

June 27, 2018

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY18E	FY19E
Rating	BUY		BUY	
Target Price	1,041		1,041	
Sales (Rs. m)	5,83,955	6,73,529	5,83,955	6,73,529
% Chng.			-	-
EBITDA (Rs. m)	77,327	90,460	77,327	90,460
% Chng.			-	-
EPS (Rs.)	43.1	51.2	43.1	51.2
% Chng.			-	-

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	451	487	584	674
EBITDA (Rs. bn)	62	62	77	90
Margin (%)	13.6	12.8	13.2	13.4
PAT (Rs. bn)	48	39	51	61
EPS (Rs.)	80.2	33.0	43.1	51.2
Gr. (%)	9.3	(58.9)	30.6	19.0
DPS (Rs.)	15.7	7.8	20.9	21.9
Yield (%)	1.8	0.9	2.3	2.5
RoE (%)	19.8	14.0	16.3	17.8
RoCE (%)	18.0	15.4	17.9	19.6
EV/Sales (x)	1.1	2.1	1.7	1.5
EV/EBITDA (x)	8.2	16.4	13.2	11.0
PE (x)	11.1	27.1	20.7	17.4
P/BV (x)	2.1	3.5	3.3	3.0

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.934 / Rs.612
Sensex / Nifty	35,217 / 10,671
Market Cap	Rs.1,110bn/ \$ 16,186m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.4,354m

Shareholding Pattern (%)

Promoter's	26.77
Foreign	33.60
Domestic Institution	21.33
Public & Others	18.30
Promoter Pledge (Rs bn)	19.63

Stock Performance (%)

	1M	6M	12M
Absolute	4.1	19.6	30.3
Relative	3.2	15.1	14.6

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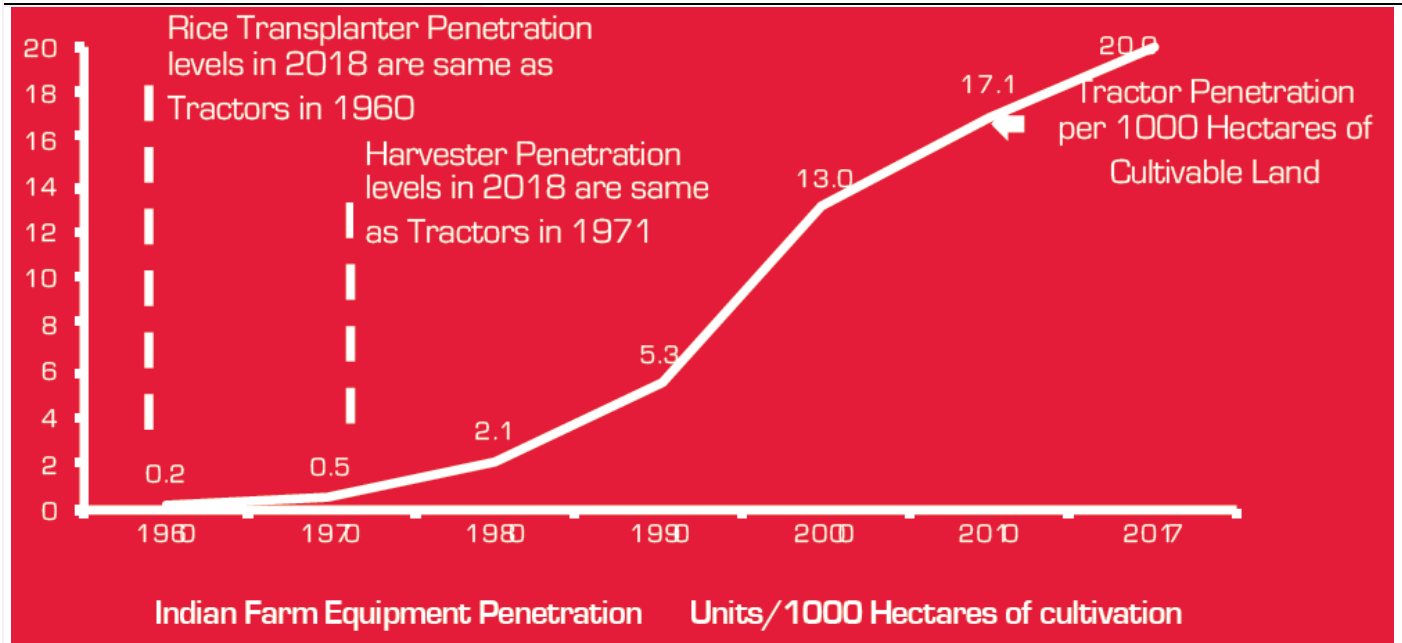
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Mechanising Indian Agriculture

Mahindra and Mahindra hosted its first ever Investor Day for the Farm Equipment Sector (FES) at its Nagpur facility, with detailed presentations from all vertical/business heads in the FES on their medium to long term strategy. The management's key focus areas/targets for the FES segment are: A) Fortifying its position in the domestic tractor industry with 50% market share B) Global business to contribute 50% of overall consolidated FES revenues C) Developing specific implements for the domestic market.

- Capturing half the domestic tractor market:** M&M is targeting a market share of 50% (currently 43%) in the domestic tractor market. M&M's share in a few states is currently below their average market share and the management expect to bridge this gap with new product launches. Further, with the launch of the 'Trackstar' brand (10-15% cheaper), M&M will capture the lower end of the market which is currently non-existent. As per the management, the domestic tractor industry, currently at ~700,00 units per annum, is only at ~40% of its full potential, thus, implying an industry CAGR of 8-10% over the next 8-10 years.
- Global business to contribute 50% of revenues:** The management is targeting for the overall contribution of its global business to rise from ~37% currently to 50% over the next few years, with higher focus on the <120HP tractors (small & medium farmers) which are very similar to the current domestic portfolio. M&M's global business' FY18 EBIT margins are -1.5%, which the company aims to increase to ~5% over the medium term. With this margin improvement, the company is expected to attain an overall RoCE of ~50%.
- Implements business to open up a new revenue stream:** The global farm machinery industry is currently at USD100bn, where the global tractor industry stands at USD60bn. On the other hand, the Indian farm machinery industry is at ~Rs70bn while the domestic tractor industry size is ~Rs390bn. Given the scarcity of skilled labour, the domestic farm machinery industry is expected to grow significantly over the coming years where M&M will be able to leverage on its acquisitions (namely, *Hisarlar*, *Sampo Rosenlew* and *Mitsubishi Agri machinery*) and provide products specifically developed for the domestic market.
- Valuation & view:** We remain confident of M&M's domestic tractor business. The company's strategy for its global business ramp up further boosts our confidence as the company is focusing on products & segments which are similar to its domestic tractor portfolio. However, we continue to have concerns over M&M's domestic UV business, although the 3 upcoming launches in this space can boost volumes ahead. We maintain 'BUY' with a price target of Rs1,041, based on a core PE of 17x Mar'20E and value of subsidiaries at Rs281.

Exhibit 1: Huge headroom for implements business in India



Source: Company, PL

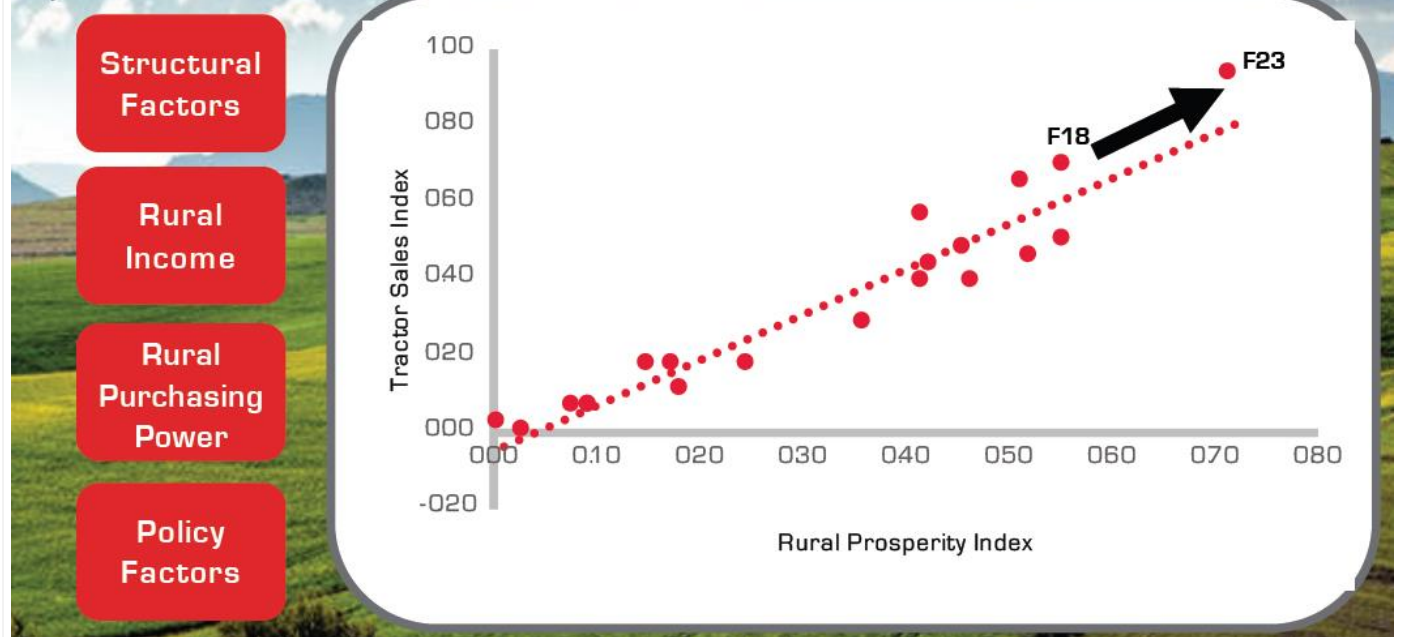
Exhibit 2: Serving Small/Medium Farmers Globally

Rice Value Chain	Harvesters		Farm Implements
			
Transplanters	Grains	Potato	Tillage
			
Rice Harvesters	Sugarcane		Sowing/Planting
			
			Crop Care

Source: Company, PL

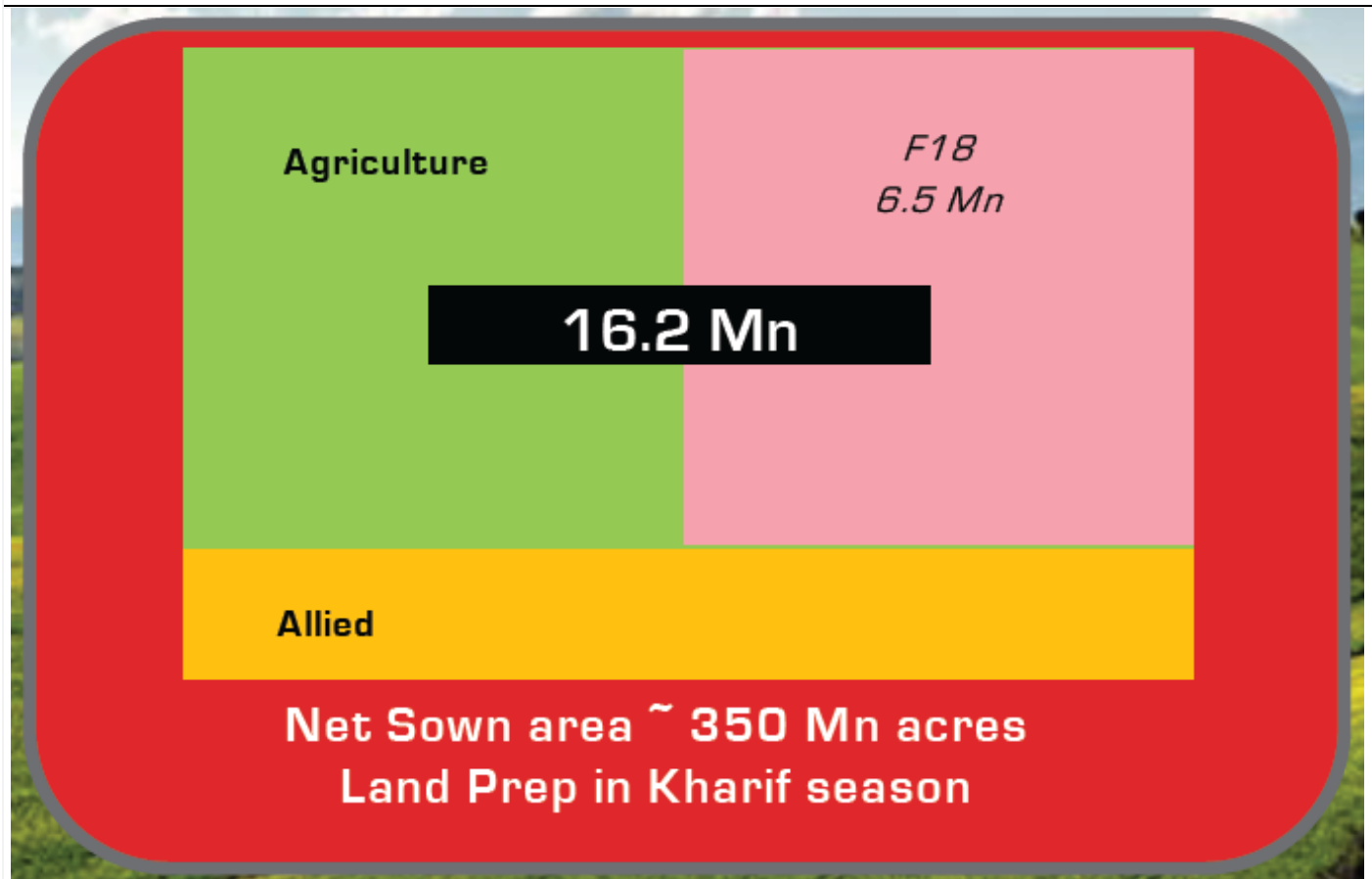
Exhibit 3: No. of drivers for rural growth

Key driver of Tractor Sales



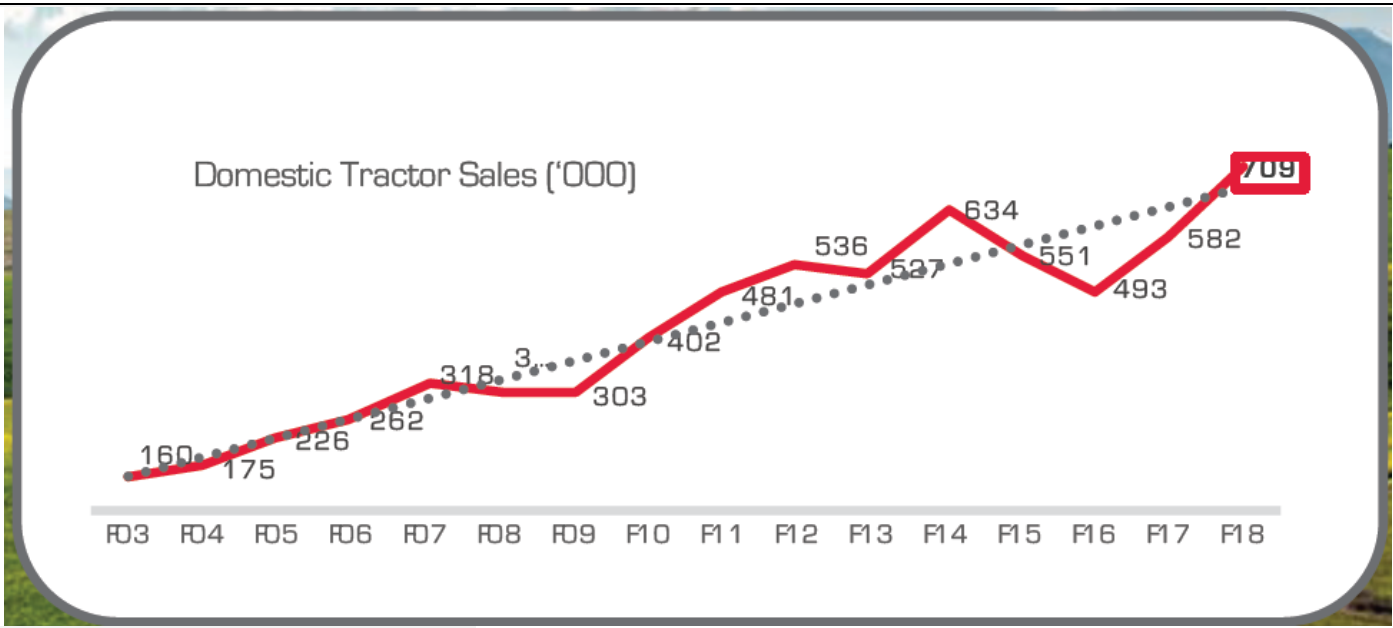
Source: Company, PL

Exhibit 4: Current tractor population is only 40 % of peak requirement



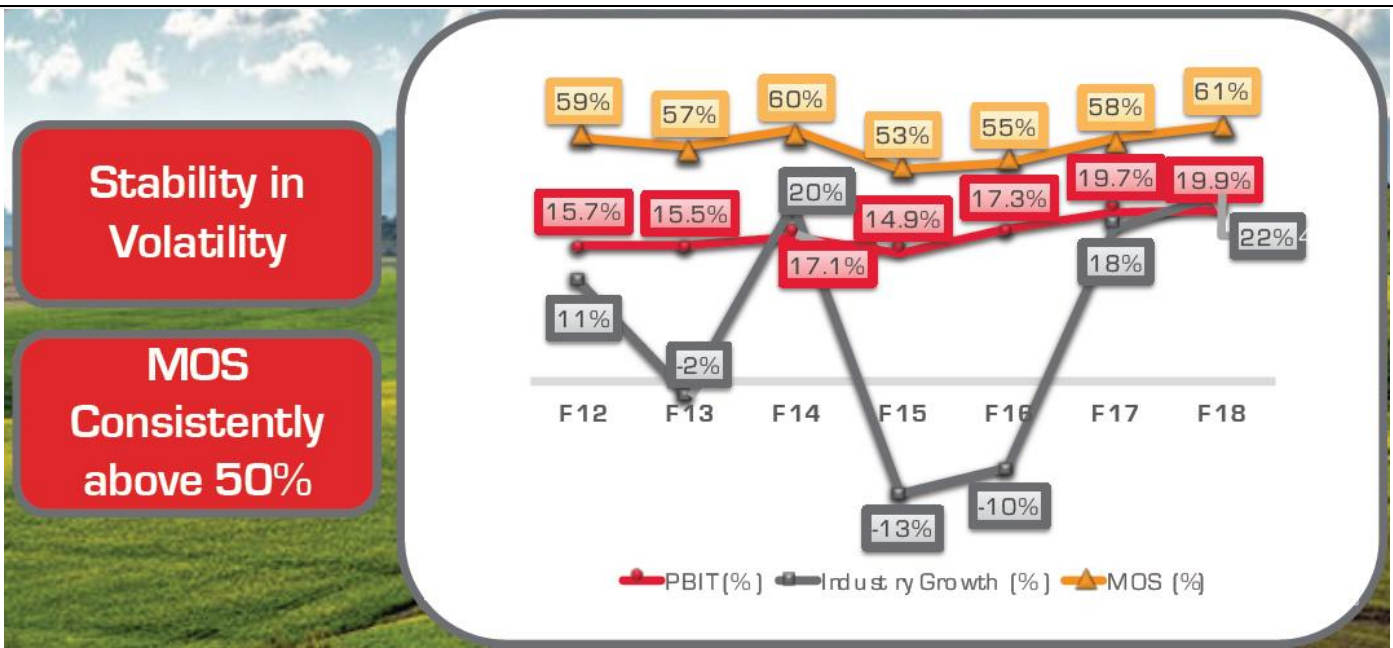
Source: Company, PL

Exhibit 5: Growth Rate ~10%



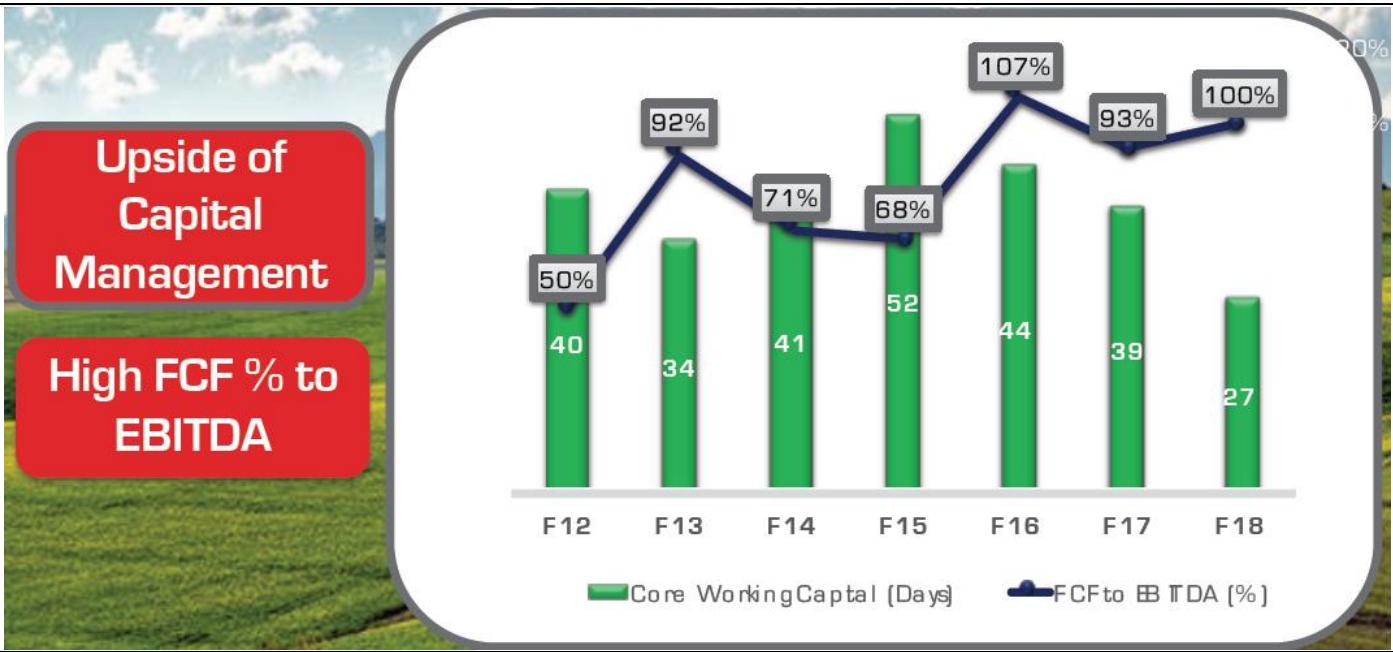
Source: Company, PL

Exhibit 6: Maximisation; MOS consistently above 50%



Source: Company, PL

Exhibit 7: Capital management improvement furthered by GST



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	4,51,384	4,86,855	5,83,955	6,73,529
YoY gr. (%)	7.2	7.9	19.9	15.3
Cost of Goods Sold	3,17,666	3,41,347	4,11,688	4,74,165
Gross Profit	1,33,718	1,45,509	1,72,267	1,99,365
Margin (%)	29.6	29.9	29.5	29.6
Employee Cost	25,954	28,409	33,869	39,065
Other Expenses	46,180	54,860	61,070	69,840
EBITDA	61,584	62,240	77,327	90,460
YoY gr. (%)	5.6	1.1	24.2	17.0
Margin (%)	13.6	12.8	13.2	13.4
Depreciation and Amortization	13,272	14,794	15,878	17,678
EBIT	48,313	47,446	61,450	72,783
Margin (%)	10.7	9.7	10.5	10.8
Net Interest	1,456	1,122	1,177	1,177
Other Income	13,064	10,364	12,406	14,853
Profit Before Tax	65,406	61,024	72,678	86,459
Margin (%)	14.5	12.5	12.4	12.8
Total Tax	12,319	17,464	21,440	25,505
Effective tax rate (%)	18.8	28.6	29.5	29.5
Profit after tax	53,087	43,560	51,238	60,954
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	47,602	39,224	51,238	60,954
YoY gr. (%)	9.4	(17.6)	30.6	19.0
Margin (%)	10.5	8.1	8.8	9.0
Extra Ord. Income / (Exp)	5,485	4,336	-	-
Reported PAT	53,087	43,560	51,238	60,954
YoY gr. (%)	20.2	(17.9)	17.6	19.0
Margin (%)	11.8	8.9	8.8	9.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	53,087	43,560	51,238	60,954
Equity Shares O/s (m)	594	1,190	1,190	1,190
EPS (Rs)	80.2	33.0	43.1	51.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	1,49,376	1,66,418	1,86,418	2,06,418
Tangibles	1,28,443	1,44,308	1,64,308	1,84,308
Intangibles	20,933	22,110	22,110	22,110
Acc: Dep / Amortization	73,029	87,824	1,03,701	1,21,379
Tangibles	64,434	79,229	95,106	1,12,784
Intangibles	8,595	8,595	8,595	8,595
Net fixed assets	76,346	78,594	82,717	85,039
Tangibles	64,008	65,080	69,202	71,524
Intangibles	12,338	13,515	13,515	13,515
Capital Work In Progress	20,379	31,287	31,287	31,287
Goodwill	-	-	-	-
Non-Current Investments	1,45,745	1,71,772	1,83,022	1,94,272
Net Deferred tax assets	(6,949)	(2,772)	(2,772)	(2,772)
Other Non-Current Assets	26,352	27,769	28,269	28,769
Current Assets				
Investments	36,067	39,375	49,375	59,375
Inventories	27,156	27,017	37,276	43,015
Trade receivables	29,185	31,730	34,837	40,200
Cash & Bank Balance	16,870	28,937	25,347	37,549
Other Current Assets	4,522	20,618	20,618	20,618
Total Assets	4,02,473	4,87,433	5,22,730	5,70,857
Equity				
Equity Share Capital	2,968	5,950	5,950	5,950
Other Equity	2,53,728	2,96,991	3,19,981	3,51,275
Total Network	2,56,696	3,02,940	3,25,931	3,57,225
Non-Current Liabilities				
Long Term borrowings	23,122	22,741	22,741	22,741
Provisions	7,005	8,618	9,368	10,118
Other non current liabilities	1,893	902	902	902
Current Liabilities				
ST Debt / Current of LT Debt	5,034	6,685	6,685	6,685
Trade payables	71,581	86,034	96,340	1,11,174
Other current liabilities	17,210	39,731	40,981	42,231
Total Equity & Liabilities	4,02,473	4,87,433	5,22,730	5,70,857

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	65,406	61,024	72,678	86,459
Add. Depreciation	13,272	14,794	15,878	17,678
Add. Interest	1,456	1,122	1,177	1,177
Less Financial Other Income	13,064	10,364	12,406	14,853
Add. Other	(10,035)	10,296	-	-
Op. profit before WC changes	70,098	87,236	89,733	1,05,314
Net Changes-WC	8,893	8,693	(2,458)	3,230
Direct tax	(9,971)	(21,640)	(21,440)	(25,505)
Net cash from Op. activities	69,020	74,289	65,834	83,039
Capital expenditures	(61,964)	(54,758)	(40,000)	(40,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(61,964)	(54,758)	(40,000)	(40,000)
Issue of share cap. / premium	5	2,982	-	-
Debt changes	(1,013)	1,269	-	-
Dividend paid	(10,593)	(10,593)	(28,248)	(29,660)
Interest paid	(1,456)	(1,122)	(1,177)	(1,177)
Others	-	-	-	-
Net cash from Fin. activities	(13,057)	(7,464)	(29,425)	(30,837)
Net change in cash	(6,000)	12,067	(3,590)	12,201
Free Cash Flow	50,604	46,339	45,834	63,039

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
CEPS	102.5	45.4	56.4	66.1
BVPS	432.4	254.6	273.9	300.2
FCF	85.2	38.9	38.5	53.0
DPS	15.7	7.8	20.9	21.9
Return Ratio(%)				
Core RoCE	22.3	19.7	22.8	26.6
RoCE	18.0	15.4	17.9	19.6
ROIC	13.8	11.3	13.7	15.4
RoE	19.8	14.0	16.3	17.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	(12)	(20)	(15)	(15)
Valuation(x)				
PER	11.1	27.1	20.7	17.4
P/B	2.1	3.5	3.3	3.0
P/CEPS	102.5	45.4	56.4	66.1
EV/EBITDA	8.2	16.4	13.2	11.0
EV/Sales	1.1	2.1	1.7	1.5
Dividend Yield (%)	1.8	0.9	2.3	2.5

Source: Company Data, PL Research

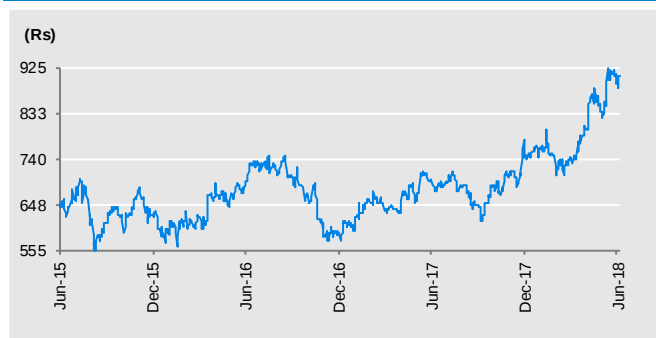
Quarterly Financials (Rs m)

Y/e Mar	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	1,16,144	1,21,821	1,15,778	1,33,079
YoY gr. (%)	5.2	15.9	5.2	19.6
Raw Material Expenses	84,555	84,087	80,306	92,364
Gross Profit	31,589	37,734	35,472	40,715
Margin (%)	27.2	31.0	30.6	30.6
EBITDA	12,464	17,293	14,953	17,542
YoY gr. (%)	32.8	38.7	(13.5)	17.3
Margin (%)	10.7	14.2	12.9	13.2
Depreciation / Depletion	3,476	3,633	3,693	3,993
EBIT	8,989	13,660	11,261	13,549
Margin (%)	7.7	11.2	9.7	10.2
Net Interest	317	229	246	330
Other Income	2,051	5,620	966	1,715
Profit before Tax	10,723	19,051	15,838	15,412
Margin (%)	9.2	15.6	13.7	11.6
Total Tax	3,228	5,736	3,678	4,821
Effective tax rate (%)	30.1	30.1	23.2	31.3
Profit after Tax	7,495	13,316	12,159	10,591
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,495	13,316	8,302	10,112
YoY gr. (%)	(13.3)	25.2	10.9	60.1
Margin (%)	6.5	10.9	7.2	7.6
Extra Ord. Income / (Exp)	-	-	3,858	479
Reported PAT	7,495	13,316	12,159	10,591
YoY gr. (%)	(21.5)	14.5	9.3	46.0
Margin (%)	6.5	10.9	10.5	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,495	13,316	12,159	10,591
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research



Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-17	Accumulate	1478	1368
2	04-Aug-17	Accumulate	1471	1418
3	09-Oct-17	Accumulate	1471	1302
4	13-Nov-17	Accumulate	1580	1393
5	04-Jan-18	BUY	895	755
6	10-Jan-18	BUY	895	761
7	12-Feb-18	BUY	890	750
8	12-Feb-18	BUY	890	750
9	15-Mar-18	BUY	890	735
10	19-Mar-18	BUY	890	742
11	13-Apr-18	BUY	886	788
12	23-May-18	BUY	890	831
13	29-May-18	BUY	1041	869
14	21-Jun-18	BUY	1041	884

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	169	141
2	Atul Auto	Accumulate	453	428
3	Bajaj Auto	Reduce	2709	2720
4	Bharat Forge	Accumulate	760	680
5	CEAT	Accumulate	1451	1348
6	Eicher Motors	Accumulate	33516	30305
7	Exide Industries	Accumulate	281	268
8	Hero Motocorp	Accumulate	3980	3662
9	Mahindra & Mahindra	BUY	1041	884
10	Maruti Suzuki	BUY	10706	8870
11	Motherson Sumi Systems	Accumulate	373	302
12	Ramkrishna Forgings	BUY	648	638
13	Tata Motors	BUY	289	378
14	TVS Motors	Accumulate	678	610
15	Wabco India	Accumulate	8086	7545

PL's Recommendation Nomenclature (Absolute Performance)

BUY	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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