ARIHANT capital markets ltd.
www.arihantcapital.com

INITIATING COVERAGE
M&M

MAHINDRA & MAHINDRA (M&M) – PULLING THROUGH CHALLENGING TIMES

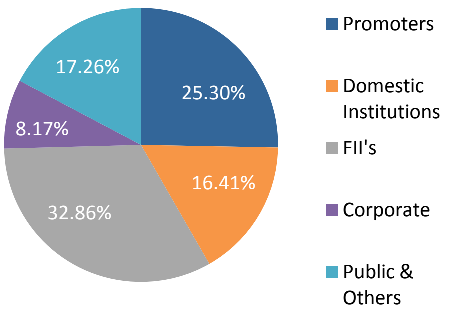
March 29, 2013

CMP: Rs 863
Target Price: Rs 957
Recommendation: Hold
Potential Upside: 11%

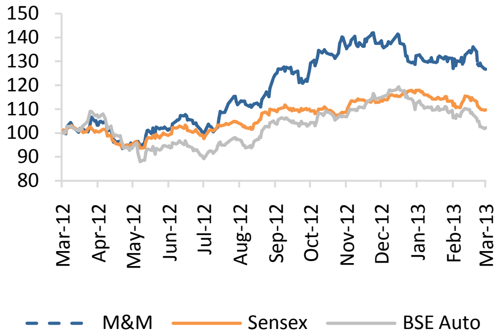
Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	18836
NSE Nifty	5682

Market Info	
Market Cap	Rs 53000 cr
Equity Capital	Rs 294.52 cr
Avg Trading Volume	1,367,160
52 Wk High / low	Rs 976 / 621
Face Value	Rs 5

M&M Shareholding pattern: Dec 12



Relative Price chart: M&M vs Sensex vs BSE Auto



- **M&M's automotive business continues to be relatively well placed compared to automobile peers, we expect "moderate" improvements in the domestic auto cycle post H1FY14:** M&M is well positioned in the SUV & LCV segments, which we expect will continue to outperform other segments like Cars & M&HCV's. We believe that M&M's a strong SUV product portfolio to tackle competition, but we have still factored a marginal tapering down in market share due to higher competition. With respect to the LCV space, we note that excess capacity and competition concerns are gradually building up. Expected hike in diesel prices (0.50 INR / litre per month) post de-regulation might also have a downward effect on SUV and LCV volumes. We have factored M&M's overall 4W automotive segment growing by over 15% over the next two years (albeit at a slower rate compared to FY13), led mainly by SUV volume growth.

- **Agriculture / tractor business momentum continues to be a "stalemate", with no immediate signs of recovery, we have a neutral view on this sector, and remain cautious over FY14/15:** Based on an analysis of trends in the agricultural space, and our latest interactions with our channel checks / tractor dealers, we do not see any near term triggers which can push domestic tractor volumes substantially higher over FY14. We have a neutral view on this sector, and we expect that M&M's tractor business will account for 45% of Core EBITDA by FY15 (versus almost 50% estimated in FY13). **We believe that this is the "key sector" for M&M's overall valuations, due to higher EBIT contribution, and unless this sector shows higher momentum, M&M's stock might remain "range bound".**

- **Key subsidiaries have performed well over the past 5 years, which has boosted SOTP valuations:** There has been a sharp increase in the market value of key subsidiaries over a 5 year period, which have helped to boost overall valuations. Return on cash invested by M&M in its subsidiaries has been exceptionally high. We value the total non core business (listed and unlisted subsidiaries and JV's) at Rs 221 per share, at a 30% holding company discount.

- **Financials:** We expect M&M's Revenue growth at a 2 year CAGR of 14% and "core earnings" growth (excluding subsidiary dividends) at a 2 year CAGR of 13%. We expect M&M's EBITDA margins in the range of 11.3% to 11.6% over FY14&15. (Expected M&M + MVML combined EBITDA margins at 13.3% and 13.6% over the same period). *Our earnings estimates are about 3% lower than consensus.*

- **Valuation: Our SOTP valuation of M&M is Rs 957 per share, we have a "hold" rating on this stock:** We value the core business at Rs 736 per share, based on 12 x FY14E "Core DEPS" of Rs 61.4, which includes MVML profits but excludes subsidiary dividends. We value total investments (listed and unlisted) at Rs 221 per share, with a holding company discount of 30%. At the CMP of Rs 863, and using a 30% holding company discount, the implied price of the core business is Rs 642 per share, which is at 10.5x and 9.4x our estimated FY14 & FY15 core DEPS of Rs 61.4 and Rs 68.5 respectively.

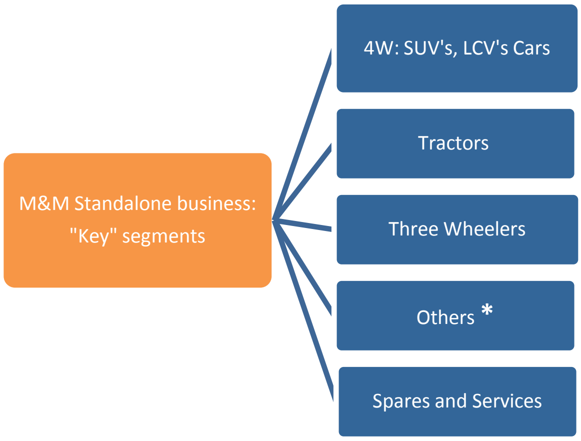
Y/E March, (in Rs crore)	FY12	FY13E	FY14E	FY15E
Net Sales	31,392.0	39,788.9	45,078.2	51,764.6
yoy%	36.2%	26.7%	13.3%	14.8%
Operating EBIDTA	3,770.7	4,651.2	5,318.3	5,951.6
Operating EBITDA %	11.8%	11.5%	11.6%	11.3%
PAT	2,878.9	3,201.5	3,665.9	4,112.4
yoy%	8.1%	11.2%	14.5%	12.2%
DEPS	46.9	52.1	59.7	67.0
Core DEPS	48.9	53.9	61.4	68.5
P/DEPS (x)	18.4	16.6	14.5	12.9

ABOUT THE COMPANY: Mahindra & Mahindra Ltd

Mahindra and Mahindra (M&M) is the world's largest tractor manufacturer, and one of India's largest companies in the Automobile and Tractor space, with FY12 Consolidated Net Revenues of almost Rs 60000 crores (USD 11 Bn). The Mahindra group, led by Chairman Mr Anand Mahindra, is one of India's leading business groups in India, with business spread across more than 10 verticals, and total group Revenues in excess of USD 16 Bn.

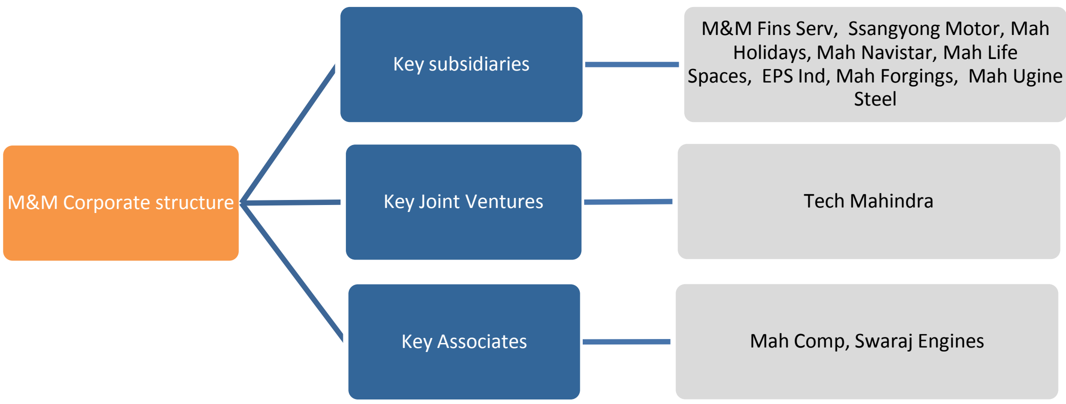
CAGR's all in excess of 20%: The flagship company, M&M's Standalone Revenue (Auto + Farm) has grown at a 5 year CAGR of 28.4%, while Standalone Net Profit growth has been about 24% CAGR over the same period. M&M's stock return over the same period has been about 20% CAGR.

M&M's automotive segment accounts for the highest share of Revenue at almost 65%, while the Farm Equipment Segment (FES) (Tractors & Agri applications & others) account for about 35%. The Farm Equipment Segment is however a huge profitability driver, accounting for almost 50% of EBIT.



* Other include powerol brand gensets, engines, forklifts, other agro based applications

M&M has a complex corporate structure of more than a 100 subsidiaries, 6 joint ventures and 13 associates. Of these, the key companies are mentioned on the right



VALUATION: OUR SOTP TARGET PRICE FOR M&M IS RS 957, AND WE HAVE AN "HOLD" RATING ON THIS STOCK, WITH A POTENTIAL UPSIDE OF 11%

We value the Core Business at Rs 736 per share, at 12x FY14 Core EPS. Our forward earnings multiple is at a 20% discount to the benchmark "15 x 1 year forward" multiple enjoyed by market leaders during auto sector "up cycles". Due to lack of comparable companies in similar lines of business as M&M, the issue of subjectivity arises. (Refer to sensitivity analysis of target price to Core multiple)

We value key listed subsidiaries at CMP, less 30% holding company discount. We value Ssangyong motors based on total cash invested by M&M.

* We value unlisted companies based on Book Value, for only those entities which have both a positive Net worth and positive PAT

Our base line valuation is at Rs 957.

At a hold co discount of 30%, the "implied price" of the core business trades at 10.5x our estimated FY14 Core EPS, and 9.4x estimated FY15 Core EPS. (M&M + MVML ex sub dividend). We feel that this is an attractive valuation for the stock.

SOTP Valuation			
(A) Core Business			
	FY13E	FY14E	FY15E
Core DEPS (M&M + MVML ex subsidiary dividends)	53.9	61.4	68.5
FY14 Core EPS	61.4		
Multiple x	12		
Value of Core Business	**736**		
Non Core Business			
(B) Key Listed Entities	Valued at	Holding Co Disc	Per Share Value
Tech Mahindra Limited	CMP	30%	72.5
Mahindra & Mahindra Financial Services Limited	CMP	30%	64.6
Ssangyong Motor Company Limited	Cash Invested	x	28.3
Mahindra Holidays & Resorts India Limited	CMP	30%	20.2
Mahindra Life space Developers Limited	CMP	30%	8.9
Other listed subsidiaries	CMP	30%	7.2
Sum			202
(C) Unlisted Entities *	Book Value	30%	19
Value of Non Core Business (B + C)	**221**		
SOTP Value (A + B + C)	957		

Source: Arihant Research Estimates

Holding Co Discount	Core P/E Multiple: 10	11	12	13	14
20%	862	923	985	1046	1108
25%	848	910	971	1032	1094
30%	835	896	957	1019	1080
35%	821	882	944	1005	1066
40%	807	868	930	991	1053

Implied Current Multiples	
CMP: M&M	863
Less price of non core business at 30% discount	221
Implied Price of core business	642
Implied Price multiples : based on our Core EPS estimates	
FY12	13.1
FY13	11.9
FY14	10.5
FY15	9.4

Our Revenue and PAT are within a +/ - 2.5% range from consensus.

Difference with Consensus *	FY13E	FY14E	FY15E
Net Revenue & OOI (Rs crore)			
Our Estimates	40319.6	45688.5	52466.4
Consensus	39696.9	45149.9	51280.0
Difference %	1.57%	1.19%	2.31%
PAT (Rs crore)			
Our Estimates	3201.5	3665.9	4112.4
Consensus	3276.9	3682.9	4200.5
Difference %	-2.30%	-0.46%	-2.10%

*Bloomberg average consensus

We are building in estimates factoring a 2 year CAGR of 18.6% for domestic SUV's (modelling a marginal tapering down in market share due to higher expected competition). Our CAGR estimates for the domestic LCV segment are lower at 10.7%.

We remain conservative for the tractor segment, building in 2 year CAGR estimates of a under 4%, due to continuing weakness in the agricultural sector. (Refer to investment thesis on agro sector)

Volume Estimates	FY 12	FY13E	FY14 E	FY15 E	FY13%	FY14%	FY15%
(A) Automotive Business							
Domestic							
UV's (Scorpio, XUV 500, Xylo, Bolero)	202276	264198	315234	371680	30.6%	19.3%	17.9%
Passenger Cars	17839	15459	15459	15846	13.3%	0.0%	2.5%
4W LCV + Vans + pickups	152691	173206	191371	212422	13.4%	10.5%	11.0%
3W	67440	65514	67151	70509	-2.9%	2.5%	5.0%
Total Domestic: Auto segment	440246	518377	589215	670457	17.7%	13.7%	13.8%
Total Exports: Auto segment	29177	32702	36117	40121	12.1%	10.4%	11.1%
Total Sales: Auto Segment	469423	551079	625332	710577	17.4%	13.5%	13.6%
(B) Tractors							
Domestic	221730	211169	216448	227271	-4.8%	2.5%	5.0%
Exports	13722	11844	12140	12747	-13.7%	2.5%	5.0%
Total Tractors	235452	223013	228588	240017	-5.3%	2.5%	5.0%
(A + B): Grand Total	704875	774091	853920	950595	9.8%	10.3%	11.3%
Product Mix: Volumes							
UV's	28.7%	34.1%	36.9%	39.1%			
Verito	2.5%	2.0%	1.8%	1.7%			
4W commercial	21.7%	22.4%	22.4%	22.3%			
3W's	9.6%	8.5%	7.9%	7.4%			
Exports	4.1%	4.2%	4.2%	4.2%			
Tractors	33.4%	28.8%	26.8%	25.2%			

The above volumes exclude Mahindra Navistar's (MNAL) volumes.

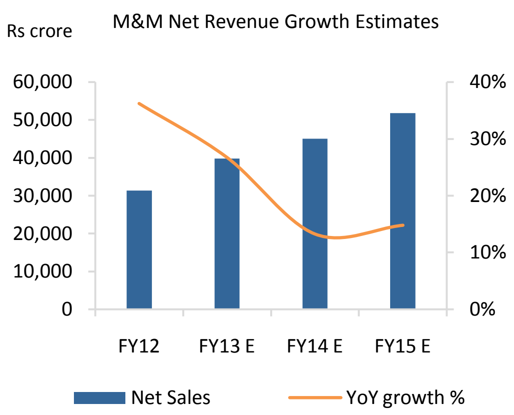
Source: Arihant Research Estimates

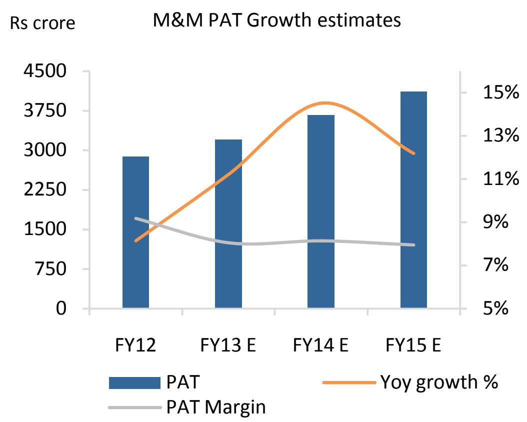
Key Assumptions in Valuation:

- We have not valued subsidiaries dividends in the Core EPS parameter; however it features in M&M's standalone financials. The Core EPS also includes MVML's profits after tax.
- We estimate that M&M will do a total capex of Rs 4750 crores over FY13 to FY15, and Rs 3000 crores of investments in subsidiary companies over the same period.
- We expect M&M will pay a dividend of Rs 13.50 per share, Rs 15.50 per share, and Rs 17.50 per share in FY13, FY14 & FY15 respectively, maintaining a payout ratio of close to 25%.
- We factor an effective Tax rate at 25% for FY14 & FY15.
- The valuations are subjective to the core P/E forward multiple and the holding company discount, refer to sensitivity table.

Our Estimates for FY14 & FY15

We estimate Revenue and PAT growth at a 2 year CAGR of 14% and 13.3% respectively. Our Revenue and PAT estimates are within a +/- 2.5% band from consensus estimates.

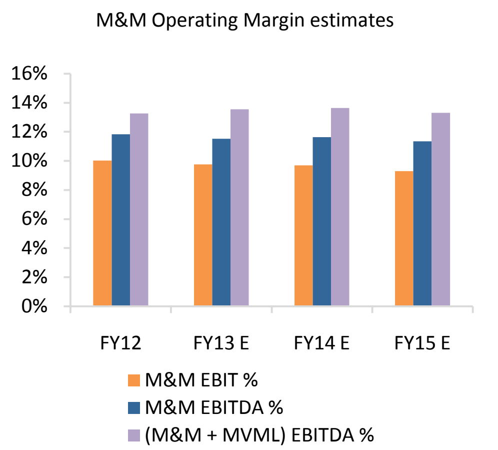




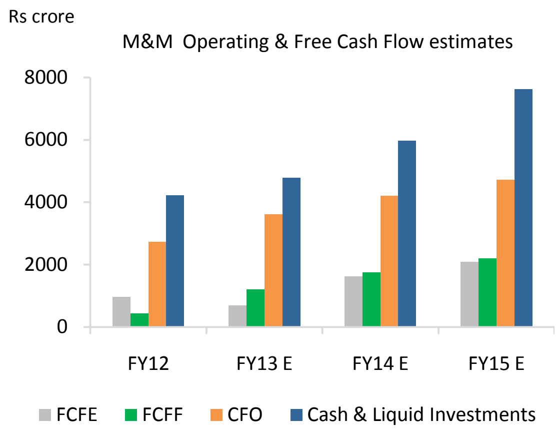
Source: Arihant Research Estimates

We expect M&M's operating EBITDA margins to remain range bound between 11.3% and 11.6%.

M&M + MVML combined margins: A better EBITDA margin picture is reflected by M&M + MVML combined marings, which we expect in a range of 13.3% to 13.6% over FY14 & FY15. (about 200 bps higher than M&M's standalone margins).

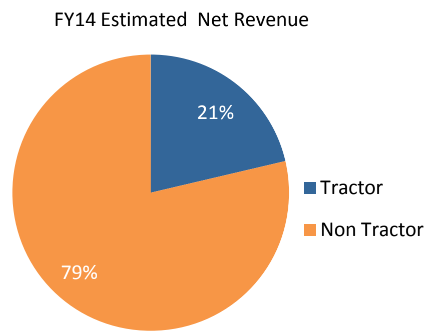


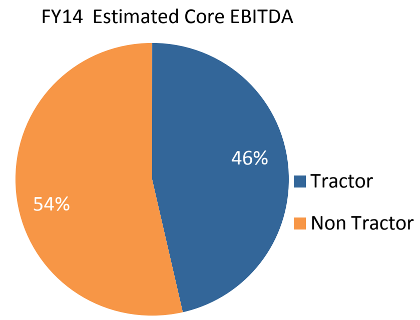
We estimate a strong increase in cash flow, with the total cash and liquid investments in excess of Rs 7500 crores by FY15. This is after factoring a total capex of Rs 4750 crores over FY13 to FY15, and Rs 3000 crores of investments in subsidiary companies over the same period.



Estimated Split between Tractor and Non Tractor Business

The tractor segment of M&M is a huge profitability driver, and we estimate that about 47% of total CORE EBITDA in FY14 will come from this segment. (We Expected this share to drop to about 45% by FY15)





Estimated Tractor breakup presented above includes only tractors manufactured, and excludes other agriculture related business.
Source: Arihant Research Estimates

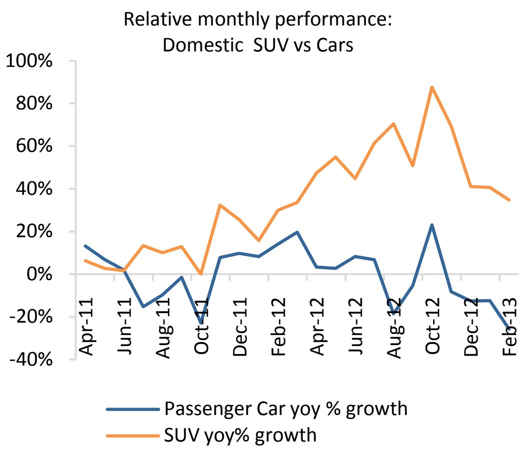
INVESTMENT THESIS: M&M's AUTOMOTIVE BUSINESS "RELATIVELY" WELL PLACED

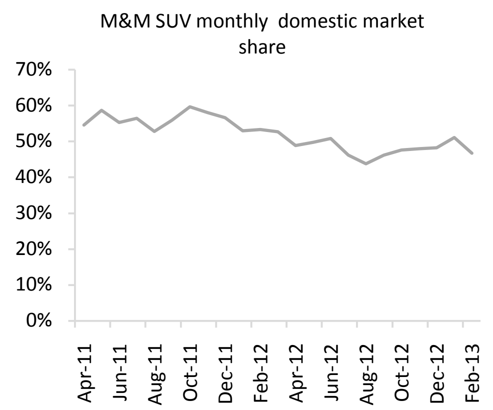
➢ **M&M's AUTOMOTIVE BUSINESS CONTINUES TO BE RELATIVELY WELL PLACED COMPARED TO AUTOMOBILE PEERS, WE EXPECT "MODERATE" IMPROVEMENTS IN THE DOMESTIC AUTO CYCLE POST H1FY14:**

M&M is well positioned in the SUV & LCV segments, which we expect will continue to outperform other segments like Cars & M&HCV's. We believe that M&M's a strong SUV product portfolio to tackle competition, but we have still factored a marginal tapering down in market share due to higher competition (which is inevitable in our opinion). With respect to the LCV space, we note that excess capacity and competition concerns are also gradually building up. Expected hike in diesel prices (0.50 INR / litre per month) post de-regulation might also have a downward effect on SUV and LCV volumes. We have factored M&M's overall 4W automotive segment growing by over 15% over the next two years (albeit at a slower rate compared to FY13), led mainly by SUV volume growth.

SUV segment: Continues to perform "relatively" well: M&M has some of the best products in this segment, but we also note that competition has performed fairly well over the past year. We believe that M&M is better equipped to handle domestic competition in the SUV space compared to the LCV space, due to the strength of its product portfolio and the success of its recent SUV launches.

M&M is in the "right place at the right time", SUV's continue to outperform cars, mainly due to a host of successful launches in the SUV space, and the continuing diesel petrol price differential.



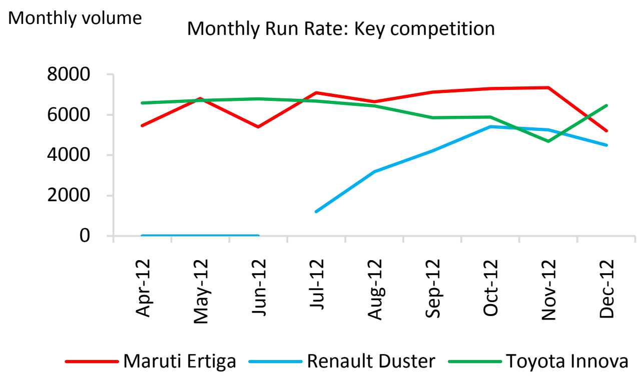


Source: SIAM

Market share movement for M&M still continues to hover around the 50% benchmark, but has tapered down a bit over the past year due to the success of the Maruti Ertiga and Renault Duster .

Competition has however performed well in the last 18 months in the SUV space:

The Maruti Ertiga and the Renault Duster have both been highly successful, but M&M has countered by launching some of the best products over the last 2 years such as the XUV500 and the Quanto.



Source: SIAM

SUV Segment: We present a comparison between some of the popular SUV's in the market: based on 2 price slabs: "less than Rs 10 lakhs", and "Rs 10 lakhs to Rs 15 lakhs"

Analysis: Our analysis reveals that M&M's SUV's score heavily on key areas such as mileage, and power to weight ratio. Based on our latest feedback with auto dealers, we learn that M&M's XUV 500 is M&M's best vehicle with respect to "design" parameters.

Competition catching up on design: We also note that competitors are catching up in the "design" category, and our dealer feedback suggests that the "Renault Duster" is one of the most popular SUV's with respect to the design parameter (in the "less than 10 lakhs" space)

SUV comparison: Less than Rs 10 lakhs category

Brand	Mahindra Quanto	Tata Sumo	GM Tavera	Maruti Ertiga	Mahindra XYLO	Renault Duster
Variant being compared	mCR100	Gold CR4 – BS4	Neo 3-10-BS4 VIN13	LDI BS IV	Xylo D2 BS IV	Diesel 85 PS RxE
Bharat stage	IV	IV	IV	IV	IV	IV
Engine	1493 CC	2956 CC	2500 CC	1,248	2498 CC	1461 CC
Power / bhp @ rpm	100BHP@3750	81.8bhp@3000	105.3bhp@4000	88.76 bhp @ 4000	112 bhp @ 3800	83.83 BHP @ 3750
Weight (kg) (kerb weight)	1640	1,940	1,750	1,845	1,830	1,758
Power / weight ratio	6.1%	4.2%	6.0%	4.8%	6.1%	4.8%
Length (mm)	3998	4258	4435	4265	4,520	4315
Transmission	5 Speed,5MT	5-speed Manual	5-speed Manual	5-Speed Manual	5-Speed Manual	5-speed Manual
Fuel Efficiency	13.00	12.55	10.65	18.99	12.10	19.30
Maximum speed kph	145 kmph	146 kmph	138 kmph	170kmph	168kmph	164kmph
Annualized volumes	30,000	35,000	22,500	72,000	22,000	60,000
Price: Base version	609,375	601,600	733,077	739,970	740,454	859,000

SUV relative ranks: Less than Rs 10 lakhs category

Product	Price	Price Diff	Power	Weight	Power / Wt Ratio	Power / Wt Rank	Avg Mileage	Mileage/Price (scaled)	Mileage/Price Rank
Mahindra Quanto	609,375	-	100 BHP	1640 kgs	6.1%	2	13.0	21.3	3
Tata Sumo	601,600	-1.3%	81.8 BHP	1940 kgs	4.2%	6	12.6	20.9	4
GM Tavera	733,077	20.3%	105.3 BHP	1750 kgs	6.0%	3	10.7	14.5	6
Maruti Ertiga	739,970	21.4%	88.76 BHP	1845 kgs	4.8%	4	19.0	25.7	1
Mahindra Xylo	740,454	21.5%	112 BHP	1830 kgs	6.1%	1	12.1	16.3	5
Renault Duster	859,000	41.0%	83.83 BHP	1758 kgs	4.8%	5	19.3	22.5	2

Mileage by price has been scaled up by a common factor to facilitate comparison.
Source: Company websites, Arihant Research

Comparisons in the "less than Rs 10 lakhs segment"

Power to weight: The Mahindra Xylo and Quanto are the top 2 ranks in the "Power / Weight" category respectively, but they do not share the same result in the "mileage by price" category.

Mileage by Price: The newly launched Maruti Ertiga and Renault Duster however fare extremely well in the "Mileage by Price" category, and this is partly because they have been very aggressively priced.

Note: Based on our dealer feedback, the Price & Mileage category is an extremely important parameter for Indian customers, who are still transfixed with the "mileage" of the car and the respective price point it is available at.

Design Parameters: Our dealer feedback indicates that the most sought after SUV models in the "design category" are the Mahindra XUV 500 in the 10 lakhs – 15 lakhs category, and the Renault Duster in the < Rs 10 lakhs category.

We believe that M&M's best product till date is the XUV 500, and it has already proved to be a game changer, by averaging a monthly run rate of 4000 per month, with higher capacity recently undertaken at Chakan (MVML). The Innova however still continues to be the volume leader in the Rs 10 - 15 lakhs segment, with a monthly run rate of 6000 units.

The XUV 500 is a game changer in the Rs 10 - Rs 15 lakhs segment, and we believe that it's astounding success is highly reflective of M&M's excellence in R&D and overall market understanding.

SUV comparison: Rs 10 lakhs - 15 lakhs category

Brand	Toyota Innova	Mahindra XUV 500
Variant being compared	2.5 EV (Diesel)	MHawk VGT
Bharat stage	IV	IV
Engine	2494	2179 CC
Power / bhp @ rpm	99.22 bhp / 3600	140 bhp @ 3750
Weight (kg) (kerb weight)	1,660	1,785
Power / weight ratio	6.0%	7.8%
Length (mm)	4,580	4,585
Transmission	5-speed Manual	6-Speed Manual
Fuel Efficiency	10.20	13.55
Maximum speed kph	179kmph	175kmph
Annualized volumes	72,000	48,000
Price: Base version	977,150	1,207,643

We compare the two best selling models in the Rs 10 lakhs – Rs 15 lakhs SUV space, the Toyota Innova and the XUV 500

SUV relative ranks: Rs 10 lakhs to 15 lakhs category

Product	Price	Price Diff	Power	Weight	Power / Wt Ratio	Power / Wt Rank	Avg Mileage	Mileage/Price	Mileage/Price Rank
Toyota Innova	977,150	_	99.22 bhp	1660 kgs	6.0%	2	10.2	10.4	2
Mahindra XUV 500	1,207,643	23.6%	140 bhp	1785 kgs	7.8%	1	13.6	11.2	1

Mileage by price has been scaled up by a common factor to facilitate comparison.
Source: Company Websites, Arihant Research

Comparisons in the "Rs 10 lakh to Rs 15 lakh segment"

The XUV 500 outperforms the Toyota Innova in both parameters of power and mileage, and based on feedback from our auto dealer channels, it is also the most sought after product with respect to the "design parameter" in the 10 lakh to 15 lakh SUV space.

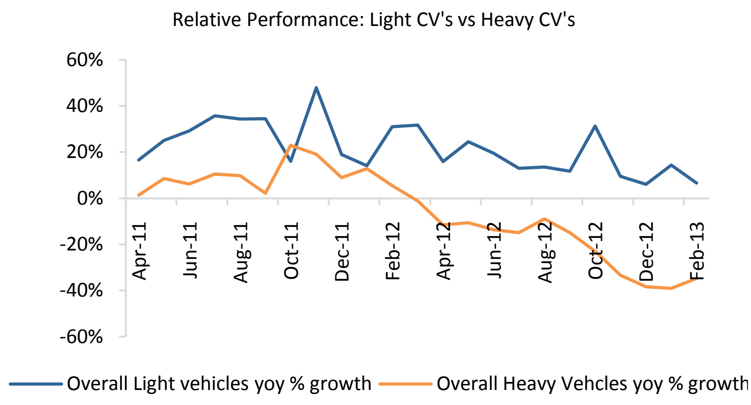
M&HCV's have been a flop show over the last year, due to slowdown in core growth, the mining sector ban, weakness in intercity freight rates and high interest costs. The LCV space has outperformed in relative terms, and we expect this trend to continue.

We expect competition in this segment to increase, and Ashok Leyland's 7% market share grab in a short span of time reflects this trend. Overall we feel that M&M is better equipped in the SUV segment to deal with rising competition, vis a vis the LCVs segment.

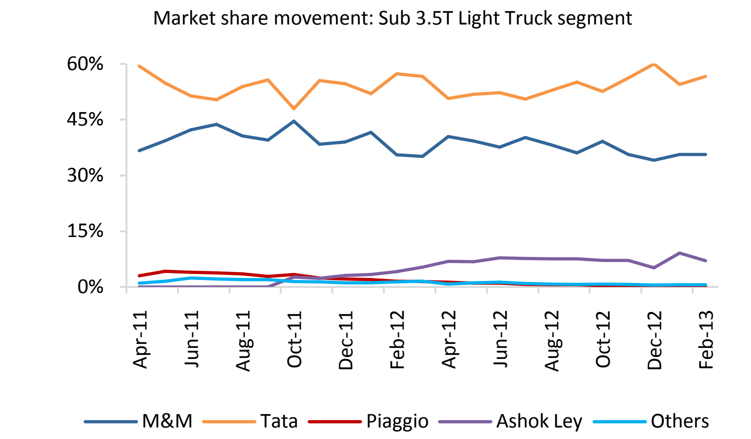
LCV Space continues to look interesting on a relative basis, but competition concerns linger over the coming 2/3 years. New entrant Ashok Leyland has done reasonable well with its LCV under the JV with Nissan. Japanese maker Isuzu has announced investment in Andhra Pradesh and is expected to launch products in this space over the next 5 years, Piaggio will also introduce its new range in FY14. Our dealer feedback also suggests that there could be a bit of over capacity in this segment, this fact is also evidenced by marginal slowdown in growth in Q3.

Outperformance: The LCV segment has comfortably outperformed the M&HCV segment over the last year (the latter having one of its worst performance in the last 10 years)

Auto Dealer feedback: Based on our dealer feedback and channel checks, M&HCV dealers expect weakness throughout FY14, but LCV dealers (especially from Tata and M&M) are confident of continuing momentum.



Source: SIAM



Source: SIAM

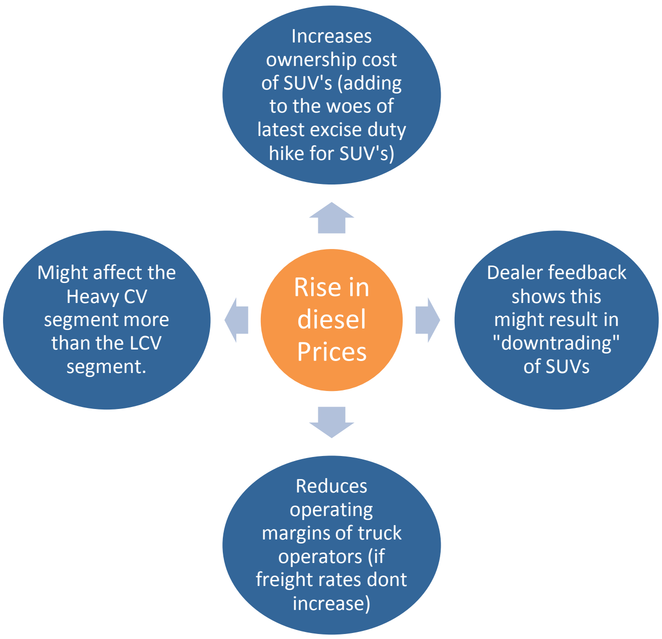
Analysis and Concerns: Our analysis reveals that LCV momentum is likely to continue (albeit at a slower pace), due to factors such as the increasing application of the products in the last mile segment, in towns and Tier 1 & 2 cities, and the continuing use of the Hub and spoke model by companies, which puts higher demand for LCV's. Our main concern is that of rising competition in this segment, with Ashok Leyland's "Dost" performing reasonably well in a short span of time, and Isuzu and Piaggio expected to launch a new range of trucks in the near future.

Tackling competition: We feel that competition in the LCV space is a bigger issue for M&M compared to competition in the SUV space, because M&M has a stronger range of products in the SUV space. Based on our dealer feedback, the Tata Ace continues to be the most popular vehicle in this segment.

A Concern: Diesel Price Deregulation and their future impact on the SUV and LCV segments

Diesel De-regulation Blues: Follwing the decision to de-regulate diesel and the proposed Rs 0.50 / litre hike per month, we note that this might be a dampener to both the SUV and the LCV segment. Our views are confirmed by similar concerns expressed by our auto dealers / channel checks.

Our assessment is that de-regulation of diesel prices (proposed hike of Rs 0.50/litre per month) is not good for the SUV & LCV segment. This reduces margins of truck operators and increases ownership costs of SUV buyers, both of which can be a dampener for volume growth.



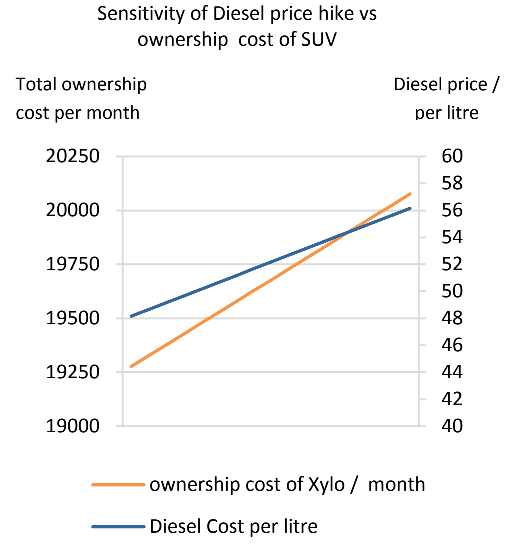
For a Mahindra Xylo, under a certain set of assumptions, the total ownership cost per month comes to Rs 19277 (of which the EMI is the major overhead).

A sensitivity analysis shows that if diesel prices increase by 0.50 paisa per month (in linear fashion), for another Rs 8.5, all the way up to Rs 56.16 per litre, then the ownership cost for the vehicle can increase by almost Rs 850 per month, to a total of Rs 20127 per month by the end of the last hike.

(We however expect a fall in interest rates over the next few years to offset some of the negative effects of diesel price hikes)

Sensitivity Impact of diesel prices for SUV segment:

Mahindra XYLO	
Price, diesel, base, Delhi, ex show	740454
ON Road	821904
LTV	80%
Loan Amount	657523
Interest Rate, 5 years	11.50%
EMI	14,461
Diesel Price Delhi / litre	48.16
Daily Distance Travelled (km)	40.00
Mileage (km / pl)	12.00
Daily Fuel required (litres)	3.33
Monthly Diesel required (litres)	100.00
Cost per day	160.53
Cost per month	4816
Total Ownership Cost per month	**19277**



Note: The above analysis is performed under certain assumptions. In event of changing parameters, results are variable. For example, the SUV buyer who travels less than 40 km per day will be lesser affected by rising diesel prices.

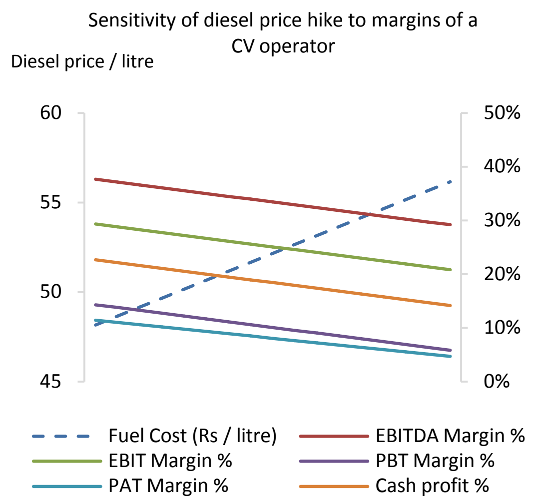
Source: Arihant Research

Sensitivity Impact of Diesel prices for Commercial Vehicle segment:

Under a set of assumptions regarding parameters such as freight rates, distance travelled etc, we analyse that margins for truck operators could come under pressure with the increase in diesel costs if freight rates do not increase.

Freight rates are a function of economic activity, and there is a chance that growth in freight rates will lag the increase in diesel prices. The hit on margins for truck operators is high, because diesel accounts for almost 65% of the "cash" operating cost of a CV.

Estimated Per Trip calculations for a HCV	Rs
Revenue per trip	37800
Costs per Trip	
Proportionate EMI cost	5674
Proportionate Fuel cost	19264
Proportionate maintenance cost	800
Proportionate Staff cost	3000
Proportionate Others / misc cost	500
Cash Cost for 1 trip	29238
Non Cash Cost (Depreciation) / trip	3155
Total Cost per trip (cash + non cash)	32393



Graph presented with the base assumption of no increase in freight rates

Budget FY14 impact on M&M's Automotive business: " A bit negative"

Budget FY14 saw an increase in excise duty for SUV's from 27% to 30%. SUV was defined as a vehicle confirming to "each" of 3 parameters: > 1500 cc engine capacity, > 4000 mm in length, and > 170 mm ground clearance.

Quanto, Ertiga and Duster not expected to be to be affected by Excise duty hike:

We note that all of M&M's SUV's except the Quanto will be eligible for higher excise, the Quanto does not qualify because it is less that 4000mm in length. Two other vehicles which will be spared the excise hike are the Maruti Ertiga (being less than 1500 cc in engine capacity), and the Renault Duster "diesel" (being less than 1500cc in engine capacity). Note the Renault duster "petrol version" should qualify for the excise hike, because its engine capacity is > 1500 cc. The upcoming Ford EcoSport being less than 4000 mm in length would also enjoy this benefit.

3% hike is much better than a flat tax of Rs 80000 - 1 lakh: The 3% hike in excise duty in budget was still much better than a flat tax of Rs 80000 / Rs 1 lakh which was being proposed by the Kirit Parikh committee on all diesel vehicles.

Summary: 4W (LCV / SUV) segment: We expect M&M's volume momentum to continue albeit at a slower pace vs. FY13, but we have modelled a marginal tapering down in market share.

We have built in volume growth estimates of 18% for M&M's SUV segment, and 11% for the M&M's LCV segment over FY14 & FY15. We have factored in higher competition in both segments, and feel that M&M is better positioned to handle competition in the SUV segment compared to the LCV segment, due to the strength of its SUV products portfolio. We have modelled a gradual tapering down of market share in both these segments over FY14 /15, which we feel is an inevitable consequence of higher competition.

With respect to the overall sector volumes, we have modelled "moderate upticks" post H1FY14 / till FY15 end, with the expectation of easing of macroeconomic pressures and a lower interest rate / inflation cycle. Continuing weakness in volumes over FY14/15 however might put pressure on financials.

(Refer to Risk factors section)
(Refer to table on page 4 for volume estimates)

INVESTMENT THESIS: THE AGRICULTURE SECTOR STALEMATE CONTINUES:

➢ **AGRICULTURE / TRACTOR BUSINESS MOMENTUM CONTINUES TO BE A "STALEMATE" WITH NO IMMEDIATE SIGNS OF RECOVERY; WE HAVE A NEUTRAL VIEW ON THIS SECTOR, AND REMAIN CAUTIOUS OVER FY14/15.**

Based on an analysis of trends in the agricultural space, and our latest interactions with our channel checks / tractor dealers, we do not see any near term triggers which can push domestic tractor volumes substantially higher over FY14. We have a neutral view on this sector, and we expect that M&M's tractor business will account for 45% of Core EBITDA by FY15 (versus almost 50% estimated in FY13). **We believe that this is the "key sector" for M&M's overall valuations, due to higher EBIT contribution, and unless this sector shows higher momentum, M&M's stock might remain "range bound".**

Our latest interactions with Channel Checks / Tractor dealers: Overall Mood continues to be pessimistic

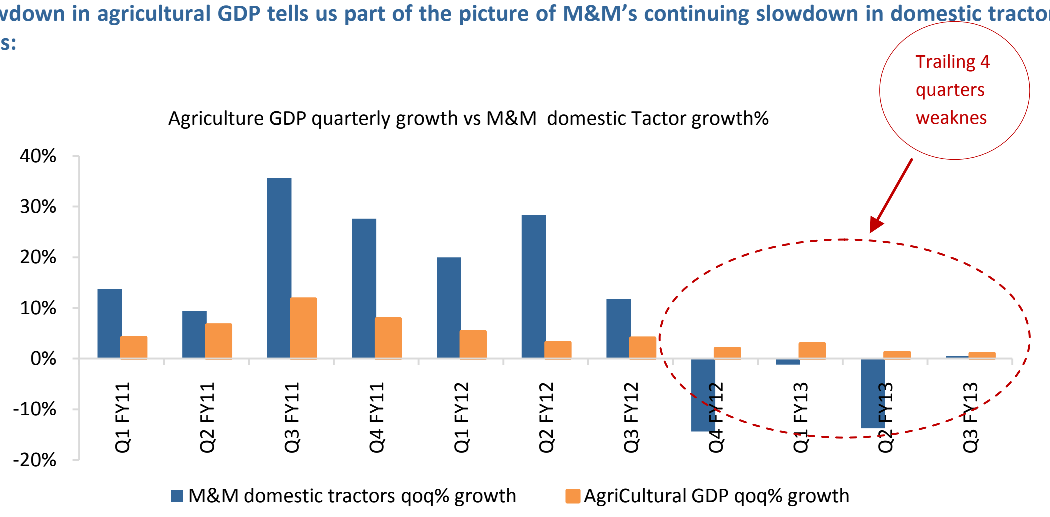
The overall mood continues to be pessimistic, and tractor dealers do not expect a sharp recovery in FY14.

Overall mood in the Agri space remains pessimistic

- Interest rates on current tractors range between 15% to 17%. Some dealers are hoping that the interest rates will fall in FY14, which might be a positive trigger.
- Discount range between 5% to 15% being offered depending on the models.
- Certain small dealers (who sell less than 50 tractors a month) are still carrying inventory of about 1 month sales, but they cite at least a 30% fall in volumes (compared to peak levels in FY10 & 11)
- Most dealers feel that the course of rainfall over FY14 will be important as a "sentiment" builder. We note that the strongest year of rainfall was witnessed way back in FY04, while actual rainfall over the last 8 years on an average has been at least 6% lower than "normalized rainfall" patterns . Some cite the recent water shortages in Maharashtra as detrimental.

Slowdown in agricultural GDP tells us part of the picture of M&M's continuing slowdown in domestic tractor sales:

Over the last 4 quarters, agricultural Real GDP growth has slowed to an average of 1.8%. This is a sharp fall from average 6% growth rates witnessed in the 7 quarters in the FY11:FY12 period. The ramifications have been witnessed with respect to slowdown in domestic tractor volumes for M&M.



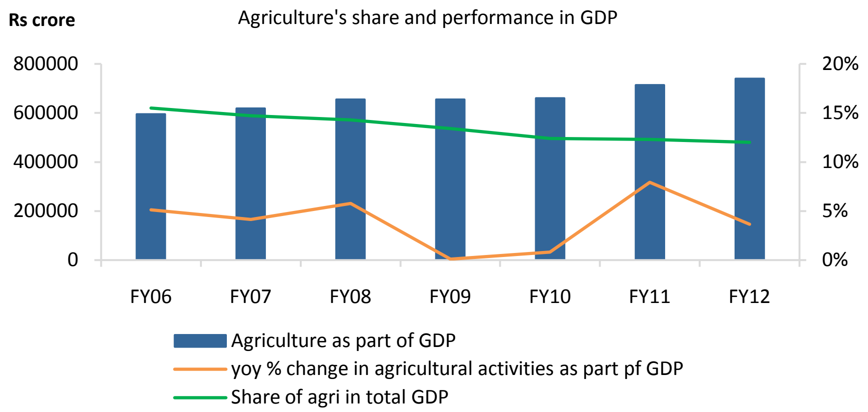
Source: Ministry of Agriculture, Company, Bloomberg, Arihant Research

Agro Sector Analysis

Agriculture has been a laggard in overall GDP growth

Agriculture momentum, as well as share in GDP continues to decline:

With growth of agriculture in GDP averaging only 1.8% over the last 4 quarters, even a historical "annual" trend shows that the agricultural segment has lagged overall growth of the economy.



Source: Ministry of Agriculture, Bloomberg, Arihant Research

The "Rain Gods" have not been kind:

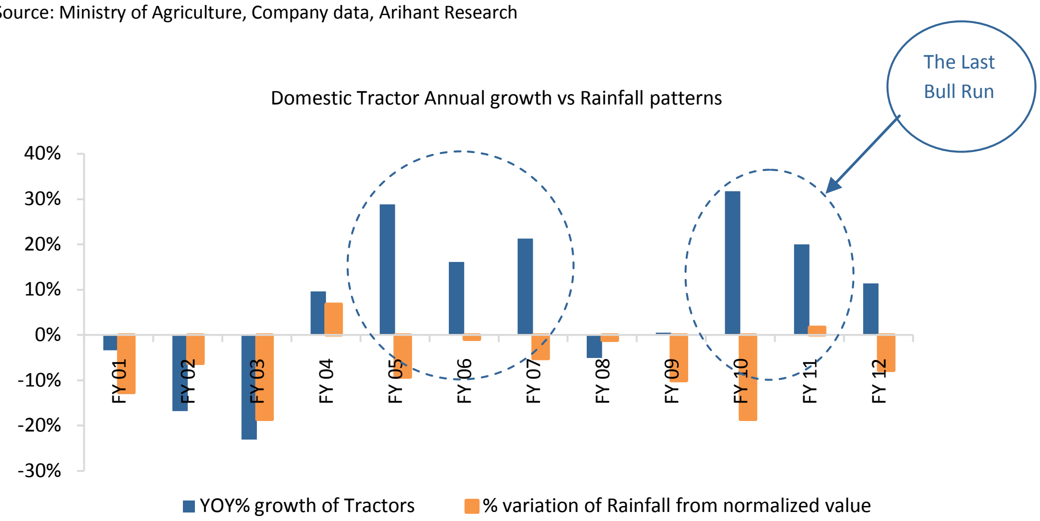
Data shows that since FY01, rainfall in the Indian subcontinent has been weak, with the exception of FY04 and FY11. Over the 12 year period, the average deviation of actual rainfall from a "normalized rainfall" has been a "negative 6.9% per year", with FY03 being the worst year with respect to deviation from normalized average.

The last 12 years have witnessed an average of 1135 mm rainfall per year, which is lower than the "normalized average" of close to 1200 mm.

Source: Ministry of Agriculture, Company data, Arihant Research

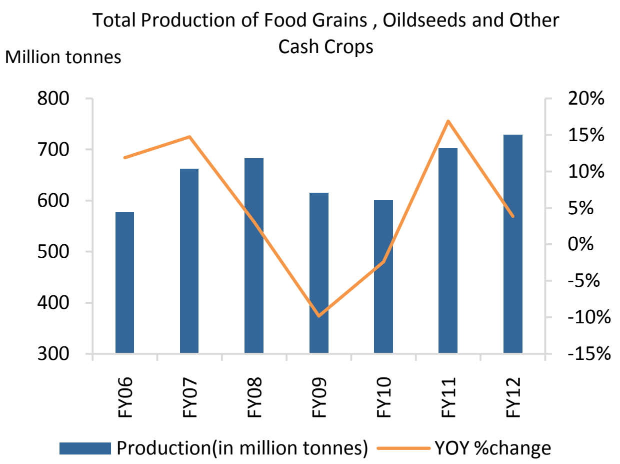
The First bull run:
The 3 year bull run of FY05-07 was well supported by a decent performance in agriculture sector parameters (refer to table on page 15)

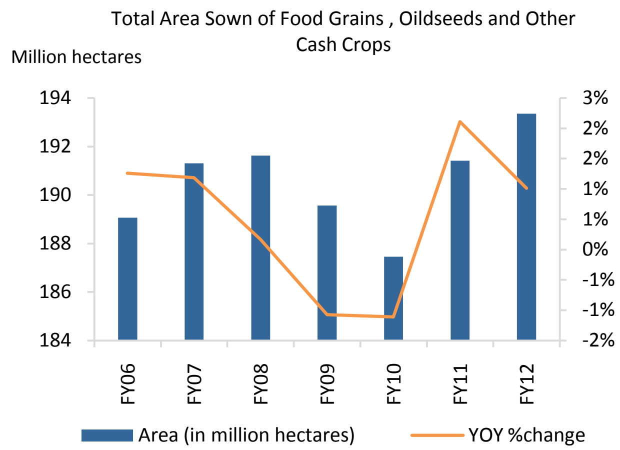
The last bull run: FY10 & FY11:
We believe that the sharp tractor growth witnessed in FY10 & FY11 was "in tandem" with the super bull cycle witnessed in the overall domestic auto industry. The bull cycle was largely due to the after effects of the fiscal and monetary push given by the Govt and the RBI starting at the end of FY09, coupled with strong real GDP growth.

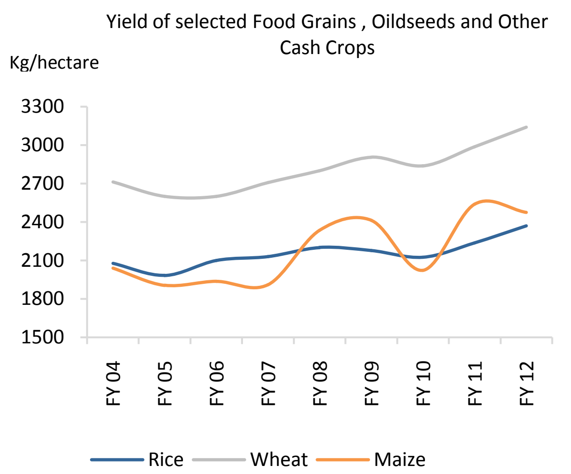


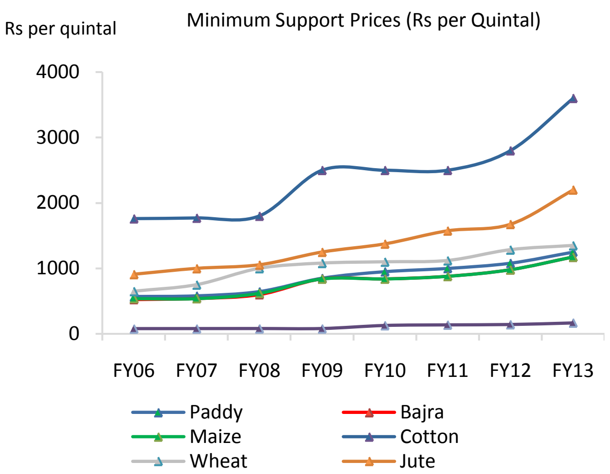
Source: Ministry of Agriculture, Bloomberg, Arihant Research

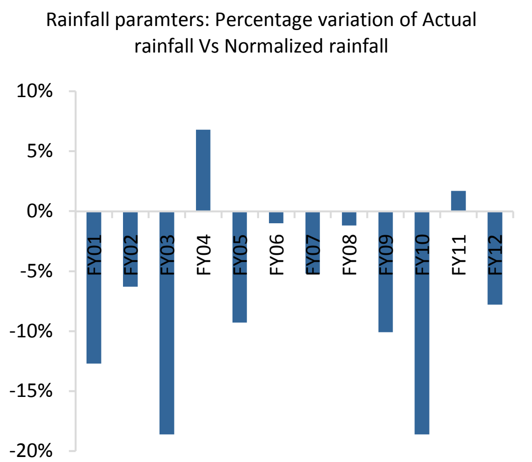
TRENDS IN AGRICULTURE SECTOR PARAMETERS

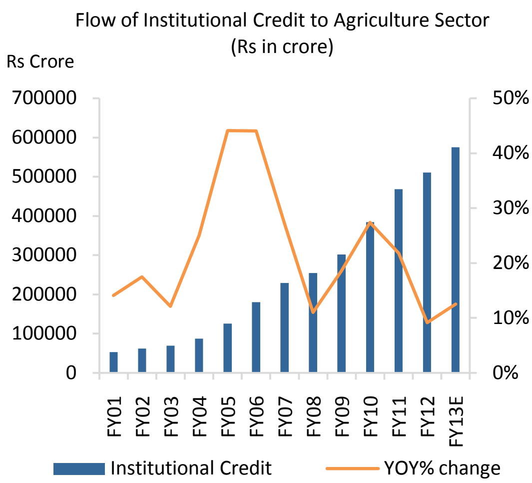












Source for all data: Ministry of Agriculture, RBI, Arihant Research

An overall "check table" shows that various parameters in the agriculture space have reacted differently over a 8 year span. FY13 however has been weak for the sector overall.

A **strong correlation** is witnessed in the growth of tractors and performance of tractors in the years FY06, FY07 & FY09 & FY11.

FY10 however seems to be ironical and counter intuitive.

Parameters	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13 YTD
Agriculture GDP Growth %	Average	Average	Average	Weak	Weak	Strong	Average	Weak
Area Sown (in million hectares)	Average	Average	Weak	Weak	Weak	Average	Average	n.a
Production (in million tonnes)	Strong	Strong	Average	Weak	Weak	Strong	Average	n.a
Yields (kg / hectare)	Average	Average	Strong	Average	Weak	Strong	Average	n.a
Rainfall (deviation from normal)	Average	Weak	Average	Weak	Weak	Average	Weak	Weak
Agriculture Exports	Strong	Strong	Strong	Weak	Weak	Strong	Strong	n.a
Flow of Institutional Credit	Strong	Strong	Weak	Average	Strong	Strong	Weak	Average
Domestic Tractor yoy growth %	Strong	Strong	Weak	Weak	Strong	Strong	Average	Weak

Source: Arihant Research

Analysis: The "Irony" of FY10:

It seems counter intuitive that FY10 had a relatively weak performance in agriculture parameters, but still recorded a 32% growth in tractors volumes, which was the best performance in recent times. We partly attribute this phenomenon to the "overall super bull cycle" in the auto industry which started in FY10, and believe *it was mainly due to fiscal and monetary push factors in that period.*

- Fiscal push factors were led by the Farm Loan Waiver of INR 60000 crores by the Government in 2009, and the cutting of excise duty over a two year period.
- Monetary push factors were mainly due to a sharp reduction in the interest rate cycle by the RBI towards the end of FY09 (in the aftermath of the financial crisis), and improvement of non food credit growth over FY10 & FY11.

Are these push factors available over FY14/15? We believe that such "extensive" push factors (as witnessed at the end of FY09) might not be available in the near term over FY14, due to a constrained fiscal position and continuing inflation.

FY12 domestic tractor performance: State wise breakups

Leading and Lagging states: Overall tractor volumes grew by 11.4% in FY12, with Rajasthan, Gujarat, Assam and Tamil Nadu growing by 51%, 38%, 38% and 26% respectively. The worst performing states were Punjab, A.P, West Bengal and Orissa, with growth rates of 0%, -5%, -7% and -17% respectively.

(Source: M&M presentation)

Underperformance of Uttar Pradesh and Madhya Pradesh in FY12 pulled down the overall weighted average growth to below 12%

Overall average pulled down: UP and MP account for almost 30% of total domestic tractor volumes, and growth in these two states in FY11 were 7% and 5% respectively, which pulled down to overall growth rate to 11.4%, despite outperforming states clocking growth in excess of 25%.

M&M's market share movement in the domestic tractor market has hovered around the 40% level, without much variability. Its closest rival is the TAFE group, which manufactures the Massey Ferguson Brand. The TAFE group had acquired Eicher's tractor division in 2005

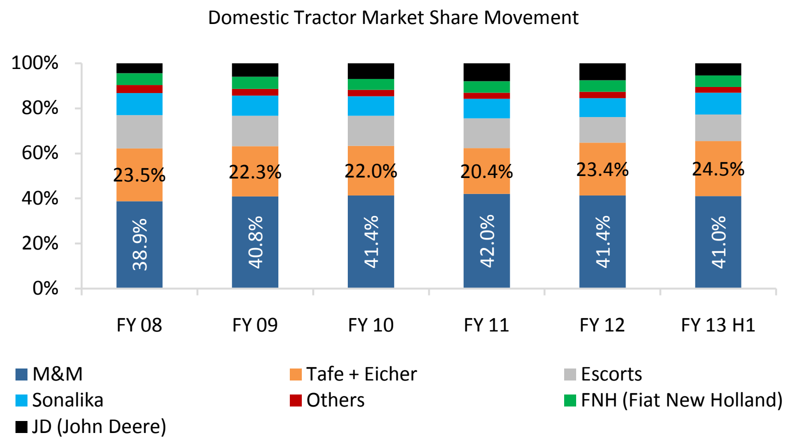
M&M's Yuvraj 15 HP tractor marks M&M's entry into the new "less than 20 HP segment". The tractor was launched at a price under than Rs 2 lakhs.

M&M's position in the Farm business:

Tractors: M&M has an extensive tractor sales network, spanning 1300 dealers and more than 2200 service points. It has six tractor plants, with the latest plant at Andhra Pradesh. It operates in all segments of the tractor industry, with the latest entry into the "less than 20 HP" segment with the Yuvraj Tractor.

Other Business: Farm Mechanization: Other streams of Revenue in the Farm Equipment business are agricultural applications such as the harvesters, gyrovators and rakes.

Tractor Market share movement for M&M has been stable, with timely launches across segments.



Source: Company presentation, Arihant Research

Selected Tractors of M&M

Less than 20 HP segment: Yuvraj Tractor

M&M entered this segment recently in FY13, and volumes have already crossed 10,000 units in the first year. The less than 20HP segment is however a very small proportion of overall tractor volumes, but its shares can increase if it finds favour with smaller farmers with smaller land acreage.

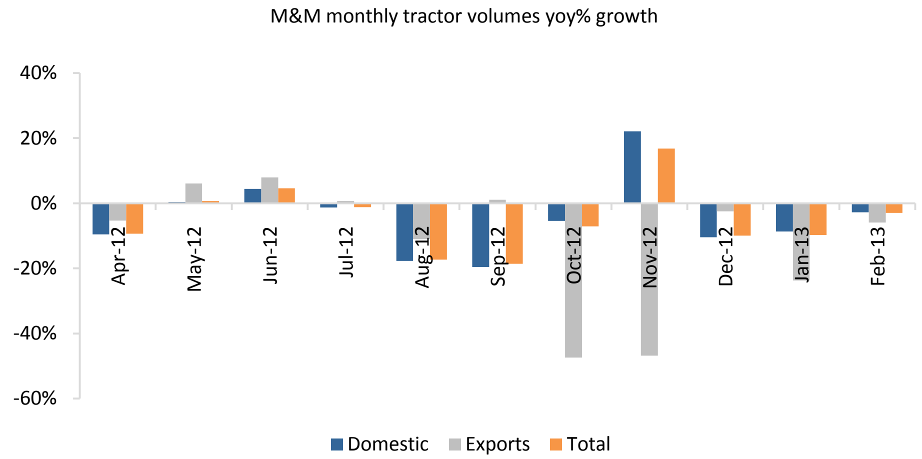
M&M Arjun Tractor: > 50HP

Greater than 50HP segment: Arjun Tractor

M&M has advertised this tractor as having highly improved cabin features

Barring November 2012, all other months in the past one year period have shown weakness in M&M's overall tractor volumes.

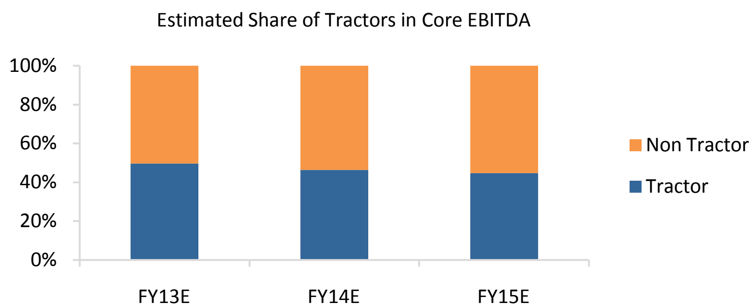
M&M's Overall Tractor growth however remains weak due to industry slowdown:



Source: Company data, Arihant Research

We expect a decline in Tractors share of Core EBITDA by FY15, because of relative outperformance of other segments volumes vis a vis tractors.

Our estimates: Shares of Tractors in Revenue and EBIT



Estimated Tractor breakup presented above includes only tractors manufactured, and excludes other agriculture related business. Including other Agri related businesses would take the total share above 50%.

Source: Arihant Research Estimates

FY14 budget "moderately positive" for the farm sector.

Budget FY14 impact on M&M's farm business: A "mixed bag", moderately positive.

The Budget FY14 has a decent amount in store for the Agricultural and farm business segment with the total fund appropriated to the Ministry of Agriculture standing at Rs 27049 crores.

- *The Farm credit target for the next fiscal year has sharply increased by 1.25 lakh crores to RS 7 lakh crores. (We note that flow of credit to the agro sector was strong in FY10 & FY11 which was one of the factors which led to improved tractor volumes in that period).*
- *Rashtriya Krishi Vikas Yojana allotted Rs 9954 Crores.*
- *An amount Rs 2250 crore has been kept aside for the food security mission.*
- *Credit guarantee fund for small farmers stands at Rs 100 crore*
- *An amount Rs 500 crore was allocated for crop diversification in states covered during the green revolution.*
- *To allocate Rs 1000 crore to rice-producing Eastern states.*

We remain "cautious" in the prospects of the tractor segment over FY14/15.

Summary: Farm segment: We remain cautious in our outlook over FY14/15

We believe that a pickup in tractor volumes is paramount for higher overall valuations of M&M, because of the high EBIT contribution of the tractor / FES segment to overall EBIT. Our sensitivity analysis (refer to page 20) reveals that a 10% increase in tractor volumes (in excess of those already factored) can push up M&M's annual PAT by almost 5.5%, which is more than double the sensitivity of the 4W SUV / LCV segment. We remain conservative regarding tractor volume estimates over the next 2 years, building in growth of 2.5% and 5% respectively. *We believe that "extensive" fiscal and monetary push factors for the tractor sector (like those witnessed at the end of FY09) might not be available in the near term, due to a constrained fiscal position and continuing inflation.*

The basis for expecting incremental volumes in FY15 (over FY14) is the expected easing of the interest rate cycle, and the benefits of higher flow of credit into the "Agriculture & Allied activities" space. (Proposed increase in FY14 budget to 7 lakh crores vs Rs 5.75 lakh crores at the end of FY13). We believe that the chances of strong outperformance in FY14/15 "similar to FY10 & 11" are slim.

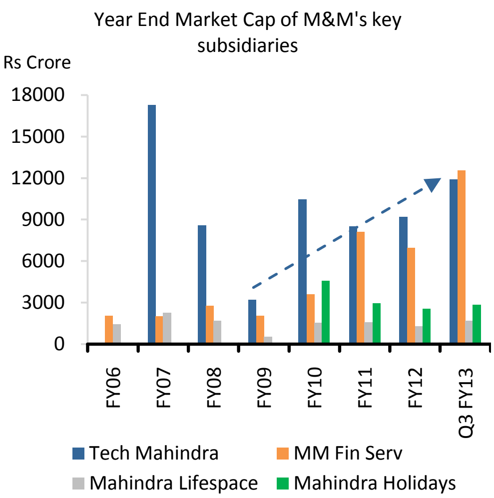
INVESTMENT THESIS: GROWTH IN NON CORE BUSINESS / INVESTMENTS HAVE BOOSTED VALUATIONS

➢ **KEY SUBSIDIARIES HAVE PERFORMED WELL OVER THE PAST 5 YEARS, WHICH HAS BOOSTED SOTP VALUATIONS.**

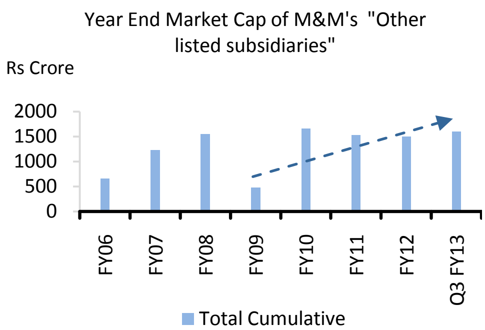
There has been a sharp increase in the market value of key subsidiaries over a 5 year period, which have helped to boost overall valuations. Return on cash invested by M&M in its subsidiaries has been exceptionally high. We value the total non core business (listed and unlisted subsidiaries and JV's) at Rs 221 per share, at a 30% holding company discount.

A sharp recovery in market cap has been witnessed since the FY09 financial crisis, with improved performance of M&M's key subsidiaries.

M&M's "share" of market cap in listed subsidiaries: A sharp recovery from the FY09 financial crisis. M&M's share of market cap in its key listed subsidiaries had fallen to Rs 3153 crores by the end of FY09 in the aftermath of the financial crisis, but since it has recovered sharply, and its share of Market Cap of listed subsidiaries has touched high of Rs 16000 crores recently. This has pushed up SOTP valuations sharply.



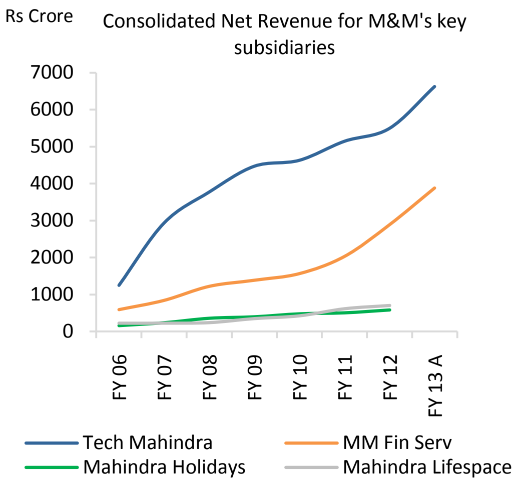
Source: Company, Arihant Research

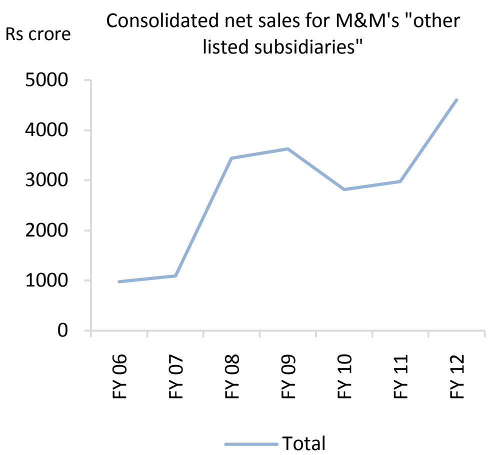


"Other listed subsidiaries" include Mahindra Forging, Mahindra Ugine steel, Swaraj Engines, EPC Ind, Mahindra Composites

Revenue growth for M&M's subsidiaries has been very strong over an 8 year span. M&M Finserv and Tech Mahindra have recorded a 6 year CAGR growth of 30.4% and 28% respectively, and M&M's "non -core" valuation comes primarily from these two investments.

M&M's subsidiaries & Joint Ventures Revenue and Operating Profit growth has been strong: Tech Mahindra and Mahindra Financial Services have recorded the fastest Revenue growth, at a 6 year CAGR of 28.1% and 30.4% respectively. In terms of Operating Profit, Tech Mahindra and Mahindra Financial services have grown by a 6 year CAGR of 22.5% and 32.7% respectively. Other key listed subsidiaries have also performed well over a 6 year period, which has added to SOTP valuations.

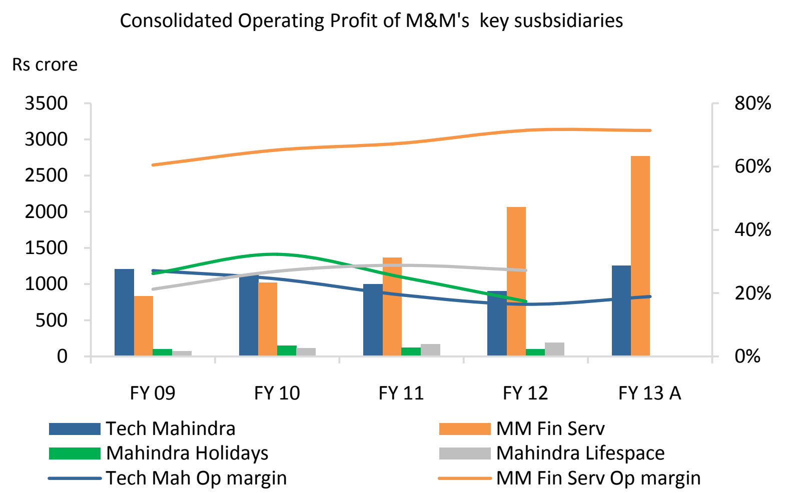




FY13 Annualized consolidated data presented for Tech Mahindra and MM Finserv only.

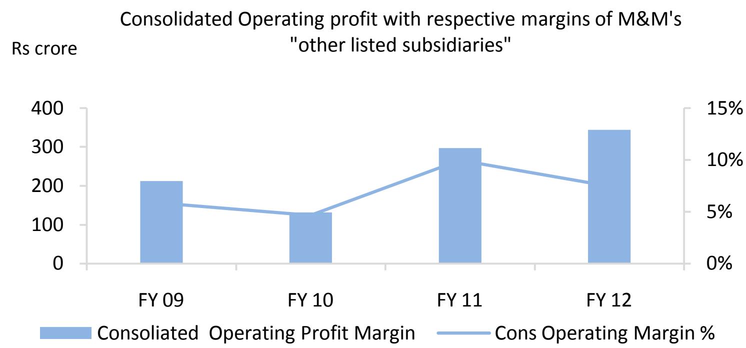
"Other listed subsidiaries" include Mahindra Forging, Mahindra Ugine steel, Swaraj Engines, EPC Ind, Mahindra Composites

Consolidated operating profit growth for Key subsidiaries has also been strong, with M&M Finserv and Tech Mahindra recoding a 6 year CAGR of 32% and 23% respectively.



Data in charts for Operating profit start from FY09. FY13 Annualized consolidated data presented for Tech Mahindra and MM Finserv only
Source: Company Data, Arihant Research

Consolidated operating profits of M&M's other* listed subsidiaries have also increased at a 6 year CAGR of 17.5%



Data in charts for Operating profit start from FY09
Source: Company Data, Arihant Research
* Other listed subsidiaries include Mahindra Forging, Mahindra Ugine steel, Swaraj Engines, EPC Ind, and Mahindra Composites

"Value Creation" in M&M's investments have boosted its overall SOTP Valuations

Return on cash invested in subsidiaries has been exceptionally high.

For M&M's key subsidiaries: (especially with respect to M&M Finserv and Tech Mahindra), the ratio of "share of market value" to "cash invested" has been exceptionally high, reflecting a strong value creation in M&M's investments.

As per the FY12 Annual Report, M&M has invested a total of Rs 645 crores of cash in Tech Mahindra, and its current share of market cap in Tech Mahindra is almost Rs 6600 crores (excluding any holding company discount). Similarly, total cash invested in M&M Finserv is about Rs 150 crores, while M&M's current share of its market cap is about Rs 5900 crores. Such impressive results have been possible due to the strong business performance of its key subsidiaries, along with higher valuations multiples received by them. This has helped to push up M&M's overall SOTP valuations.

We value M&M's total Non-core business / investments at Rs 221 per share, at a 30% holding company discount. (Refer to Valuations section)

VOLUME SENSITIVITY ANALYSIS AND RISK FACTORS:

We estimate that Incremental PAT from the tractor segment is almost double of that compared to the SUV / LCV segment. This substantiates our views that movement in the tractor segment is paramount for M&M to receive higher valuations.

Volume sensitivity analysis:

We believe that a pickup in tractor volumes is paramount for higher valuations, because of the high EBIT contribution of the tractor / FES segment to overall EBIT.

Our views are substantiated by sensitivity analysis performed below. Our analysis reveals that a 10% increase in tractor volumes can have almost double the "incremental PAT contribution" compared to a 10% increase in volumes of the SUV and LCV business. Hence we believe that this is the "key sector" for M&M's overall valuations, and M&M's stock might remain "range bound" in the event of tractor volumes not picking up over the next 2 years.

Sensitivity of Revenue & PAT to Volumes	Incremental Revenue FY14	Incremental PAT FY14
10 % increase in Tractor Volumes in FY14	2.10%	5.60%
10 % increase in SUV / LCV volumes in FY14	3.20%	2.50%

Note: 10% increase in volumes implies 10% higher than those levels already factored.

Source: Arihant Research

Risk Factors:

- Volume growth lower than estimates, either due to continuing slowdown in the overall auto industry or due to excessive competition can put pressure on financials. We have however factored in volume growth estimates which we believe account for the above two factors.
- Rising competition can also result in a weak pricing scenario in the form of higher discounts, which can put downward pressure on company margins.
- Proposed increase in diesel prices over the course of the next year and half (Rs 0.50 per month) can have negative effects on the SUV & LCV segment volumes, by lowering margins of truck operators, and by pushing up ownerships costs of SUV buyers.
- The "narrowing" of the petrol : diesel differential (which is currently at Rs 20 in New Delhi) might cause change in customer trends, which might reduce the relative benefits of a diesel vehicle with respect to cost breakeven period. (This factor has been verified by some of our interactions with our auto dealers / channel checks)
- Overall fall in the broad markets can push down M&M's SOTP valuations, because we value the non core business at CMP. (less 30% holding company discount)

Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
Net Sales	31,392.0	39,788.9	45,078.2	51,764.6
YoY%	36.2%	26.7%	13.3%	14.8%
Other Operating Income	461.5	530.7	610.3	701.9
Income from Operations	31,853.5	40,319.6	45,688.5	52,466.4
Materials Consumed	23,499.8	30,265.2	34,339.7	39,725.5
Employee Costs	1,701.8	1,943.2	2,155.3	2,400.3
Other Expenses	2,881.3	3,460.1	3,875.2	4,388.9
Total Expenditure	28,082.8	35,668.5	40,370.2	46,514.8
Operating EBITDA	3,770.7	4,651.2	5,318.3	5,951.6
Op EBITDA margin %	*11.84%*	*11.54%*	*11.64%*	*11.34%*
Depreciation	576.1	710.7	884.3	1,071.4
Operating EBIT	3,194.6	3,940.5	4,434.0	4,880.2
Operating EBIT margin%	10.0%	9.8%	9.7%	9.3%
Other Income	465.8	522.1	619.8	769.0
Interest Cost	162.8	194.0	166.0	166.0
PBT before Excp Items	3,497.6	4,268.6	4,887.9	5,483.2
Exceptional Items	108.3	0.0	0.0	0.0
PBT	3,605.9	4,268.6	4,887.9	5,483.2
Tax	727.0	1,067.2	1,222.0	1,370.8
PAT	2,878.9	3,201.5	3,665.9	4,112.4
YoY%	8.1%	11.2%	14.5%	12.2%
DEPS	46.9	52.1	59.7	67.0
Core DEPS	48.9	53.9	61.4	68.5

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
EQUITY AND LIABILITIES				
Share Capital	294.5	294.5	294.5	294.5
Reserves and Surplus ...	11876.6	14178.1	16810.7	19756.5
Total Shareholders' Funds	*12171.1*	*14472.6*	*17105.2*	*20051.0*
NON CURRENT LIABILITIES :				
Long Term Borrowings	3173.8	3207.6	3207.6	3207.6
Other Long Term Liab & Prov	1206.9	1206.9	1206.9	1206.9
Total Non Current Liabilities	*4380.7*	*4414.4*	*4414.4*	*4414.4*
CURRENT LIABILITIES :				
Short Term Borrowings	0.4	0.4	0.4	0.4
Other Current Liab & Prov	7359.8	8554.7	9534.3	10737.4
Total	7360.2	8555.0	9534.6	10737.8
Total Equity and Liabilities	23912.0	27442.1	31054.3	35203.2
ASSETS				
NON CURRENT ASSETS :				
Fixed Assets (Tangible + intangible + wip)	5080.8	5918.5	6622.2	7189.1
Non Current Investments...	9273.6	10273.6	11273.6	12273.6
Other Non Cur Assets & Loans	1567.0	1567.0	1567.0	1567.0
Total: Non Current Assets	*15921.3*	*17759.0*	*19462.8*	*21029.6*
CURRENT ASSETS :				
Current Investments	1036.9	1036.9	1036.9	1036.9
Cash & Cash Equivalents	1188.4	1756.6	2937.8	4600.4
Other Cur Assets, Loans & Adv	5765.4	6889.6	7616.9	8536.3
Total Current Assets	*7990.7*	*9683.1*	*11591.5*	*14173.6*
Total Assets	23912.0	27442.1	31054.3	35203.2

Cash Flow Statement (Restated), Year Ending March

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
Operating Activities				
PBT	3,605.9	4,268.6	4,887.9	5,483.2
Add back NCC	576.1	710.7	884.3	1,071.4
Add Exceptional Items	108.3	0.0	0.0	0.0
less Other Income	(465.8)	(522.1)	(619.8)	(769.0)
Add back: Finance cost	162.8	194.0	166.0	166.0
Adjustments in Working Cap	(484.3)	39.3	119.0	150.4
Less Taxes	(743.2)	(1,067.2)	(1,222.0)	(1,370.8)
Other Adj	-24.81	0	0	0
CFO	2,735.0	3,623.3	4,215.4	4,731.2
Investing Activities				
Capex: Tangible + Intang	(1,340.4)	(1,548.4)	(1,588.1)	(1,638.2)
Total Investments:	(1,064.3)	(1,000.0)	(1,000.0)	(1,000.0)
Change in Long term Adv	0.0	0.0	0.0	0.0
Treasury Income	465.8	522.1	619.8	769.0
Other adj	2.4	0	0	0
CFI	(1,936.5)	(2,026.3)	(1,968.3)	(1,869.2)
Financing Activities				
Change in Long Term Debt	644.2	33.7	0.0	0.0
Dividend Paid + Tax	(800.8)	(868.6)	(900.0)	(1,033.3)
Change Other Long Term Liab	0.0	0.0	0.0	0.0
Interest Cost paid	(149.6)	(194.0)	(166.0)	(166.0)
CFF	(306.2)	(1,028.8)	(1,066.0)	(1,199.3)
Summary				
Opening Cash & Equivalents	696.0	1,188.4	1,756.6	2,937.8
Change during the year	492.3	568.2	1,181.2	1,662.7
Closing Cash	1,188.4	1,756.6	2,937.8	4,600.4

Ratio Analysis

	FY12	FY13E	FY14E	FY15E
Profitability				
Operating EBITDA%	11.8%	11.5%	11.6%	11.3%
Operating EBIT%	10.0%	9.8%	9.7%	9.3%
Core EBITDA%	10.5%	10.4%	10.4%	10.1%
Core EBIT%	8.7%	8.6%	8.5%	8.1%
PAT%	9.2%	8.0%	8.1%	7.9%
ROAE%	25.6%	24.0%	23.2%	22.1%
Du Pont ROAE breakup				
PAT / Sales	0.09	0.08	0.08	0.08
Sales / Avg Total Assets	1.44	1.55	1.54	1.56
Avg Total Asset /Avg Equity	1.93	1.93	1.85	1.78
ROAE	0.26	0.24	0.23	0.22
Other Ratios				
Current Ratio	1.09	1.13	1.22	1.32
Long Term Debt / Equity	0.26	0.22	0.19	0.16
Diluted EPS	46.9	52.1	59.7	67.0
Dividend per share	12.5	13.5	15.5	17.5
Dividend %	250%	270%	310%	350%
Dividend Payout ratio	26%	25%	25%	25%
P/ Diluted Earnings	18.4	16.6	14.5	12.9
BVPS (diluted)	198.2	235.7	278.6	326.6
P/BV	4.4	3.7	3.1	2.6
EV / EBITDA	14.4	11.7	10.2	9.1
Cash Flow metrics				
Cash & Equiv per share	68.7	78.0	97.2	124.3
FCFF	449.6	1220.4	1751.8	2217.5
FCFE	974.4	702.1	1627.3	2093.0

Note: Enterprise Value used for the EV / EBITDA multiple excludes current investments and includes only cash & equivalents.

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254868

Head Office

3rd Floor, Krishna Bhavan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

Recommendation	Absolute Return %
BUY	> 20
ACCUMULATE	12 - 20
HOLD	5 - 12
NEUTRAL	0 - 5
REDUCE	< 0

Contact	Website	Email Id
SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Arihant is Forbes Asia's '200 Best under a $Bn' Company
'Best Emerging Commodities Broker' awarded by UTV Bloomberg (2011)