

Mahindra & Mahindra

Regaining its Mojo; Upgrade to 'BUY'

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Rating	BUY
Price	Rs755
Target Price	Rs895
Implied Upside	18.5%
Sensex	33,793
Nifty	10,443

(Prices as on January 03, 2018)

Trading data

Market Cap. (Rs bn)	447.2
Shares o/s (m)	592.6
3M Avg. Daily value (Rs m)	2349.3

Major shareholders

Promoters	26.69%
Foreign	36.01%
Domestic Inst.	21.19%
Public & Other	16.11%

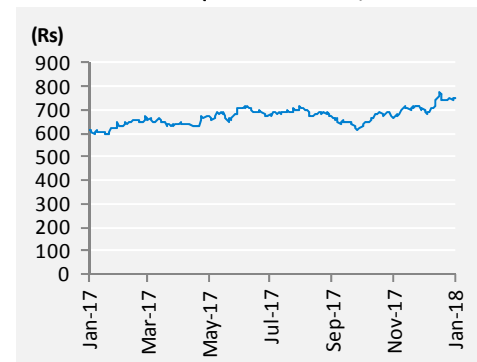
Stock Performance

(%)	1M	6M	12M
Absolute	7.1	10.7	23.4
Relative	4.2	2.4	(3.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	41.8	39.4	6.1
2020	54.1	51.8	4.4

Price Performance (RIC: MAHM.BO, BB: MM IN)



Source: Bloomberg

M&M's volumes continue to be driven by strong demand in tractors and a cyclical recovery in the LCV segment. The UV business continues to be a drag with M&M losing ~14% market share over the last three years. However, given the extremely low base, upcoming model launches (MPV/Mahindra branded Tivoli) and refreshes (KUV100/TUV300) should boost volume growth for M&M over FY19E. Increased government focus on rural economy could further accelerate growth for both, Farm and Auto segment. The stock has underperformed Nifty by ~5% over the last 12 months and currently trades at 15x FY19 core Auto PE. We upgrade our rating from Accumulate to 'BUY' with a target price of Rs895 (earlier Rs790).

■ **Mechanization to drive tractor growth:** Tractors have seen a sharp recovery over FY17-FY18 and we expect this growth momentum to continue on the back of a second consecutive year of good monsoon, healthy farm produce and rising MSPs. Shortage of skilled labour has led to the need of increased mechanization, which is, in turn, leading to a structural shift towards higher HP tractors, accelerating growth and improving profitability. With the success of new Tractor launches, we expect double-digit growth to continue for M&M in FY19E.

■ **New launches and recovery in LCV key for Auto segment:** M&M's UV business has been under stress for the past four years due to increased competition and muted response to its urban products. However, the three flagship UV products and pick-up segment continue to do well and could see some further benefit from an uptick in rural demand. Cyclical recovery in LCVs and success of M&M's recent launches in the segment (*Jeeto*) would boost volume growth for the company. New launches, especially MPV (end-FY18) and the Sub-4 meter UV (Mid-2018), if designed well and priced rightly, would give a much needed boost to the UV segment and help regain some lost market share.

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Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	430,742	485,270	545,741	607,017
Growth (%)	5.4	12.7	12.5	11.2
EBITDA (Rs m)	40,942	59,607	68,638	78,147
PAT (Rs m)	26,960	43,861	50,727	65,610
EPS (Rs)	45.5	36.1	41.8	54.1
Growth (%)	(14.5)	(20.6)	15.7	29.3
Net DPS (Rs)	15.7	18.4	20.5	21.5

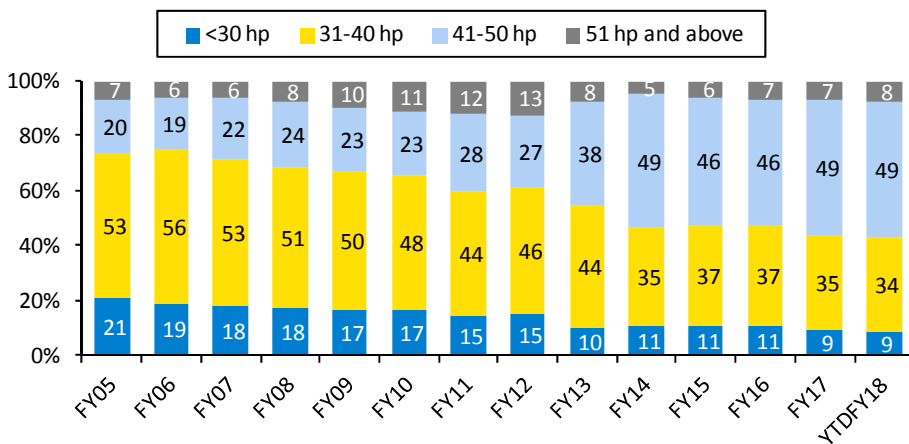
Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	9.5	12.3	12.6	12.9
RoE (%)	11.8	17.6	18.7	21.8
RoCE (%)	10.9	16.1	17.2	20.0
EV / sales (x)	1.1	1.9	1.7	1.5
EV / EBITDA (x)	11.2	15.7	13.7	12.0
PE (x)	16.6	20.9	18.1	14.0
P / BV (x)	1.9	3.5	3.2	2.9
Net dividend yield (%)	2.1	2.4	2.7	2.8

Source: Company Data; PL Research

- **Valuations attractive; upgrade to 'BUY':** We expect M&M to record an EPS CAGR of ~24% over FY18-20E. Auto segment has been a drag on profitability. However, new launches in the UV space and reduced losses in the heavy truck segment would boost auto EBIT margins. For the farm segment, a shift towards mechanization and higher HP tractors will further improve profitability. We roll-over to Sep'19E from Mar'19 and upgrade the stock from '**Accumulate**' to '**BUY**'. We value M&M's auto business at 16x Sep'19E plus Rs243 as the value of investments to arrive at a TP of Rs895 (earlier Rs790).

Increasing mechanisation and infra-related usage would further lead to a shift towards higher HP tractors and hence, improve profitability.

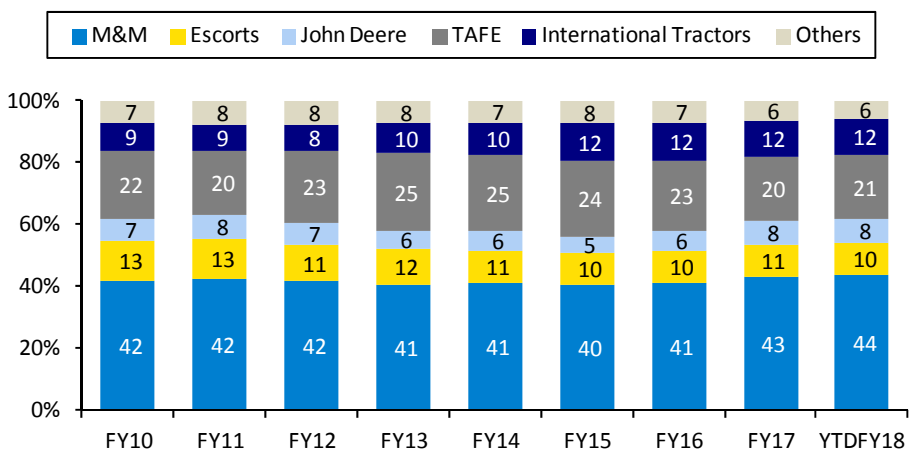
Exhibit 1: Segment-wise tractor mix



Source: PL Research, Company Data

M&M's market share is at its highest. Both Swaraj and Mahindra brands continue to gain market share on the back of successful product launches across the HP range.

Exhibit 2: Tractors: Market share trend

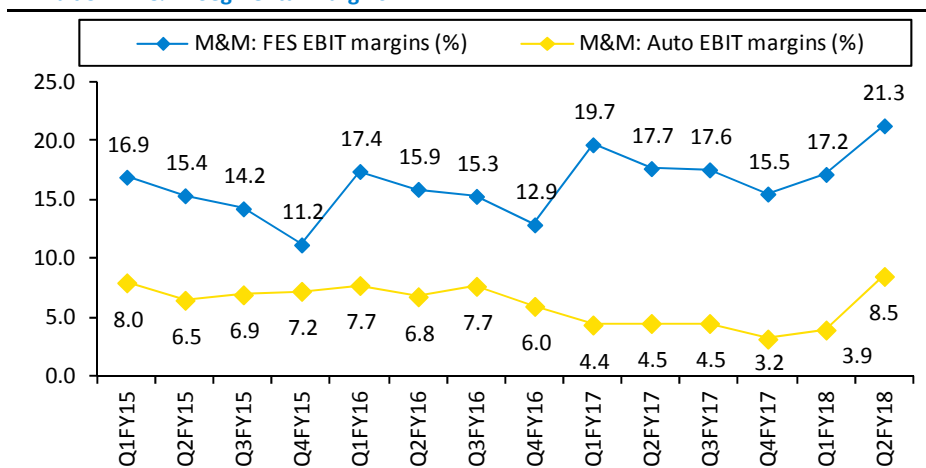


Source: Company Data, PL Research

Auto EBIT margins expected to improve on the back of operating leverage. New model launches to boost volumes further.

FES EBIT margins for M&M at an all-time high.

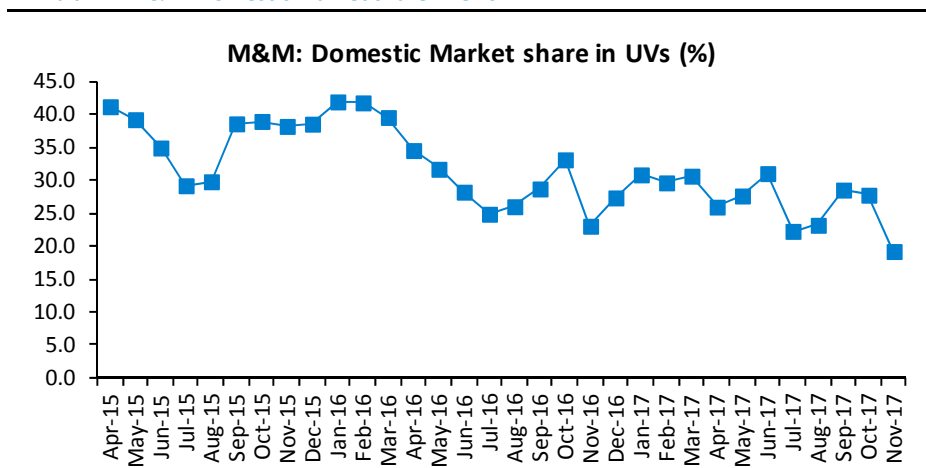
Exhibit 3: M&M: Segmental margins



Source: Company Data, PL Research

Market share loss in UVs continues on account of muted response to recently launched urban-focused products; new products to regain lost market share.

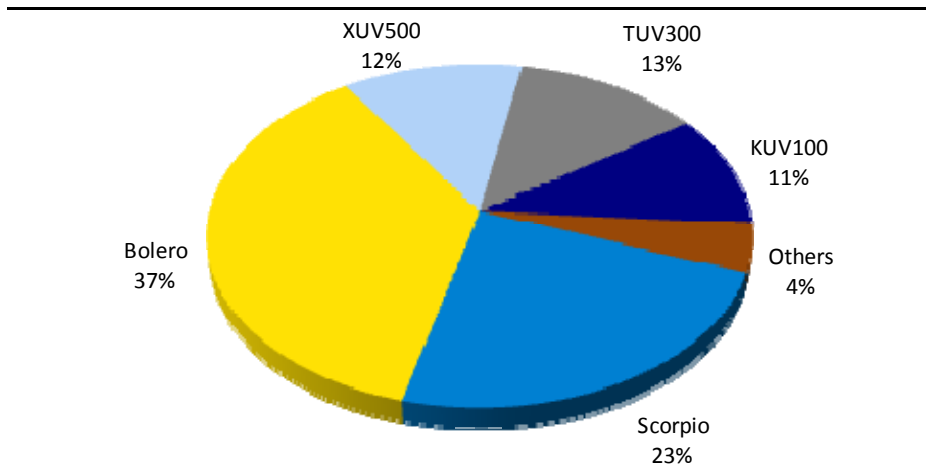
Exhibit 4: M&M: Domestic market share in UVs



Source: Company Data, PL Research

Flagship brands, Scorpio & Bolero, still contribute ~60% of M&M's overall UV volumes.

Exhibit 5: M&M: UV Portfolio



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	430,742	485,270	545,741	607,017
Raw Material Expenses	317,666	346,483	390,205	432,500
Gross Profit	113,075	138,787	155,536	174,517
Employee Cost	25,954	29,116	32,199	35,814
Other Expenses	46,180	50,064	54,699	60,556
EBITDA	40,942	59,607	68,638	78,147
Depr. & Amortization	13,272	14,436	16,436	9,263
Net Interest	1,456	1,456	1,456	728
Other Income	18,548	14,767	16,891	19,324
Profit before Tax	44,763	58,482	67,637	87,480
Total Tax	12,319	14,620	16,909	21,870
Profit after Tax	32,444	43,861	50,727	65,610
Ex-Od items / Min. Int.	5,485	—	—	—
Adj. PAT	26,960	43,861	50,727	65,610
Avg. Shares O/S (m)	592.6	1,213.7	1,213.7	1,213.7
EPS (Rs.)	45.5	36.1	41.8	54.1

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	47,506	61,372	70,469	77,479
C/F from Investing	(40,000)	(45,000)	(45,000)	(45,001)
C/F from Financing	(12,049)	(23,773)	(29,703)	(30,387)
Inc. / Dec. in Cash	(4,543)	(7,401)	(4,234)	2,091
Opening Cash	22,970	18,428	11,027	6,792
Closing Cash	18,428	11,027	6,792	8,884
FCFF	15,566	34,916	44,013	51,750
FCFE	15,566	34,916	44,013	51,751

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	5.4	12.7	12.5	11.2
EBITDA (%)	(11.4)	45.6	15.2	13.9
PAT (%)	(14.5)	62.7	15.7	29.3
EPS (%)	(14.5)	(20.6)	15.7	29.3
Profitability				
EBITDA Margin (%)	9.5	12.3	12.6	12.9
PAT Margin (%)	6.3	9.0	9.3	10.8
RoCE (%)	10.9	16.1	17.2	20.0
RoE (%)	11.8	17.6	18.7	21.8
Balance Sheet				
Net Debt : Equity	—	0.1	0.1	0.1
Net Wrkng Cap. (days)	(27)	(29)	(29)	(29)
Valuation				
PER (x)	16.6	20.9	18.1	14.0
P / B (x)	1.9	3.5	3.2	2.9
EV / EBITDA (x)	11.2	15.7	13.7	12.0
EV / Sales (x)	1.1	1.9	1.7	1.5
Earnings Quality				
Eff. Tax Rate	27.5	25.0	25.0	25.0
Other Inc / PBT	33.3	25.3	25.0	22.1
Eff. Depr. Rate (%)	7.9	7.5	7.5	3.8
FCFE / PAT	57.7	79.6	86.8	78.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	238,973	260,517	282,996	318,946
Total Debt	29,169	29,169	29,169	29,170
Other Liabilities	12,475	12,475	12,475	12,475
Total Liabilities	280,617	302,161	324,641	360,592
Net Fixed Assets	106,912	117,476	126,039	141,777
Goodwill	—	—	—	—
Investments	150,204	170,204	190,204	210,204
Net Current Assets	23,451	14,432	8,348	8,561
Cash & Equivalents	18,428	11,027	6,792	8,884
Other Current Assets	115,999	125,440	135,638	145,928
Current Liabilities	110,975	122,035	134,082	146,251
Other Assets	50	50	50	50
Total Assets	280,617	302,161	324,641	360,592

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18E
Net Revenue	105,140	116,144	123,301	118,491
EBITDA	3,273	12,464	18,773	14,184
% of revenue	3.1	10.7	15.2	12.0
Depr. & Amortization	3,425	3,476	3,633	3,643
Net Interest	445	317	229	420
Other Income	3,081	2,051	5,620	1,377
Profit before Tax	3,420	10,723	20,532	11,498
Total Tax	2,281	3,228	5,736	3,392
Profit after Tax	1,140	7,495	14,796	8,106
Adj. PAT	437	7,495	14,796	8,106

Key Operating Metrics

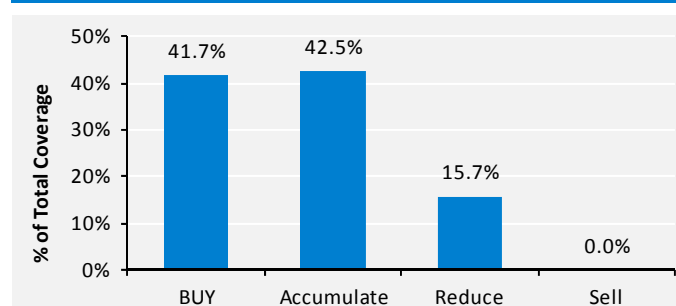
Y/e March	2017	2018	2019E	2020E
PV & pick-up sales (units)	448,591	488,312	544,514	601,249
Three-wheeler sales (units)	52,306	49,691	50,933	52,206
CV sales (units)	6,715	7,722	8,688	9,773
Total automotive volume (units)	507,612	545,724	604,135	663,229
Tractor sales (units)	262,992	307,701	341,548	368,872
Total volume (units)	770,604	853,425	945,682	1,032,100
Realisation per vehicle (Rs)	551,199	560,828	569,283	580,197
Gross margin per vehicle (Rs)	146,736	162,624	164,470	169,090
EBITDA per vehicle (Rs)	53,130	69,844	72,581	75,717
Profit per vehicle (Rs)	36,764	51,394	53,641	63,570

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
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Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
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Under Review (UR)	: Rating likely to change shortly

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