

September 4, 2018

Event Update

☒ Change in Estimates | ☒ Target | ☐ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	1,156		1,075	
Sales (Rs. m)	5,94,783	6,87,907	5,92,946	6,85,623
% Chng.			0.3	0.3
EBITDA (Rs. m)	82,304	96,486	80,275	94,113
% Chng.			2.5	2.5
EPS (Rs.)	46.5	55.7	45.3	54.3
% Chng.			2.7	2.6

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	441	487	595	688
EBITDA (Rs. bn)	45	62	82	96
Margin (%)	10.2	12.8	13.8	14.0
PAT (Rs. bn)	31	39	55	66
EPS (Rs.)	52.1	33.0	46.5	55.7
Gr. (%)	(29.0)	(36.8)	41.2	19.6
DPS (Rs.)	15.7	7.8	20.9	22.0
Yield (%)	1.7	0.8	2.2	2.4
RoE (%)	12.6	13.7	17.5	19.0
RoCE (%)	10.9	15.1	19.3	21.1
EV/Sales (x)	1.2	2.2	1.8	1.5
EV/EBITDA (x)	11.7	17.2	12.9	10.7
PE (x)	17.9	28.3	20.0	16.7
P/BV (x)	2.1	3.7	3.4	3.0

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.993 / Rs.612	
Sensex / Nifty	38,158 / 11,520	
Market Cap	Rs.1,158bn/ \$ 16,202m	
Shares Outstanding	1,243m	
3M Avg. Daily Value	Rs.4185.44m	

Shareholding Pattern (%)

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

Stock Performance (%)

	1M	6M	12M
Absolute	1.2	27.2	40.3
Relative	(0.4)	13.5	16.6

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Money well spent!! Half the battle won!!

We are increasing FY19 and FY20 EPS by 2.6-2.7% and target price to Rs1156 (Rs1075 earlier) after attending the unveiling of Mahindra's shark-inspired MPV 'Marazzo' at Nasik plant yesterday. The Marazzo slots perfectly between the Maruti's Ertiga and Toyota's Innova Crysta, with the base variant M2 starting at Rs9.9L and going up to Rs13.9L for the top end M8. Marazzo is Mahindra's first globally engineered product developed between its MANA (Detroit) and MRV (Chennai) facilities and it sets new standards for refinement, ease of use, comfort and a significant improvement to the earlier launches. We factor in monthly sales at 3k units (Ertiga & Innova Crysta selling 4-6K units per month) and increase our EBITDA margins by 30bps for FY19/20. Management expects the Marazzo, S201 & Y400 (to be launched later this year) to have a combined monthly run-rate of 8-9K units (capacity of 1.5L/annum) which will provide much needed volume boost and improve profitability. Retain Buy

- Key takeaways from the launch event:** Mahindra's Marazzo has been launched with 4 variants, namely, M2, M4, M6 and M8, which are priced at Rs9.9L, Rs10.95L, Rs12.4L & Rs13.9L respectively. The Marazzo has a 'Body on frame' design with front wheel drive and East-West engine which has helped reduce the floor height. It has a 1.5L four-cylinder six-speed transmission engine which is BS VI compliant. It is targeting 85-90% of the volumes from the personal car segment and ~10% from higher/premium fleet segment. Currently available only in Diesel, the company will launch gasoline as well as automatic variants with the BS VI norm change. Annual maintenance cost for Marazzo is pegged at 90p/km and a special package is being offered to fleet operators at 32p/km, which is the lowest in the segment.
- Test drive feedback positive:** The Marazzo doesn't feel like a Mahindra product. All the earlier issues with Mahindra cars have been catered to - no roll over effect, smooth pick up, decent leg space and is truly a six seater, major improvement in interior quality, display instrument panel well laid out. All in all, it is Money well spent and shows much improved quality product.
- UV overhang addressed, outlook positive:** The lack of success of the new launches in the UV portfolio have been a constant overhang for M&M. However, with the Marazzo we feel the company has not only hit the reset button but developed a great product that offers a lot of car for the money. Recovery and up-tick in Auto margins largely depends on the success of the new model launches (Marazzo, S201, Y400) and after being impressed by the first launch out of the three, we expect other products to be on similar lines and provide much needed volume growth and operating leverage benefits. Farm segment continues to benefit from the buoyancy in rural demand as volumes for tractors and pick-ups carry on the upward trajectory. For Tractors we build in volume growth of 18% for FY18, vs the management guidance of 14%. We increase our EBITDA margins for FY19/20 by 30bps on account of increased operating leverage benefits and prudent pricing actions and maintain 'BUY' with a price target of Rs1,156, based on a core PE of 18x Mar'20E (earlier 17x) and value of subsidiaries at Rs288/share.

Exhibit 1: Mahindra Marazzo slots between Ertiga and Innova, perfectly

Specifications	Mahindra Marazzo	Maruti Suzuki Ertiga	Toyota Innova Crysta
Dimensions			
Length	4585mm	4296mm	4735mm
Width	1866mm	1695mm	1830mm
Height	1774mm	1685mm	1795mm
Wheelbase	2760mm	2740mm	2750mm
Boot space (All 3 rows up/3rd row folded/2nd & 3rd rows folded)	190/ 680/1055 litres	185/735/1800 litres	300/NA/1800 litres
Fuel tank	45 litres	45 litres	55 litres (diesel)/65 litres (petrol)
Powertrain			
Fuel	Diesel	Diesel	Diesel/Diesel
Cylinders	4	4	4
Displacement	1498cc	1248cc	2393cc/2755cc
Power	121hp	90hp	150hp/174hp
Torque	300Nm	200Nm	343/360Nm
Transmission	6-speed manual	5-speed manual	5-speed manual/6-speed auto
Fuel efficiency	17.3kpl	17.5kpl	15.10/14.29kpl
Prices			
Petrol	NA	Rs 6.34-8.85L	Rs 14.34-20.26L
Diesel	Rs 9.99-13.90L	Rs 8.78-10.69L	Rs 15.46-21.57L

Source: Company, PL

Exhibit 2: Marazzo launched with 4 variants

Mahindra Marazzo			
M2 (Rs 9.99 lakh)	M4 (Rs 10.95 lakh)	M6 (Rs 12.40 lakh)	M8 (Rs 13.90 lakh)
- Engine immobilizer 16-inch steel wheels - Fabric seat upholstery - Power windows - Central locking 12V power outlet - USB charging point for rear passenger - Digital clock - Manual HVAC control - Roof-mounted rear AC vents - Manually adjustable wing mirrors	- Full wheel caps - Shark fin antenna - Driver's seat height adjust - USB socket for front row - USB and AUX for rear passenger - Rear wiper and washer - Voice messaging system - Electrically adjustable wing mirrors	16-inch alloy wheels - Front and rear fog lamps - Projector headlamps with follow me home feature - Cornering lamps - Premium fabric upholstery - Adjustable lumbar support for front seats - Remote keyless entry - Conversation mirror - Illuminated passenger-side vanity mirror - Sunglass holder - Centre console with Tambor door 7-inch touchscreen infotainment system - Navigation - Personal reminder (anniversary, birthday etc) - Steering mounted controls for audio and other functions - Rear parking sensors - Emergency call feature	17-inch machined alloy wheels - LED daytime running lamps - Leatherette seating upholstery - Dual USB sockets for front and rear passengers - Puddle lamps - Cooled glovebox with illumination - Infotainment system with Android Auto compatibility - Cruise control - Reverse camera with display - Automatic climate control - Power folding and adjustable wing mirrors

Source: Company, PL

Marazzo front has the typical Mahindra grille and gives a commanding look.

Despite a body on frame structure does not give a boxy look, unlike earlier Mahindra Models.



Well laid out cabin/dash gives a very premium feel with an improved interior quality and layout. The large touch screen with Android auto slots in perfectly and is very responsive.



Decent leg space with good thigh support and can comfortably seat 6 adults



Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	4,40,535	4,86,856	5,94,783	6,87,907
YoY gr. (%)	4.7	10.5	22.2	15.7
Cost of Goods Sold	3,20,812	3,41,347	4,18,727	4,84,975
Gross Profit	1,19,724	1,45,509	1,76,056	2,02,933
Margin (%)	27.2	29.9	29.6	29.5
Employee Cost	27,144	28,409	32,713	37,835
Other Expenses	47,433	54,860	61,039	68,612
EBITDA	45,147	62,240	82,304	96,486
YoY gr. (%)	(22.6)	37.9	32.2	17.2
Margin (%)	10.2	12.8	13.8	14.0
Depreciation and Amortization	15,264	14,794	15,554	16,896
EBIT	29,883	47,446	66,750	79,589
Margin (%)	6.8	9.7	11.2	11.6
Net Interest	1,596	1,122	1,183	1,183
Other Income	13,455	10,364	12,436	14,924
Profit Before Tax	47,226	61,024	78,003	93,330
Margin (%)	10.7	12.5	13.1	13.6
Total Tax	10,792	17,464	22,621	27,066
Effective tax rate (%)	22.9	28.6	29.0	29.0
Profit after tax	36,434	43,560	55,382	66,264
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	30,949	39,224	55,382	66,264
YoY gr. (%)	(28.8)	26.7	41.2	19.6
Margin (%)	7.0	8.1	9.3	9.6
Extra Ord. Income / (Exp)	5,485	4,336	-	-
Reported PAT	36,434	43,560	55,382	66,264
YoY gr. (%)	(17.5)	19.6	27.1	19.6
Margin (%)	8.3	8.9	9.3	9.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,434	43,560	55,382	66,264
Equity Shares O/s (m)	594	1,190	1,190	1,190
EPS (Rs)	52.1	33.0	46.5	55.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	1,54,773	1,68,780	1,88,780	2,08,780
Tangibles	1,32,676	1,41,589	1,61,589	1,81,589
Intangibles	22,097	27,191	27,191	27,191
Acc: Dep / Amortization	77,062	90,186	1,05,740	1,22,636
Tangibles	67,308	76,509	92,063	1,08,959
Intangibles	9,754	13,677	13,677	13,677
Net fixed assets	77,710	78,594	83,040	86,144
Tangibles	65,367	65,080	69,526	72,629
Intangibles	12,343	13,515	13,515	13,515
Capital Work In Progress	20,404	31,287	31,287	31,287
Goodwill	-	-	-	-
Non-Current Investments	1,47,144	1,71,772	1,83,022	1,94,272
Net Deferred tax assets	2,548	(2,772)	(2,772)	(2,772)
Other Non-Current Assets	25,796	27,769	28,269	28,769
Current Assets				
Investments	36,067	39,375	49,375	59,375
Inventories	27,580	27,017	38,048	44,024
Trade receivables	29,388	31,730	35,559	41,143
Cash & Bank Balance	16,875	28,937	29,608	46,428
Other Current Assets	5,392	20,618	20,618	20,618
Total Assets	4,15,383	4,88,903	5,30,279	5,84,263
Equity				
Equity Share Capital	2,968	5,950	5,950	5,950
Other Equity	2,64,888	2,96,991	3,24,064	3,60,603
Total Network	2,67,856	3,02,940	3,30,013	3,66,553
Non-Current Liabilities				
Long Term borrowings	23,122	22,896	22,896	22,896
Provisions	8,245	8,618	9,368	10,118
Other non current liabilities	709	902	902	902
Current Liabilities				
ST Debt / Current of LT Debt	5,389	6,685	6,685	6,685
Trade payables	68,811	86,034	98,337	1,13,781
Other current liabilities	21,359	39,576	40,826	42,076
Total Equity & Liabilities	4,15,383	4,88,903	5,30,279	5,84,263

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	47,226	61,024	78,003	93,330
Add. Depreciation	15,264	14,794	15,554	16,896
Add. Interest	1,596	1,122	1,183	1,183
Less Financial Other Income	13,455	10,364	12,436	14,924
Add. Other	17,779	(842)	-	-
Op. profit before WC changes	81,864	76,098	94,740	1,11,409
Net Changes-WC	8,331	9,100	(1,956)	3,384
Direct tax	(17,941)	(12,143)	(22,621)	(27,066)
Net cash from Op. activities	72,254	73,055	70,163	87,727
Capital expenditures	(65,407)	(53,307)	(40,000)	(40,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(65,407)	(53,307)	(40,000)	(40,000)
Issue of share cap. / premium	5	2,982	-	-
Debt changes	(658)	1,070	-	-
Dividend paid	(10,593)	(10,616)	(28,309)	(29,724)
Interest paid	(1,596)	(1,122)	(1,183)	(1,183)
Others	-	-	-	-
Net cash from Fin. activities	(12,842)	(7,686)	(29,492)	(30,908)
Net change in cash	(5,996)	12,063	671	16,820
Free Cash Flow	50,457	46,494	50,163	67,727

Source: Company Data, PL Research

Key Financial Metrics

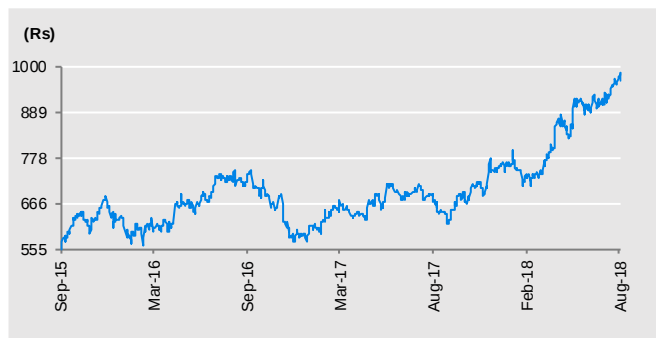
Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	52.1	33.0	46.5	55.7
CEPS	77.8	45.4	59.6	69.9
BVPS	451.2	254.6	277.3	308.0
FCF	85.0	39.1	42.2	56.9
DPS	15.7	7.8	20.9	22.0
Return Ratio(%)				
RoCE	10.9	15.1	19.3	21.1
ROIC	10.4	13.8	17.7	20.8
RoE	12.6	13.7	17.5	19.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	(10)	(20)	(15)	(15)
Valuation(x)				
PER	17.9	28.3	20.0	16.7
P/B	2.1	3.7	3.4	3.0
P/CEPS	77.8	45.4	59.6	69.9
EV/EBITDA	11.7	17.2	12.9	10.7
EV/Sales	1.2	2.2	1.8	1.5
Dividend Yield (%)	1.7	0.8	2.2	2.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	1,21,821	1,15,778	1,33,079	1,35,199
YoY gr. (%)	15.9	5.2	19.6	16.4
Raw Material Expenses	84,087	80,306	92,364	95,566
Gross Profit	37,734	35,472	40,715	39,633
Margin (%)	31.0	30.6	30.6	29.3
EBITDA	17,293	14,953	17,542	18,716
YoY gr. (%)	38.7	(13.5)	17.3	6.7
Margin (%)	14.2	12.9	13.2	13.8
Depreciation / Depletion	3,633	3,693	3,993	3,930
EBIT	13,660	11,261	13,549	14,787
Margin (%)	11.2	9.7	10.2	10.9
Net Interest	229	246	330	327
Other Income	5,620	966	1,715	2,650
Profit before Tax	19,051	15,838	15,412	17,318
Margin (%)	15.6	13.7	11.6	12.8
Total Tax	5,736	3,678	4,821	5,108
Effective tax rate (%)	30.1	23.2	31.3	29.5
Profit after Tax	13,316	12,159	10,591	12,210
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,316	8,302	10,112	12,001
YoY gr. (%)	25.2	10.9	60.1	60.1
Margin (%)	10.9	7.2	7.6	8.9
Extra Ord. Income / (Exp)	-	3,858	479	209
Reported PAT	13,316	12,159	10,591	12,210
YoY gr. (%)	14.5	9.3	46.0	62.9
Margin (%)	10.9	10.5	8.0	9.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,316	12,159	10,591	12,210
Avg. Shares O/s (m)	1,245	1,245	1,245	1,245
EPS (Rs)	10.7	6.7	8.1	9.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-17	Accumulate	1,471	1,302
2	13-Nov-17	Accumulate	1,580	1,393
3	04-Jan-18	BUY	895	755
4	10-Jan-18	BUY	895	761
5	12-Feb-18	BUY	890	750
6	12-Feb-18	BUY	890	750
7	15-Mar-18	BUY	890	735
8	19-Mar-18	BUY	890	742
9	13-Apr-18	BUY	886	788
10	23-May-18	BUY	890	831

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	111
2	Atul Auto	Accumulate	397	394
3	Bajaj Auto	Reduce	2,573	2,684
4	Bharat Forge	Accumulate	760	620
5	CEAT	Accumulate	1,451	1,324
6	Eicher Motors	Accumulate	30,296	27,439
7	Exide Industries	Accumulate	282	271
8	Hero Motocorp	Accumulate	3,824	3,110
9	Mahindra & Mahindra	BUY	1,075	927
10	Maruti Suzuki	BUY	10,705	9,396
11	Motherson Sumi Systems	Accumulate	373	293
12	Tata Motors	BUY	352	264
13	TVS Motors	Accumulate	605	549
14	Wabco India	Accumulate	7,111	6,698

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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