an installed capacity of 6lakh and 2.3lakh units/year in the automotive and farm equipment segments respectively. In FY2011, MM acquired a 70% stake in Ssangyong Motor Co (SYMC), transforming itself into a global UV player. Apart from the core auto business, the company has subsidiaries/associates in various businesses such as IT, NBFC, auto ancillaries, hospitality and infrastructure.

**Profit and loss statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Total operating income</b>	<b>12,927</b>	<b>18,363</b>	<b>23,460</b>	<b>31,854</b>	<b>40,060</b>	<b>46,301</b>
% chg	14.6	42.1	27.8	35.8	25.8	15.6
<b>Total expenditure</b>	<b>12,035</b>	<b>15,647</b>	<b>20,006</b>	<b>28,083</b>	<b>35,453</b>	<b>40,907</b>
Net raw material costs	9,274	12,346	16,264	23,500	29,745	34,309
Other mfg costs	311	379	444	553	701	833
Employee expenses	1,018	1,190	1,432	1,702	2,143	2,500
Other	1,431	1,732	1,866	2,328	2,864	3,264
<b>EBITDA</b>	<b>892</b>	<b>2,716</b>	<b>3,454</b>	<b>3,771</b>	<b>4,607</b>	<b>5,394</b>
% chg	(18.5)	204.5	27.2	9.2	22.2	17.1
(% of total op. income)	6.9	14.8	14.7	11.8	11.5	11.7
Depreciation & amortization	292	371	414	576	698	781
<b>EBIT</b>	<b>600</b>	<b>2,345</b>	<b>3,040</b>	<b>3,195</b>	<b>3,909</b>	<b>4,613</b>
% chg	(29.8)	290.6	29.6	5.1	22.4	18.0
(% of total op. income)	4.6	12.8	13.0	10.0	9.8	10.0
Interest and other charges	134	157	72	163	188	202
Other income	601	658	552	574	580	591
<b>Recurring PBT</b>	<b>1,067</b>	<b>2,847</b>	<b>3,520</b>	<b>3,606</b>	<b>4,300</b>	<b>5,003</b>
% chg	(24.1)	166.7	23.6	2.5	19.3	16.3
Extraordinary income/ (exp.)	(81)	(59)	(113)	(126)	-	-
<b>PBT</b>	<b>986</b>	<b>2,788</b>	<b>3,407</b>	<b>3,480</b>	<b>4,300</b>	<b>5,003</b>
Tax	200	759	858	727	1,045	1,216
(% of PBT)	20.3	27.2	25.2	20.9	24.3	24.3
<b>PAT (reported)</b>	<b>868</b>	<b>2,088</b>	<b>2,662</b>	<b>2,879</b>	<b>3,255</b>	<b>3,787</b>
<b>ADJ. PAT</b>	<b>786</b>	<b>2,029</b>	<b>2,550</b>	<b>2,753</b>	<b>3,255</b>	<b>3,787</b>
% chg	(17.0)	158.1	25.7	8.0	18.2	16.3
(% of total op. income)	6.1	11.0	10.9	8.6	8.1	8.2
<b>Basic EPS (₹)</b>	<b>15.9</b>	<b>36.9</b>	<b>45.3</b>	<b>48.9</b>	<b>55.3</b>	<b>64.3</b>
<b>Adj. EPS (₹)</b>	<b>14.4</b>	<b>35.9</b>	<b>43.4</b>	<b>46.7</b>	<b>55.3</b>	<b>64.3</b>
% chg	(27.2)	148.7	21.1	7.7	18.2	16.3

**Balance sheet statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>SOURCES OF FUNDS</b>						
Equity share capital	273	283	294	295	295	295
Reserves & surplus	4,989	7,544	10,020	11,810	14,159	17,040
<b>Shareholders' Funds</b>	<b>5,262</b>	<b>7,827</b>	<b>10,313</b>	<b>12,105</b>	<b>14,454</b>	<b>17,335</b>
Total loans	4,053	2,880	2,321	3,174	3,424	3,674
Deferred tax liability	(18)	240	354	527	527	527
Other long term liabilities	-	-	187	197	197	197
Long term provisions	-	-	421	483	483	483
<b>Total Liabilities</b>	<b>9,297</b>	<b>10,947</b>	<b>13,598</b>	<b>16,486</b>	<b>19,085</b>	<b>22,216</b>
<b>APPLICATION OF FUNDS</b>						
Gross block	4,894	5,276	5,971	7,838	9,129	10,480
Less: Acc. depreciation	2,326	2,538	2,838	3,552	4,251	5,031
<b>Net Block</b>	<b>2,568</b>	<b>2,739</b>	<b>3,133</b>	<b>4,286</b>	<b>4,878</b>	<b>5,449</b>
Capital work-in-progress	647	964	774	795	1,004	1,153
Investments	5,786	6,398	8,926	10,310	11,451	13,329
Long term loans and advances	-	-	1,868	1,477	1,477	1,477
Other noncurrent assets	-	-	117	36	36	36
Current assets	5,081	6,047	4,722	6,941	8,151	9,654
Cash	1,574	1,743	615	1,188	1,349	1,713
Loans & advances	1,402	1,856	1,153	1,406	1,803	2,084
Other	2,104	2,447	2,955	4,347	5,000	5,857
Current liabilities	4,798	5,200	5,942	7,360	7,912	8,882
<b>Net current assets</b>	<b>283</b>	<b>847</b>	<b>(1,220)</b>	<b>(419)</b>	<b>239</b>	<b>772</b>
Misc. exp. not written off	13	-	-	-	-	-
<b>Total Assets</b>	<b>9,297</b>	<b>10,947</b>	<b>13,598</b>	<b>16,486</b>	<b>19,085</b>	<b>22,216</b>

**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	986	2,788	3,407	3,480	4,300	5,003
Depreciation	292	371	414	576	698	781
Change in working capital	834	(394)	938	(228)	(569)	(241)
Others	320	990	(370)	207	-	-
Other income	(601)	(658)	(552)	(574)	(580)	(591)
Direct taxes paid	(200)	(759)	(858)	(727)	(1,045)	(1,216)
<b>Cash Flow from Operations</b>	<b>1,631</b>	<b>2,337</b>	<b>2,980</b>	<b>2,735</b>	<b>2,804</b>	<b>3,735</b>
(Inc./Dec. in fixed assets)	(1,338)	(700)	(505)	(1,888)	(1,500)	(1,500)
(Inc./Dec. in investments)	(1,571)	(612)	(2,528)	(1,385)	(1,141)	(1,878)
Other income	601	658	552	574	580	591
<b>Cash Flow from Investing</b>	<b>(2,308)</b>	<b>(653)</b>	<b>(2,480)</b>	<b>(2,699)</b>	<b>(2,060)</b>	<b>(2,787)</b>
Issue of equity	1	719	1,006	24	-	-
Inc./Dec. in loans	1,466	(1,173)	(559)	853	250	250
Dividend paid (Incl. Tax)	321	312	624	803	833	833
Others	(398)	(1,373)	(2,698)	(1,142)	-	-
<b>Cash Flow from Financing</b>	<b>1,390</b>	<b>(1,515)</b>	<b>(1,628)</b>	<b>538</b>	<b>(583)</b>	<b>(583)</b>
Inc./Dec. in cash	713	169	(1,129)	574	160	365
<b>Opening Cash balances</b>	<b>861</b>	<b>1,574</b>	<b>1,743</b>	<b>615</b>	<b>1,188</b>	<b>1,349</b>
<b>Closing Cash balances</b>	<b>1,574</b>	<b>1,743</b>	<b>615</b>	<b>1,188</b>	<b>1,349</b>	<b>1,713</b>

**Key ratios**

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	61.2	24.6	20.3	18.9	16.0	13.7
P/CEPS	41.5	20.8	17.5	15.6	13.2	11.4
P/BV	9.2	6.4	5.0	4.3	3.6	3.0
Dividend yield (%)	0.6	1.1	1.4	1.5	1.4	1.4
EV/Sales	3.3	2.3	1.7	1.3	1.0	0.8
EV/EBITDA	54.4	17.2	12.9	11.8	9.3	7.5
EV / Total Assets	5.2	4.3	3.3	2.7	2.2	1.8
<b>Per Share Data (₹)</b>						
EPS (Basic)	15.9	36.9	45.3	48.9	55.3	64.3
EPS (fully diluted)	14.4	35.9	43.4	46.7	55.3	64.3
Cash EPS	21.3	42.4	50.5	56.5	67.1	77.5
DPS	5.1	9.7	12.0	13.0	12.5	12.5
Book Value	96.3	138.1	175.4	205.3	245.2	294.1
<b>Dupont Analysis</b>						
EBIT margin	4.6	12.8	13.0	10.0	9.8	10.0
Tax retention ratio	0.8	0.7	0.7	0.8	0.8	0.8
Asset turnover (x)	1.9	2.2	2.1	2.3	2.4	2.4
ROIC (Post-tax)	6.9	20.2	20.5	17.9	17.9	18.3
Cost of Debt (Post Tax)	3.2	3.3	2.1	4.7	4.3	4.3
Leverage (x)	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Operating ROE	4.9	10.9	9.4	9.4	9.6	9.9
<b>Returns (%)</b>						
ROCE (Pre-tax)	7.4	23.2	24.8	21.2	22.0	22.3
Angel ROIC (Pre-tax)	6.3	18.7	17.7	16.7	16.7	17.0
ROE	16.4	31.0	28.1	24.6	24.5	23.8
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	3.0	3.6	4.2	4.6	4.7	4.7
Inventory / Sales (days)	30	22	22	23	24	25
Receivables (days)	29	23	20	19	19	19
Payables (days)	82	69	63	61	60	59
WC cycle (ex-cash) (days)	(25)	(22)	(21)	(20)	(12)	(8)
<b>Solvency ratios (x)</b>						
Net debt to equity	(0.6)	(0.7)	(0.7)	(0.7)	(0.6)	(0.7)
Net debt to EBITDA	(3.7)	(1.9)	(2.1)	(2.2)	(2.0)	(2.1)
Interest Coverage (EBIT / Int.)	4.5	15.0	41.9	19.6	20.8	22.8

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Disclosure of Interest Statement	Mahindra and Mahindra
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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