

**Investors' Delight: Mahindra and Mahindra Ltd. "Tractor division to drive growth"**

**Investment Summary**

Mahindra and Mahindra Ltd. manufactures automobiles, farm equipment, automotive components and agricultural tractors. In the tractor segment, Mahindra has the biggest share of the market at about 41%, with more than 900 dealers. The company offers a range of tractors starting from the 15-horsepower Yuvraj to 85-HP Arjun International. It plans to unveil a brand new platform as early as the end of fiscal 2014, Pawan Goenka, president of Mahindra's automotive and farm equipment segments, said in a call with investors in August. The company said in August its profit grew about 35% from the segment and operating margin expanded by more than 1%. Tractors are a cash cow for Mahindra. Mahindra has a wide range of tractors and large number of dealers, it stands to gain from the increase in demand. Other manufacturers tend to be restricted either in terms of product range or in geographical reach."

Deliveries of tractors in India will rise at a compounded annual pace of as much as 9% over the next five years as the government backs rural development and farm mechanization, coupled with scarcity of labour and moderate ownership. Mahindra's tractor business has benefited from a higher-than-normal monsoon rain, which bodes well for Indian crops and raised the likelihood of better rural incomes. Mahindra's local tractor sales rose a record 24% to 128,626 units in the six months ended September 2013. The farm equipment business accounted for 20% of its revenue in the year ended March, while its automotive business including sport utility vehicles (SUVs) contributed 61%.

In addition, the Company will increase prices of its passenger and commercial vehicles by up to 2 per cent with effect from January 1, 2014. the price increases will help to protect and maintain margins at around 11 percent, going forward. The Mumbai-based company is the latest to join the bandwagon. Its peers such as Tata Motors, Maruti Suzuki, Hyundai and Renault have announced a similar hike from the start of next month.

The subsidiary companies of M&M continue to contribute to the overall growth of the Company. Major subsidiaries such as Mahindra & Mahindra Financial Services Limited with a 44% growth in its consolidated profits and Mahindra Lifespace Developers Limited with a 19% growth in its consolidated profits deserves special mention. The consolidated Group Profit for the year after exceptional items, prior period adjustments and tax and after deducting minority interests is Rs. 4,099.20 crores as against Rs. 3,126.66 crores earned in the previous year. After providing, a holding discount of 30 percent, M&M's listed subsidiary account for 35% of market price.

With due consideration to factors like a) leader in tractor segment, b) hike in prices to offset increase in raw material prices, c) quality management, d) subsidiaries performing well, we recommend a "BUY". At CMP, the stock trades at a PE multiple of 16 x at 12 month (TTM) EPS OF Rs. 59.3. We value the stock at 15x FY15 estimated EPS of Rs. 87 by street to arrive at a target price of Rs.1,305 for investors with a 12 months horizon.

Date	26 <sup>th</sup> December, 2013
CMP	Rs. 966
Target Price	Rs. 1,305
Upside	35%
Beta vs Sensex	0.88
BSE/NSE Code	500520 /M&M
Bloomberg Code	MM:IN
52 Week High	Rs. 1,026.45 (20 <sup>th</sup> May, 2013)
52 Week Low	Rs. 741.5 (28 <sup>th</sup> Aug, 2013)
Face Value	Rs. 5
Share Capital	Rs. 2.95 bn
Networth	Rs. 199.6 bn
Market Capitalization	Rs. 569 bn
Book Value	Rs. 238 per share
Shareholding Pattern (%)	As on Sep. 2013
Promoters	25.26
FII's	35.86
DII's	16.57
Others	22.31

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