



RESULT UPDATE

MAHINDRA & MAHINDRA

Strong show; sanguine outlook

India Equity Research | Automobiles



Mahindra & Mahindra's (M&M)* Q4FY18 EBITDA of ~INR20bn (up 61% YoY) beat our estimate by 6% led by gross margin beat (third consecutive quarter) and cost reduction initiatives. We maintain adequate levers exist to manage cost pressures in FY19. Uptick in economic activity and normal monsoon would drive demand across segments in FY19. Management guided for tractor industry growth of 8-10% for FY19, with an upside risk. FY19 remains a key year for utility vehicle (UV) segment with launch of MPV '321', SUV 'S201' and premium SUV 'Y400' (based on G4 Rexton) along with roll out of petrol engine variants. Truck business (MTB) was EBITD positive in Q4FY18 and management expects MTB to see EBITD breakeven in FY19. We remain confident of potential re-rating of the stock as key concerns get addressed in FY19 ([refer note: Has its time finally come?](#)) Maintain 'BUY' with revised SoTP-based TP of INR1,037

Q4FY18: Extends robust performance

Revenue of INR132bn, up 24% YoY, was ~3% below estimate. However, gross margin surprised positively at 33.8% (our estimate 33.3%) as commodity cost pressures were offset by price hikes and cost reduction initiatives. Operating leverage and favourable product mix also aided margins (auto margin at 10.7%, up 350bps YoY, and tractor margin at 19.5%, up 220bps YoY). FY18 saw commodity cost pressure of ~300bps. FY19 can witness similar cost pressures (if commodity prices remain stable) which management believes can be passed on.

Demand outlook strong; capex guidance increased

Rural demand is likely to remain strong due to normal monsoon and government's thrust on infrastructure. This is a positive for tractors, pick-ups, *Bolero* and *Scorpio*. Management expects double digit growth in PVs with higher growth in UVs. Its rolling three years capex + investment guidance has been raised from INR120bn to INR150bn.

Outlook and valuations: On firm footing; maintain 'BUY'

We estimate core EPS CAGR of 23% over FY18-20, led by strong UVs (operating leverage). We maintain 'BUY/SO' with SoTP-based TP of INR1,037 (14x FY20E core EPS, INR115 cash per share, INR309 for listed subsidiaries). At CMP, the stock trades at FY20E PER of 12.8x (ex. subsidiaries).

Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY17	FY18E	FY19E
Net revenues	131,888	106,121	24.3	114,912	14.8	418,954	475,774	546,974
EBITDA	19,950	12,368	61.3	16,923	17.9	56,556	70,434	83,083
Adjusted Profit	11,070	7,800	41.9	9,197	20.4	37,429	43,202	52,474
Adjusted Diluted EPS	18.6	13.1	41.9	14.8	25.9	63.1	36.3	44.1
Diluted P/E (x)						13.3	23.1	19.0
EV/EBITDA (x)						8.7	13.9	11.8
ROAE (%)						15.3	15.2	16.0

EDELWEISS 4D RATINGS

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

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

CMP	: INR 870
Target Price	: INR 1037
52-week range (INR)	: 888 / 612
Share in issue (mn)	: 1,243.2
M cap (INR bn/USD mn)	: 1,082 / 15,625
Avg. Daily Vol.BSE/NSE('000)	: 2,611.4

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	20.5	20.5	25.2
MF's, FI's & BK's	19.5	19.2	20.0
FII's	31.9	31.7	34.0
Others	28.2	28.6	20.7
* Promoters pledged shares (% of share in issue)	:		2.8

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	0.9	(0.6)	(4.5)
3 months	19.5	1.3	(1.1)
12 months	28.0	10.7	2.9

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Q4FY18 analyst meet: Key highlights

Automotive segment:

- UVs:
 - In FY18, M&M launched refreshed *Scorpio* with higher power and improved NVH levels.
 - Rural penetration improved to 43% with 14% YoY growth for FY18
 - *Roxor* launch in US:
 - Company has signed up 300 dealers
 - First year production sold out, 6,000 units per shift capacity currently, 7,000 plus orders already in hand
 - It is an all-terrain vehicle derived from *Thar* platform catering to power sport segment and off-roading, has a rugged steel chassis frame with a steel body.
 - M&M has invested only in the plant
 - 50% localisation levels currently and remaining parts are imported from India
 - Major market share is with Polaris and John Deere.
 - three new launches planned for FY19 – *S201*, *U321* and *Y400* (based on *G4 Rexton*)
 - *G4 Rexton* has waiting period of six months in Korea.
 - New *XUV500* launched – Getting 125 bookings per day
 - Technology focus on products continues – Euro 6, safety assisted driving, infotainment, connected car, etc
- LCV
 - Recently launched *Supro* heavy duty product. Company has seen volumes double.
 - *Supro* rigid suspension launched recently and is getting good response
 - SCV market share at 47%
 - In Q4FY18, 80% of total customer conversions for SCV were under pickup guarantee scheme – buyback value guarantee after four years (INR400K), free maintenance for two years
- HCV
 - Growth driven by infrastructure push, overloading ban, etc.
 - M&M is ready with new Intermediate commercial vehicle (ICV) launches. Working on modular platform and will transition the CV portfolio to modular platform
- Exports: Declined in FY18 due to adverse business environment in Sri Lanka, Nepal (44% drop in volumes). 13% YoY growth in Africa. However, revival seen in Q4FY18, and expect growth in FY19
- EVs: New electric 3W with Li-ion battery to be launched in FY19
- Auto segment profitability: For FY18, auto segment EBITDA margin ex. Mahindra Trucks and Buses (MTB) was 14.8% (13.7% including MTB). MTB broke even in Q4FY18 with margin of ~0.5%. With volumes and launch of ICVs, M&M hopes to further improve margins.
- FY19 outlook: Three important launches to drive growth in market share. LCV should maintain market share. Trucks market share should increase.

- Construction equipment and truck businesses expected to turn EBITDA positive in FY19
- Powerol is currently a INR14bn revenue business
- Lessons for *S201* and *U321* launches from *KUV*, *Xylo*
 - *KUV100* should have been positioned as a true SUV and not compared with the hatchbacks.
 - *S201* will be launched in the compact crossover segment and not compete with hatchbacks.
 - *Xylo* was positioned well and did good volumes but company carried it for too long. *U321* cannot be compared to *Xylo* and is positioned differently.
 - Management understands that product positioning is extremely critical for its success
- What worked for *Bolero*
 - Went through several transitions – launched in 2000
 - When launched it was the only reasonably good product that could be used in rural. Volumes fell when *Scorpio* was launched.
 - *Bolero* was re-launched as an entry level SUV in 2005.
 - Launched *Bolero Power plus* – which offered better performance at lower price.
 - Turning point was moving to Di engines which was well proven in rural areas.
 - Styling clicked in rural areas – reliability, styling and resale price make it a good proposition
- Ssangyong – performance this year and outlook
 - New product launched last year - *G4 Rexton* and *Rexton Sport* have done well in Korea. Products also launched outside Korea
 - Concerns: Overall decline in key export markets, growth in Russia has not come back. Western Europe has been weak because of diesel vehicles concern, some other markets – Iran has also not grown.
 - Domestic market share maintained but industry itself is not growing
 - Company hopes to see improving demand for *Rexton Sport*.
 - New launch (C300), which is replacement for an existing product, will happen in a year. *Tivoli* doing reasonably good.
 - Comfortable volume level for Ssangong (to achieve breakeven) is 150k vehicles. Was achieved in FY17 which led to profits at PBT level
- Consistent fall in market share
 - Competition has increased, also function of new launches
 - M&M has maintained market share in traditionally defined SUVs.
- Alliance with Ford
 - Industry dynamics changing rapidly necessitating lot of capex, so companies look at alliances
 - Can take different forms – loose alliance, JV, M&A
 - Nine specific areas where working with Ford. Definitive agreements will be signed in the next 2-3 months



- Impact of BSVI on diesel prices and demand
 - Objective is that by 2020 should have good presence across both petrol and diesel options. Engine capacity is fungible for diesel and petrol. Can go to almost 100% petrol engine production or other way around as per demand
 - Having said that, demand in UV segment is still at 85% diesel. 15% coming from newly defined SUVs – compact crossover.

Farm Equipment segment

- Domestic tractor industry:
 - Industry CAGR of 10% over FY03-FY18
 - In Q4FY18, industry grew 44% YoY and 22% in FY18
 - M&M market share: FY18 42.9% after bringing down dealer stocks by five days
- Product performance
 - Jivo – FY18 volumes at 6,156 units – Gained 4.9% share in 20-30hp
 - Launched Novo in 65-75hp. Small market right now but useful for emerging applications
 - Flagship product launched in US with car like features- keyless, infotainment
 - Launched 60 HP Swaraj products in March'18 which are now ramping up.
- Farm machinery grew to revenues of INR2.8bn in FY18
- Focus areas for domestic business
 - Leverage product/technology – reliable and high performance products, company has invested in past 4-5 years
 - Solution selling – market will evolve for solutions and focus will be on entire mechanization solutions. M&M is preparing channel and sales teams for the same. Company has moved to selling farm machinery products through Mahindra and Swaraj channels
 - Build farm machinery/implements business: Small business but can see big upside. Working on product development here.
 - Establish Gromax (Trackstar brand): Price warrior brand and does not use Mahindra name. Will help leverage lower end of market
- Global business
 - Mahindra USA grew 11% YoY in FY18
 - Three key centres of technology established – Harvester centre in Finland, products catering to rice value chain being developed from Japan and centre for developing agricultural implements from Turkey
 - Erkunt Tractors – give strong foothold to M&M in Turkey
- Technology:
 - Multiple initiatives around Farming 3.0 – Intelligent tractor, precision agri practices,
- Financial objectives
 - Maximise RoCE
 - Internal program called 'Kuber Returns' to maximise margins – looking at reducing costs

- Improved financial performance of global subsidiaries
- Industry outlook
 - 8-10% industry growth – favourable monsoon forecast currently. Expect Q1FY19 growth to be higher than annual guidance
- M&M is well set for domestic tractors industry growth. Should look for better than industry growth. Farm machinery has high potential.
- Exports: Turnaround in exports seen in April and May'18 and expects it to continue

Commodity costs and sustainability of margins

- Auto: Aggressive process to reduce costs. New project 'Horizon500' aims to reduce costs by 500bps over next 3 years
- Tractor: Usually the first to take price increase and balance it against cost reduction activities.
- FY18, price hikes was 100bps lower than commodity cost increase yet margins went up by 290bps.

FY19 industry outlook

- Overall industry growth should be similar to FY18. No headwinds as such for FY19
- PVs: Should see double digit growth, UVS should grow at ~15%,
- CVs: Should grow ~10-12% YoY, higher for light vehicles and ~10% for heavy vehicles.
- Electric vehicles should see rise in volumes
- Tractors: 8-10% growth overall, 1QFY19 should be more than 8-10%.

Chart 1: Auto and tractor volume trend

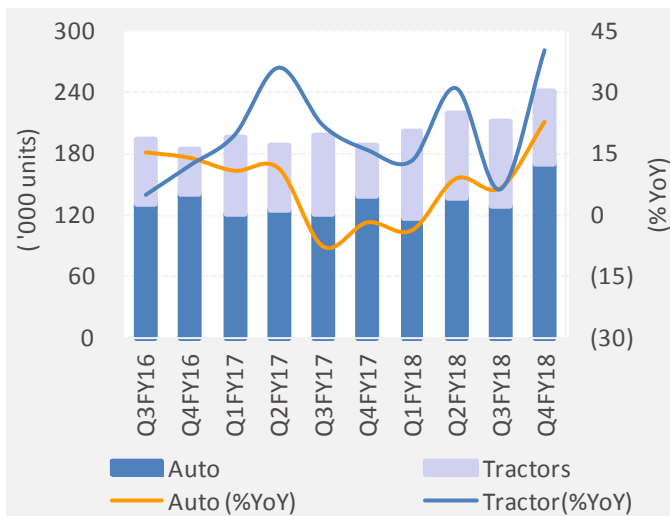
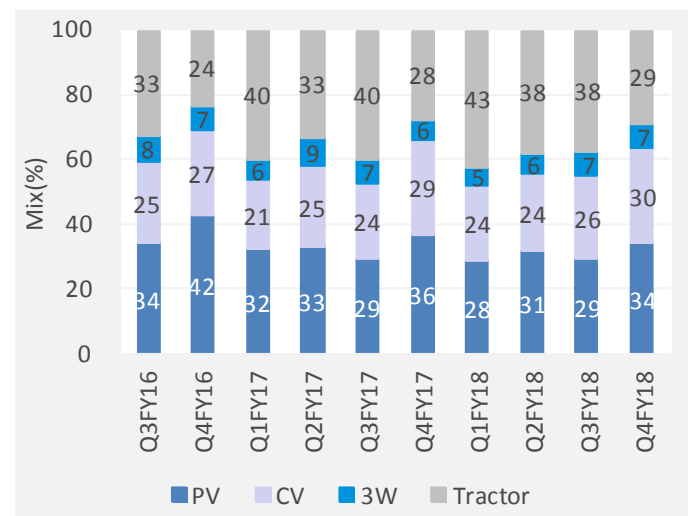


Chart 2: Domestic volume mix trend



Source: Company, Edelweiss research



Automobiles

Chart 3: Average realisation trend

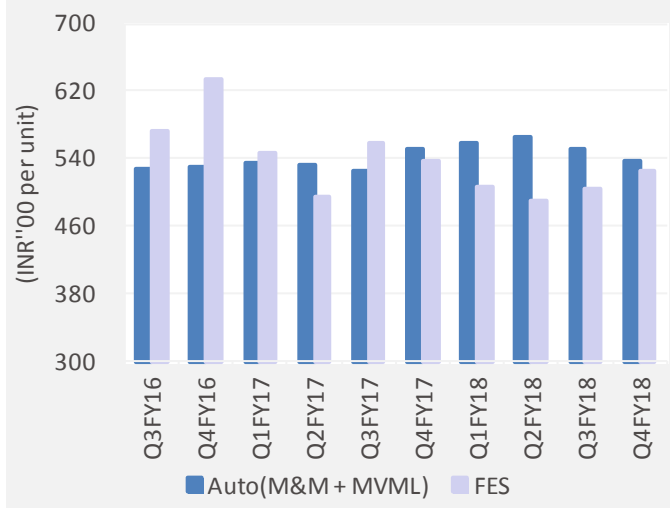
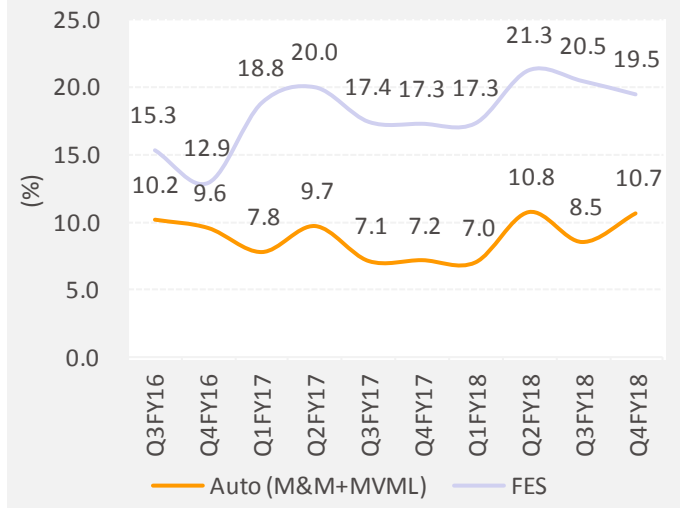


Chart 4: Price hikes helped offset input cost pressure



Source: Company, Edelweiss research

Table 1: Valuation snapshot

	M&M holding # of shares	Basis of valuation	Value/Mcap (INR mn)	M&M holding (%)	CMP (INR)	Value/share on CMP (INR)
Investment in listed companies						
Tech Mahindra	256,248,704	CMP	173,737	26.7	678	154
MMFSL	316,207,660	CMP	149,566	51.2	473	133
Mahindra Lifespace Develo	26,439,850	CMP	14,013	51.1	530	12
Mahindra Holidays and Res	89,890,615	CMP	30,832	67.5	343	27
Mahindra CIE*	65,271,407	CMP	15,665	17.3	240	14
CIE Automotive Spain#	9,590,706	CMP	24,399	7.3	2,544	22
Swaraj Engines	4,039,206	CMP	7,860	33.2	1,946	7
Mahindra Logistic	41,812,157	CMP	24,293	58.8	581	22
Ssangyong	99,964,502	3x CY19 EV-EBITDA	33,264	73.2		22
Sub-total						412
Investments valued at 25% discount						309
Core EPS (FY20E)						44
P/E						14.0
Core business						614
Cash per share						115
Target price (INR)						1,037

Source: Edelweiss research

Table 2: Key assumptions

Sales volume	FY17	FY18E	FY19E	FY20E
Sales volume	769,619	851,673	956,374	1,064,701
% YoY	11.2	10.7	12.3	11.3
PVs	236,204	234,640	274,271	328,902
% YoY	4.6	(0.7)	16.9	19.9
CVs	180,876	216,798	242,814	263,654
% YoY	7.7	19.9	12.0	8.6
3 Wheeler	52,306	54,625	56,264	57,952
% YoY	(4.9)	4.4	3.0	3.0
Tractors	248,409	301,934	332,127	358,698
% YoY	26.9	21.5	10.0	8.0
Exports	51,824	43,676	50,898	55,496
% YoY	9.1	(15.7)	16.5	9.0

Source: Company, Edelweiss research



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Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	131,888	106,121	24.3	114,912	14.8	475,774	546,974	631,709
Raw material costs	87,247	72,629	20.1	76,065	14.7	316,280	367,871	428,724
Staff costs	7,882	6,755	16.7	8,063	(2.2)	31,773	36,692	41,466
Other expenses	16,808	14,370	17.0	13,861	21.3	57,286	59,328	63,186
Total expenditure	111,938	93,754	19.4	97,989	14.2	405,339	463,891	533,376
EBITDA	19,950	12,368	61.3	16,923	17.9	70,434	83,083	98,333
Depreciation	4,390	3,782	16.1	4,052	8.3	16,254	18,070	20,604
EBIT	15,560	8,586	81.2	12,870	20.9	54,181	65,013	77,729
Interest	499	673	(25.9)	435	14.8	1,882	1,764	1,764
Other income	1,659	2,940	(43.6)	1,011	64.1	9,517	11,714	12,853
Profit before tax	16,720	10,853	54.1	13,447	24.3	66,152	74,963	88,818
Provision for taxes	5,650	3,052	85.1	4,250	32.9	19,920	22,489	26,645
Add: Exceptional items	479	937	(48.9)	3,858	(87.6)	4,336	-	-
Reported net profit	11,549	8,737	32.2	13,054	(11.5)	46,232	52,474	62,173
Adjusted Profit	11,070	7,800	41.9	9,197	20.4	43,202	52,474	62,173
Diluted shares (mn)	594	594		621		1,190	1,190	1,190
Adjusted Diluted EPS	18.6	13.1	41.9	14.8	25.9	36.3	44.1	52.2
Diluted P/E (x)	-	-		-		24.0	19.7	16.7
EV/EBITDA (x)	-	-		-		14.4	11.9	9.5
ROAE (%)	-	-		-		15.2	16.0	16.5
Raw material	66.2	68.4		66.2		66.5	67.3	67.9
Employee cost	6.0	6.4		7.0		6.7	6.7	6.6
Other expenses	12.7	13.5		12.1		12.0	10.8	10.0
EBITDA	15.1	11.7		14.7		14.8	15.2	15.6
Adjusted net profit	8.4	7.4		8.0		9.1	9.6	9.8
Tax rate	33.8	28.1		31.6		30.1	30.0	30.0

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				
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				
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				
Tax rate (%)	27.4	32.0	32.0	32.0
Debtor days	23	21	19	19
Inventory days	36	35	36	37
Payable days	97	92	86	85
Cash conversion cycle	(39)	(36)	(31)	(29)
Capex (INR mn)	10,701	24,500	25,000	25,000

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Total volume (nos)	769,619	851,673	956,374	1,064,701
% Growth in volume	11.2	10.7	12.3	11.3
Income from operations	418,954	475,774	546,974	631,709
Materials costs	285,265	316,280	367,871	428,724
Manufacturing expenses	48,404	57,286	59,328	63,186
Employee costs	28,729	31,773	36,692	41,466
Total operating expenses	362,398	405,339	463,891	533,376
EBITDA	56,556	70,434	83,083	98,333
Depreciation	14,721	16,254	18,070	20,604
EBIT	41,836	54,181	65,013	77,729
Less: Interest Expense	2,285	1,882	1,764	1,764
Add: Other income	12,034.6	9,517.1	11,714.4	12,852.92
Profit Before Tax	53,597	66,152	74,963	88,818
Less: Provision for Tax	14,708	19,920	22,489	26,645
Add: Exceptional items	2,012	4,336	-	-
Reported Profit	38,889	46,232	52,474	62,173
Exceptional Items	1,460	3,030	-	-
Adjusted Profit	37,429	43,202	52,474	62,173
Shares o /s (mn)	594	1,190	1,190	1,190
Adjusted Basic EPS	63.1	36.3	44.1	52.2
Diluted shares o/s (mn)	594	1,190	1,190	1,190
Adjusted Diluted EPS	63.1	36.3	44.1	52.2
Adjusted Cash EPS	87.9	50.0	59.3	69.6
Dividend per share (DPS)	13.6	7.5	9.5	11.4
Dividend Payout Ratio(%)	23.9	22.2	24.7	25.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	68.1	66.5	67.3	67.9
Staff costs	6.9	6.7	6.7	6.6
S G & A expenses	11.6	12.0	10.8	10.0
Operating expenses	86.5	85.2	84.8	84.4
Depreciation	3.5	3.4	3.3	3.3
EBITDA margins	13.5	14.8	15.2	15.6
Interest Expense	0.5	0.4	0.3	0.3
Net Profit margins	8.9	9.1	9.6	9.8

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	7.8	13.6	15.0	15.5
EBITDA	8.8	24.5	18.0	18.4
PBT	18.7	23.4	13.3	18.5
Adjusted Profit	13.6	15.4	21.5	18.5
EPS	18.9	(42.4)	21.5	18.5

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	2,968	5,950	5,950	5,950	
Reserves & Surplus	261,132	298,924	344,705	398,857	
Shareholders' funds	264,101	304,874	350,655	404,806	
Long term borrowings	27,337	25,457	32,098	32,098	
Short term borrowings	11,311	6,685	6,685	6,685	
Total Borrowings	38,648	32,142	38,783	38,783	
Def. Tax Liability (net)	8,581	4,557	4,557	4,557	
Sources of funds	311,329	341,573	393,995	448,146	
Gross Block	173,364	192,906	196,418	226,418	
Net Block	92,586	96,141	90,524	99,920	
Capital work in progress	20,864	33,928	51,476	51,476	
Total Fixed Assets	113,449	130,070	141,999	151,395	
Non current investments	139,222	154,624	160,624	161,624	
Cash and Equivalents	42,181	53,609	83,163	136,354	
Inventories	31,861	33,271	44,957	51,921	
Sundry Debtors	28,554	30,984	29,971	34,614	
Loans & Advances	5,599	10,182	21,812	24,202	
Other Current Assets	61,369	80,553	57,692	55,406	
Current Assets (ex cash)	127,383	154,991	154,432	166,143	
Trade payable	78,199	93,737	94,409	109,035	
Other Current Liab	32,707	57,984	51,814	58,336	
Total Current Liab	110,906	151,720	146,224	167,371	
Net Curr Assets-ex cash	16,477	3,270	8,208	(1,227)	
Uses of funds	311,329	341,573	393,995	448,146	
BVPS (INR)	444.9	256.2	294.7	340.2	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	38,889	46,232	52,474	62,173	
Add: Depreciation	14,721	16,254	18,070	20,604	
Interest (Net of Tax)	1,658	1,315	1,235	1,235	
Others	(1,658)	(1,315)	(1,235)	(1,235)	
Less: Changes in WC	33,340	(13,207)	4,938	(9,436)	
Operating cash flow	20,270	75,693	65,607	92,212	
Less: Capex	10,701	26,245	30,000	30,000	
Free Cash Flow	9,569	49,448	35,607	62,212	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		20,270	75,693	65,607	92,212
Financing cash flow		4,673	(8,213)	(6,159)	(8,021)
Investing cash flow		(54,249)	(53,053)	(46,000)	(41,000)
Net cash Flow		(29,307)	14,427	13,448	43,191
Capex		(10,701)	(26,245)	(30,000)	(30,000)
Dividend paid		9,604	5,299	6,693	8,021

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROACE (%)		19.5	19.9	21.1	21.7
ROAE (%)		15.3	15.2	16.0	16.5
Inventory Days		36	32	33	36
Debtors Days		23	23	20	19
Payable Days		97	99	93	87
Cash Conversion Cycle		(39)	(45)	(40)	(32)
Current Ratio		1.5	1.4	1.6	1.8
Gross Debt/EBITDA		0.7	0.5	0.5	0.4
Gross Debt/Equity		0.1	0.1	0.1	0.1
Adjusted Debt/Equity		0.1	0.1	0.1	0.1
Net Debt/Equity		-	(0.1)	(0.1)	(0.2)
Interest Coverage Ratio		18.3	28.8	36.9	44.1

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		1.5	1.5	1.5	1.5
Fixed Asset Turnover		4.4	5.0	5.9	6.6
Equity Turnover		1.7	1.7	1.7	1.7

Du pont analysis		FY17	FY18	FY19E	FY20E
Year to March					
Net Profit Margin		8.9	9.1	9.6	9.8
Total Asset Turnover		1.5	1.5	1.5	1.5
Leverage Multiplier		1.2	1.1	1.1	1.1
ROAE (%)		15.3	15.2	16.0	16.5

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		63.1	36.3	44.1	52.2
Y-o-Y growth (%)		18.9	(42.4)	21.5	18.5
Adjusted Cash EPS (INR)		87.9	50.0	59.3	69.6
Diluted P/E (x)		13.8	24.0	19.7	16.7
P/B (x)		2.0	3.4	3.0	2.6
EV / Sales (x)		1.2	2.1	1.8	1.5
EV / EBITDA (x)		9.1	14.4	11.9	9.5
Dividend Yield (%)		1.6	0.9	1.1	1.3



Automobiles

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		P/B (X)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Mahindra & Mahindra Ltd	15,625	19.7	16.7	12.2	9.8	3.0	2.6
Ashok Leyland	6,363	23.4	18.4	12.5	9.8	5.3	4.6
Maruti Suzuki India Ltd	38,903	25.7	22.2	15.1	12.7	5.4	4.6
Tata Motors Ltd	13,952	10.6	7.6	3.1	2.7	1.0	0.9
Median	-	21.6	17.5	12.4	9.8	4.1	3.6
AVERAGE	-	19.9	16.2	10.7	8.7	3.7	3.2

Source: Edelweiss research

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
M&m employees welfar	4.34	Mahindra & mahindra	4.28
Commonwealth bank of	3.21	Icici prudential lif	2.53
Blackrock	2.17	Sbi funds management	1.95
Vanguard group	1.74	Franklin templeton i	1.31

**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
09 Jan 2018	Mrs. Yuthica Keshub Mahindra jointly with Sudha K. Mahindra	Sell	36000.00
08 Jan 2018	Vivek Nayer	Buy	21188.00
08 Jan 2018	Vivek Nayer	Sell	21188.00
05 Jan 2018	Mrs. Yuthica Keshub Mahindra jointly with Sudha K. Mahindra	Sell	31000.00
05 Jan 2018	Mrs. Uma R. Malhotra jointly with Sudha K. Mahindra	Sell	55000.00

**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	BUY	SO	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):

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
24-May-18	Tata Motors	Weak performance; JLR's capex continues to inch up; <i>Result Update</i>	309	Hold
23-May-18	Motherson Sumi Systems	Tepid show; strong order book imparts visibility; <i>Result Update</i>	319	Buy
22-May-18	Ashok Leyland	Marginal miss; story remains intact; <i>Result Update</i>	148	Buy

Distribution of Ratings / Market Cap

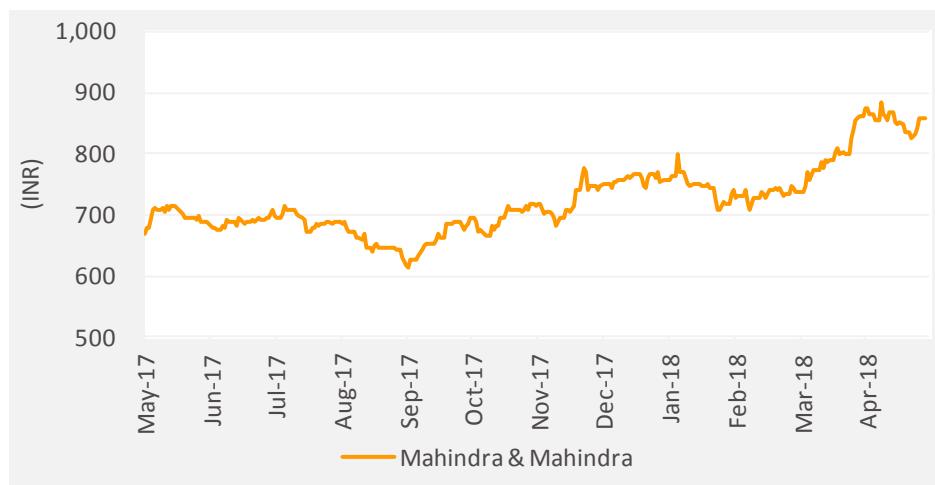
Edelweiss Research Coverage Universe

	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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