



VISIT NOTE

MAHINDRA & MAHINDRA

Eventful FY19 – Success of UVs critical

India Equity Research | Automobiles



Our recent meeting with Mahindra & Mahindra's (M&M) management indicated their positive outlook on business led by: (1) strong rural demand; (2) four new launches in utility vehicles (UVs) along with upgrades in FY19; and (3) continued traction in CV business. Management expects M&HCV business to register EBIDT breakeven in FY19. On tractors, while underlying drivers remain strong; management stated annual sales will cross peak of FY14, and hence remains cautiously optimistic. We believe FY19 would be a defining year for M&M as success of its two new launches, *U321* and *S201*, would be critical for re-rating. Maintain 'BUY'.

Key meeting takeaways:

- **Demand outlook:** Rural demand is expected to remain strong. This should benefit all three key businesses of M&M – tractors, UVs and CVs.
- **UVs (existing products):** *Bolero* demand has started coming back. Demand for both *Bolero* and *Bolero Power Plus* is strong (~50:50 mix). Management expects *TUV 300/KUV100* demand to see uptick post the refreshes/upgrades and specific marketing/positioning efforts. *XUV 500* is due for upgrade as the last refresh was done in 2015. Diesel to petrol mix for *KUV* is ~40:60
- **Capex:** Management maintained its capex (INR25bn) and investment (INR15bn) per annum. Electric vehicle related product development capex will be part of its investment budget
- **Tractors:** Demand outlook remains good driven by uptick in infra related as well as agriculture-led demand. However, management expects FY19 growth to be in line with long-term average of ~8%. M&M aims to outpace industry.

Outlook and valuations: All eyes on UVs; maintain 'BUY'

We estimate core EPS CAGR of 13% over FY18-20, based on ~9% volume growth. We are not factoring in success of new launches, which would therefore pose upside risks. We maintain 'BUY/SO' with SoTP-based TP of INR919 (14x FY20E core EPS, INR94 cash per share and INR391 for listed subsidiaries At CMP, the stock trades at FY19/20E PER of 13x/11.6x (excluding subsidiaries).

Financials

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	418,954	475,214	530,704	583,132
Rev. growth (%)	7.8	13.4	11.7	9.9
Adjusted Profit	37,429	42,577	48,745	54,580
Basic shares outstanding (mn)	594	1,187	1,187	1,187
Adjusted diluted EPS (INR)	63.1	35.9	41.1	46.0
EPS Growth (%)	18.9	(43.1)	14.5	12.0
EV/EBITDA (x)	(0.1)	(0.1)	(0.4)	(0.7)
ROAE (%)	15.3	15.1	15.1	14.8

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: MAHM.BO, B: MM IN)

CMP	: INR 728
Target Price	: INR 919
52-week range (INR)	: 803 / 612
Share in issue (mn)	: 1,243.2
M cap (INR bn/USD mn)	: 906 / 13,942
Avg. Daily Vol.BSE/NSE('000)	: 2,678.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	20.5	25.2	25.3
MF's, FI's & BK's	19.5	20.0	20.7
FII's	31.9	34.0	33.7
Others	28.2	20.7	20.4
* Promoters pledged shares (% of share in issue)	:		2.8

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	(3.3)	(3.2)	(4.0)
3 months	4.8	(0.2)	(4.1)
12 months	11.6	14.8	12.4

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**Commodity cost pressure**

- Rising commodity cost prices is the key worry. Management expects pressure of commodity inflation to be higher in FY19 vs. FY18, unless commodity prices see sharp correction.

Tractors – competitive intensity

- Series of new launches in industry as well as uptick in infra-led demand will lead to shortening of replacement cycle.
- Also, efforts are increasing to sell implements and tractors as a package rather than only tractors

Capex

- Management maintained its capex guidance of INR75bn as well as investment guidance of INR45bn over the next three years.
- Investment in traditional technologies and electric vehicles will go hand in hand.
- Product development led spend on electric vehicles would be part of investments, as spends will be incurred by a subsidiary.
- Manufacturing capacity addition is likely to be in M&M + Mahindra Vehicle Manufacturing (MVML).

Table 1: Valuation

	Basis of valuation	Value/Mcap (INR mn)	M&M holding (%)	CMP (INR)	Value/share on CMP (INR)
Investment in listed companies					
Tech Mahindra	CMP	150,405	26.7	587	133
MMFSL	CMP	129,005	51.2	443	114
Mahindra Lifespace Developers	CMP	9,836	51.1	472	9
Mahindra Holidays and Resorts	CMP	21,211	75.0	319	19
Mahindra CIE*	CMP	14,095	20.2	216	12
CIE Automotive Spain#	CMP	29,993	12.4	1,875	27
Swaraj Engines	CMP	8,130	33.2	1,970	7
Mahindra Logistic	CMP	33,166	61.0	472	29
Ssangyong	3x CY16E EV-EBITDA	54,711	73.2		40
Sub-total					391
Investments valued at 25% discount					293
Core EPS (FY19E)					38
Target multiple (PE)					14.0
Core business					532
Cash per share					94
Target price (INR)					919
Total nos of shares					
Diluted nos of shares (mn nos)					1,232
Less: Adj. for trea. shares (mn nos)					103.7
Net nos of shares outstanding (mn nos)					1,128.1

Source: Edelweiss research

Company Description

Mahindra & Mahindra (M&M) operates through 9 segments—automotive, which involves sales of UVs/CVs and 3Ws, spare parts and related services; farm equipment, which involves tractors, spare parts and related services; financial services, which consists of services related to financing, leasing and hire purchase of automobiles and tractors; steel trading & processing, which consists of trading and processing of steel; infrastructure, which consists of operating of commercial complexes, project management and development; hospitality, which involves sale of timeshare; IT services, which involves services rendered for information technology (IT) and telecom; Systech, which consists of automotive components and other related products and services, and Others, which consists of logistics, after-market, 2Ws and investment.

It also acquired majority (70%) stake in Korea-based Ssangyong Motors Company in FY11 to become a global SUV company.

Investment Theme

Key reasons for M&M losing market share in UVs in recent years are: (a) failure to cash in on the strong demand for compact SUVs & crossovers; and (b) subdued volume performance of recent launches (TUV300 and KUV100). However, we expect this business to get back on track given the company's strong focus on addressing product gaps (new MPV and Tivoli-based SUV) and refreshes & petrol variants launch across its portfolio. Moreover, the tractor business is in a sweet spot and well placed to benefit from robust industry demand and sustain market share gains, riding new launches and network expansion.

Key Risks

UV market share: M&M needs to realign itself with the changing customer profile. With limited success of its recent launches – KUV300 and TUV100, it become critical for M&M to get its next 2 launches right and start gaining market share.

Losses in unlisted subsidiaries: M&M has ventured into businesses like 2Ws, etc., and is incurring losses at operational level. In the event of failure to turn around the business, the company might have to infuse more capital in drag performance of its core business.

Managing a complex group structure: M&M is a conglomerate with interests in automotive, farm equipment, real estate, tech services, and hospitality, among others. Managing this complex structure could divert focus from the core business and could pose execution risks.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Sector				
Tractor - dom. vol (% YoY)	20	15	10	8
UV - domestic vol. (% YoY)	35.0	20.0	15.0	15.0
LCV - dom. vol. (% YoY)	8.0	14.0	12.0	10.0
Company				
Tractor - dom. vol (% YoY)	27	16	10	8
UV - domestic vol. (% YoY)	0.1	8.8	8.6	7.8
LCV - dom. vol. (% YoY)	7.7	11.6	12.0	8.6
3-wheeler (Goods) - dom. Vol. (%)	(5)	2	3	3
Avg realisation (INR)	544,365	561,111	571,945	582,560
Avg realisation (% YoY)	(3.1)	3.1	1.9	1.9
Cost assumptions				
Capex (INR mn)	10,701	24,500	25,000	25,000
Net borrowings (INR mn)	13,231	7,910	-	-
RM cost/vehicle	370,657	372,983	383,686	392,281
Employee cost/vehicle	37,329	38,694	40,579	42,490
Average salary	1,106,944	1,152,164	1,186,236	1,200,963
EBITDA/vehicle	73,486	82,023	85,809	88,835
Financial assumptions				
Cash conversion cycle	(39)	(36)	(31)	(29)
Avg. Interest rate (%)	5.3	5.0	5.0	5.0
Depreciation rate (%)	8.9	8.6	8.8	8.6
Dividend payout (%)	23.9	24.4	24.1	24.4
B/S assumptions				
Debtor days	23	21	19	19
Inventory days	36	35	36	37
Payable days	97	92	86	85
Tax rate (%)	27.4	32.0	32.0	32.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Profit Before Tax	53,597	62,613	71,684	80,265
Less: Provision for Tax	14,708	20,036	22,939	25,685
Diluted shares o/s (mn)	594	1,187	1,187	1,187
Dividend per share (DPS)	13.6	7.6	8.6	9.8
Dividend Payout Ratio(%)	23.9	24.4	24.1	24.4
Income from operations	418,954	475,214	530,704	583,132
Materials costs	285,265	315,885	356,020	392,667
Manufacturing expenses	48,404	57,091	57,410	59,011
Employee costs	28,729	32,771	37,653	42,532
Total operating expenses	362,398	405,747	451,082	494,210
EBITDA	56,556	69,466	79,621	88,923
Depreciation	14,721	15,930	17,281	19,038
EBIT	41,836	53,536	62,340	69,884
Add: Other income	12,034.6	10,841.01	11,108.27	12,145.01
Less: Interest Expense	2,285	1,764	1,764	1,764
Add: Exceptional items	2,012	-	-	-
Reported Profit	38,889	42,577	48,745	54,580
Exceptional Items	1,460	-	-	-
Adjusted Profit	37,429	42,577	48,745	54,580
Shares o /s (mn)	594	1,187	1,187	1,187
Adjusted Basic EPS	63.1	35.9	41.1	46.0
Adjusted Diluted EPS	63.1	35.9	41.1	46.0
Adjusted Cash EPS	87.9	49.3	55.6	62.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	86.5	85.4	85.0	84.8
Materials costs	68.1	66.5	67.1	67.3
Staff costs	6.9	6.9	7.1	7.3
S G & A expenses	11.6	12.0	10.8	10.1
Depreciation	3.5	3.4	3.3	3.3
Interest Expense	0.5	0.4	0.3	0.3
EBITDA margins	13.5	14.6	15.0	15.2
Net Profit margins	8.9	9.0	9.2	9.4

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	7.8	13.4	11.7	9.9
Adjusted Profit	13.6	13.8	14.5	12.0
EBITDA	8.8	22.8	14.6	11.7
PBT	18.7	16.8	14.5	12.0
EPS	18.9	(43.1)	14.5	12.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	2,968	2,968	2,968	2,968	
Reserves & Surplus	261,132	298,342	340,995	388,674	
Shareholders' funds	264,101	301,310	343,963	391,642	
Total Borrowings	38,648	46,558	46,558	46,558	
Def. Tax Liability (net)	8,581	8,581	8,581	8,581	
Sources of funds	311,329	356,449	399,102	446,781	
Gross Block	173,364	197,864	196,376	221,376	
Net Block	92,586	101,155	91,327	97,289	
Capital work in progress	20,864	20,864	38,411	38,411	
Total Fixed Assets	113,449	122,019	129,738	135,700	
Non current investments	139,222	152,222	158,222	164,222	
Uses of funds	311,329	356,449	399,102	446,781	
BVPS (INR)	444.9	253.8	289.7	329.9	
Short term borrowings	11,311	11,311	11,311	11,311	
Long term borrowings	27,337	35,247	35,247	35,247	
Cash and Equivalents	42,181	55,929	74,597	111,635	
Inventories	31,861	39,059	43,619	47,929	
Sundry Debtors	28,554	26,039	29,080	31,952	
Loans & Advances	5,599	42,021	49,742	54,664	
Other Current Assets	61,369	61,865	62,371	62,887	
Current Assets (ex cash)	127,383	168,983	184,812	197,432	
Trade payable	78,199	80,721	87,239	95,857	
Other Current Liab	32,707	61,983	61,029	66,350	
Total Current Liab	110,906	142,704	148,268	162,208	
Net Curr Assets-ex cash	16,477	26,279	36,544	35,224	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	38,889	42,577	48,745	54,580	
Add: Depreciation	14,721	15,930	17,281	19,038	
Interest (Net of Tax)	1,658	1,200	1,200	1,200	
Others	(1,658)	(1,200)	(1,200)	(1,200)	
Less: Changes in WC	33,340	9,802	10,265	(1,320)	
Operating cash flow	20,270	48,705	55,761	74,939	
Less: Capex	10,701	24,500	25,000	25,000	
Free Cash Flow	9,569	24,205	30,761	49,939	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		20,270	48,705	55,761	74,939
Investing cash flow		(54,249)	(47,500)	(41,000)	(41,000)
Financing cash flow		4,673	2,543	(6,093)	(6,901)
Net cash Flow		(29,307)	3,748	8,668	27,037
Capex		(10,701)	(24,500)	(25,000)	(25,000)
Dividend paid		9,604	5,367	6,093	6,901

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROAE (%)		15.3	15.1	15.1	14.8
ROACE (%)		19.5	19.8	19.9	19.8
Debtors Days		23	21	19	19
Payable Days		97	92	86	85
Cash Conversion Cycle		(39)	(36)	(31)	(29)
Current Ratio		1.5	1.6	1.7	1.9
Gross Debt/EBITDA		0.7	0.7	0.6	0.5
Gross Debt/Equity		0.1	0.2	0.1	0.1
Adjusted Debt/Equity		0.1	0.2	0.1	0.1
Net Debt/Equity		-	-	(0.1)	(0.2)
Interest Coverage Ratio		18.3	30.3	35.3	39.6

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		1.5	1.4	1.4	1.4
Fixed Asset Turnover		4.4	4.9	5.5	6.2
Equity Turnover		1.7	1.7	1.6	1.6

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		63.1	35.9	41.1	46.0
Y-o-Y growth (%)		18.9	(43.1)	14.5	12.0
Adjusted Cash EPS (INR)		87.9	49.3	55.6	62.0
EV / Sales (x)		1.0	1.8	1.6	1.4
EV / EBITDA (x)		(0.1)	(0.1)	(0.4)	(0.7)



Additional Data

Directors Data

Deepak S. Parekh	Non-Executive Independent Directors	Nadir B Godrej	Non-Executive Independent Directors
M M Murugappan	Non-Executive Independent Directors	Narayanan Vaghul	Non-Executive Independent Directors
A S Ganguly	Non-Executive Independent Directors	R K Kulkarni	Non-Executive Independent Directors
Anupam Puri	Non-Executive Independent Directors	Arun Kanti Dasgupta	Non-Executive Independent Directors
Dr. Vishakha N. Desai	Non-Executive Independent Directors	Vikram Singh Mehta	Non-Executive Independent Directors
A K Nanda	Other Non-Executive Directors	Anand G Mahindra, Chairman and MD	Executive Directors
Bharat Doshi	Executive Directors		

Auditors - Deloitte Haskins & Sells

Holding – Top10

	Perc. Holding		Perc. Holding
Prudential mgmt & se	11.38	M & m benefit trust	8.34
Mahindra & mahindra	4.35	M&m employees welfar	4.34
Commonwealth bank of	2.98	Icici prudential lif	2.58
Blackrock	2.2	Vanguard group	1.75
Sbi funds management	1.71	Franklin templeton i	1.5

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amara Raja Batteries	BUY	None	None	Ashok Leyland	BUY	SO	H
Bajaj Auto	HOLD	SU	L	Ceat Ltd	BUY	SO	L
Eicher Motors	BUY	SO	M	Exide Industries	BUY	None	None
Hero MotoCorp	HOLD	SU	H	Mahindra & Mahindra Ltd	BUY	SO	M
Maruti Suzuki India Ltd	BUY	SO	H	Minda Corporation	BUY	SO	M
Motherson Sumi Systems	HOLD	SU	H	Suprajit Engineering	BUY	SO	H
Tata Motors Ltd	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect





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Coverage group(s) of stocks by primary analyst(s): Automobiles

Ashok Leyland, Amara Raja Batteries, Bajaj Auto, Ceat Ltd, Eicher Motors, Exide Industries, Hero MotoCorp, Minda Corporation, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Motherson Sumi Systems, Suprajit Engineering, Tata Motors Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
01-Mar-18	Ashok Leyland	Demand - Strong undercurrents; <i>Company Update</i>	142	Buy
15-Feb-18	Minda Corporation	Inline performance; <i>Result Update</i>	203	Buy
15-Feb-18	Suprajit Engineering	Strong operating show; <i>Result Update</i>	273	Buy

Distribution of Ratings / Market Cap

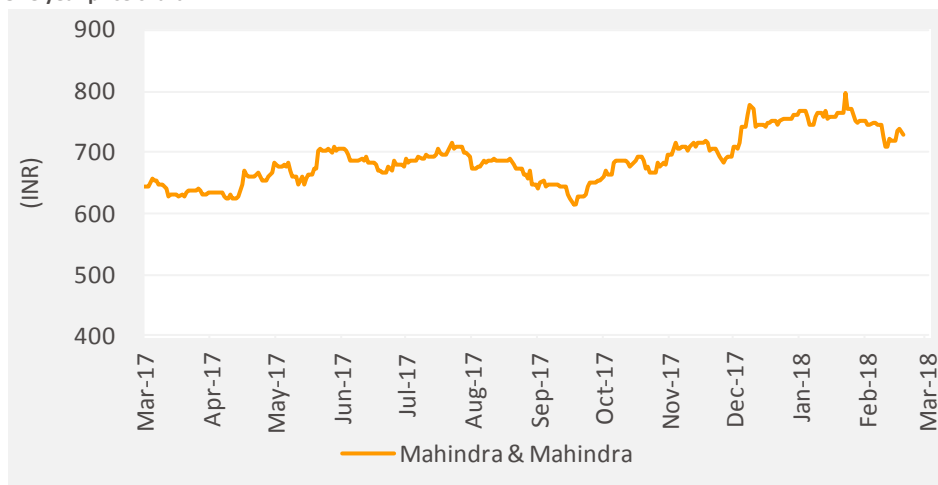
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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