

Mahindra & Mahindra (M&M)

India Research

MANAGEMENT MEET NOTE

 Bloomberg: MM IN
 Reuters: MAHM.BO

BUY

We recently met the Management of M&M. Post Management meet, we retain our volume and earnings estimates for M&M. Based on its core earnings, M&M stock is currently trading at 10.9x FY20E earnings. We maintain our BUY rating on the stock with price target price of Rs 936 (PER of 14x FY20 core EPS + Rs301 Subsidiary Valuations). Following are the key take ways:

Utility Vehicle Outlook (~37% of sales): M&M has launched/showcased three new UV's in the last four months. These include Marazzo, Alturas G4 and XUV 300. The Company intends to add incremental 7-8k per month volumes from these new launches going forward. As per the management, present market size for these models is 35-40k per month and it intends to capture ~15-20% market-share of the same. Currently Marazzo's monthly volume stands at ~3.5k per month which is current production capacity of M&M. The Company is likely to augment the production capacity in line with the demand going forward. Currently waiting period for Marazzo is 6 – 8 weeks and it is being offered as a diesel version while petrol version is expected to be launched later. There are no new launches planned by the Company over the next 12 months.

Tractor Business Outlook (~33% of sales): Currently M&M has ~42% market share in the Indian tractor market which it plans to take to 50% over the next 2-3 years. This market share expansion is anticipated from entry level tractor (Trakstar – 30-50 HP category) the Company has launched recently. Though the performance of Monsoon is likely to be a major factor for the next year's Tractor growth, Management anticipates ~8% volume growth over the medium to long term. The Company believes that there is a long way to go before Indian Tractor market attaining saturation level which is somewhere near to ~12L+ per year. Current tractor production in the country stands at ~6L annually. Management does not anticipate any threats to its current market share in India despite aggressive capacity expansion plans from other tractor manufacturers.

Commercial Vehicle business outlook (~30% of sales): M&M is witnessing robust demand for its CV business segment. Currently it has ~3% market share in Indian MHCV market which it plans to increase ~7% over the next 2-3 years with launches in intermediate commercial vehicle (ICV) segment. The Company continues to see robust growth in its LCV business (Bolero Pickup). Its truck and bus business which is currently loss making is expected to turn around and make positive contribution to EBITDA in FY19.

Key Financials:

Y/E (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3,88,879	4,13,779	4,75,774	5,44,160	6,08,895
EBIDTA	52,463	54,042	70,434	81,946	91,694
EBIDTA Margin (%)	13.5	13.1	14.8	15.1	15.1
PAT	33,378	33,754	41,896	49,625	55,211
EPS (Core) (Rs)	26.1	26.7	34.1	40.7	45.3
YoY (%)	8.1	1.1	24.1	18.4	11.3
ROCE (%)	14.0%	12.5%	13.4%	14.3%	14.4%
ROE (%)	15.5%	13.4%	14.5%	15.3%	15.1%
EV/EBITDA (core)	10.7	10.6	7.8	6.7	5.7
P/E Core (x)	18.9	18.6	14.5	12.2	10.9

Source: Karvy Stock Broking

Recommendation

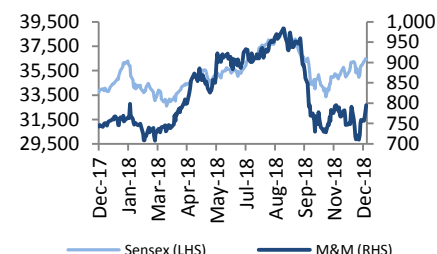
CMP:	Rs796
Target Price:	Rs936
Previous Target Price	Rs936
Upside (%)	17.6%

Stock Information

Market Cap. (Rsbn / US\$ mn)	989/14,056
52-week High/Low (Rs)	993/694
3m ADV (Rsmn / US\$ mn)	2,849/40
Beta	1.1
Sensex/ Nifty	35,807/10,780
Share outstanding (mn)	1,243

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	5.8	(9.3)	6.5	5.9
Rel. to Sensex	5.0	(8.0)	0.9	0.8

Performance


Source: Bloomberg

Analysts Contact

Mahesh Bendre
 +91 22 6176 0828
 mahesh.bendre@karvy.com

Mahindra & Mahindra (M&M)

EV Business Outlook: M&M continues to see robust traction to its EV business (especially to E-rickshaw). Response to its E – rickshaw has been highly positive wherein the Company is witnessing ~1K volumes per month. However the real growth in the EV business depends upon the charging infrastructure development in the country and cost of battery. It plans to introduce eKUV in CY19 and likely to develop its EV product portfolio gradually over the next 3-4 years.

Rs100bn Capex Plan: The Company reiterated its earlier plan of incurring cumulative capital expenditure ~Rs100bn over the next 3 years. Majority of this capex will be focused towards new product development than production capacity augmentation.

Company Structure: M&M currently has 184 subsidiaries and associate companies (Listed and Unlisted) spread across many business segments and geographies. Management believes that this structure allows M&M a 'synergy benefit' to its existing businesses supported by common resource pool and at the same time enables it to incubate new businesses for the future. There are no plans to review the current operating structure of the Company.

Retain Estimates: Post Management meet, we retain our volume and earnings estimates for M&M. We expect M&M's overall volumes, sales and PAT to grow at a CAGR of 10.7%, 13.1% and 14.8% over FY18-20E respectively.

Maintain BUY: Based on its core earnings, M&M stock is currently trading at 10.9x FY20E earnings. The stock remains one of the most inexpensive stocks amongst large cap Auto Companies in India. M&M stock price has corrected by 20% over the last 3-4 months which is in line with overall weakness in India automobile stocks. We understand there are two triggers for M&M stocks in the short term which are a) Early Monsoon forecast and b) Success of 3 new UV models recently launched by the Company. Any positive developments on these fronts is likely to re-rate the stock given the inexpensive valuations with little downside. We foresee favorable risk reward ratio for the investors. We maintain our BUY rating on the stock with price target price of Rs 936 (PER of 14x FY20 core EPS + Rs301 Subsidiary Valuations).

Mahindra & Mahindra (M&M)
Exhibit 1: Monthly Volume Trends

Segments	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
UV	14,958	14,514	22,235	20,977	24,593	20,371	19,295	16,408	17,879	17892	19885	22279	15049
Cars + Vans	1072	1029	1451	1412	1962	1556	1420	1729	1902	1,866	1526	1787	1139
PV	16,030	15,543	23,686	22,389	26,555	21,927	20,715	18,137	19,781	19,758	21,411	24,066	16,188
CV	15554	17542	21002	20946	25496	18963	18748	19229	19284	20326	22917	24353	19673
3W	4455	3894	4744	5138	6602	4327	4355	4323	5540	5289	6940	6931	5703
Total Domestic	36,039	36,979	49,432	48,473	58,653	45,217	43,818	41,689	44,605	45,373	51,268	55,350	41,564
Total Exports	2531	2221	2616	2654	3424	2880	3031	3466	2594	2951	3754	3066	3537
Total Sales (Domestic + Export)	38,570	39,200	52,048	51,127	62,077	48,097	46,849	45,155	47,199	48,324	55,022	58,416	45,101

Tractors	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Domestic	21046	16671	20647	19280	26958	25208	24710	39277	21574	16375	35953	46312	25159
Exports	1708	1617	1228	1203	1319	943	1039	1252	1105	1410	1628	1064	790
Total	22,754	18,288	21,875	20,483	28,277	26,151	25,749	40,529	22,679	17,785	37,581	47,376	25,949

Utility Vehicles	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Bolero	4,291	4,945	7,159	7,052	8,036	7,066	7,055	5,786	5,962	5,320	6,054	5,765	4,641
Scorpio	3,660	3,333	5,230	4,851	5,905	4,357	3,775	3,323	3,876	3,606	3,941	4,603	2,906
Xuv500	1,229	1,419	2,316	1,901	1,567	2,995	2,770	2,717	2,766	2,078	1,902	2,156	1,032
TUV300	2,135	1,801	2,625	2,488	3,378	2,053	1,939	1,811	2,091	1,966	1,786	2,113	992
KUV100	2,190	1,660	2,637	2,485	3,107	1,671	1,481	1,357	1,291	1,173	1,171	1,244	469
Bolero Plus	620	584	1,047	949	1,086	1,461	1,071	443	597	710	992	1,457	941
Thar	460	310	543	589	658	408	551	512	662	669	631	701	226
Xylo	356	445	677	658	811	356	653	456	634	581	568	429	239
Quanto	11	5	1	2	1	1	-	-	-	-	-	-	-
Marazzo										1,762	2,829	3,810	3,387
Rexton	6	12	-	2	62	3	-	3	-	27	10	1	216
Total Domestic Sales	14958	14514	22235	20977	24611	20371	19295	16408	17879	17892	19884	22279	15049

Mahindra & Mahindra (M&M)
Exhibit 2: SOTP Valuation

Listed Subsidiary	Valuation Basis	Value/share
Tech Mahindra Limited	Market Price	151
Mahindra & Mahindra Financial Services	Market Price	106
Mahindra Holidays & Resorts	Market Price	11
Mahindra Lifespace Developers	Market Price	7
Mahindra CIE Automotive Limited.	Market Price	14
Ssangyong Motor Company	Market Price	24
CIE Automotive	Market Price	26
EPC Industries	Market Price	1
Swaraj Engines	Market Price	5
Listed Subsidiaries	Market Price	345
Other Unlisted Subsidiaries	1 X Book value	85
Total Subsidiaries (Rs Mn)		430
A) Total Sub Valuations Post Discount (20%)		301
B) Core Auto business (14x FY20E EPS)	Rs. 45 (Core FY20EPS)	635
Value/Share		936

Source: Karvy Stock Broking

Mahindra & Mahindra (M&M)

Financials

Exhibit 3: Profit & Loss Statement

Rs mn	FY16	FY17	FY18	FY19E	FY20E
Net sales	3,88,879	4,13,779	4,75,774	5,44,160	6,08,895
YoY (%)	5.2	6.4	15.0	14.4	11.9
Raw material cost	2,65,013	2,80,192	3,16,280	3,61,742	4,04,776
Employee Cost	25,720	29,920	31,773	36,340	40,663
Admin Expenses	45,683	49,625	57,286	64,133	71,762
Total expenses	3,36,416	3,59,737	4,05,339	4,62,215	5,17,201
EBIDTA	52,463	54,042	70,434	81,946	91,694
EBIDTA Margin (%)	13.5%	13.1%	14.8%	15.1%	15.1%
Depreciation	12,047	16,745	16,254	18,485	21,383
EBIT	40,416	37,297	54,181	63,460	70,311
Interest	2,653	2,426	1,882	1,568	1,304
Other income	7,845	12,064	9,517	11,327	12,454
PBT	45,608	46,935	61,816	73,219	81,461
(-) Tax	12,230	13,181	19,920	23,594	26,250
Tax/ PBT	26.8	28.1	32.2	32.2	32.2
PAT	33,378	33,754	41,896	49,625	55,211
YoY (%)	8.1	1.1	24.1	18.4	11.3
PAT Margin (%)	8.6%	8.2%	8.8%	9.1%	9.1%
Extraordinary Items	60	5485	4336	0	0
Reported Profit	33,438	39,239	46,232	49,625	55,211

Source: Karvy Stock Broking

Exhibit 4: Balance sheet

Rs mn	FY16	FY17	FY18	FY19E	FY20E
Equity capital	5,926	5,950	5,950	5,950	5,950
Reserves	2,25,182	2,67,212	2,98,924	3,37,285	3,79,964
Net worth	2,31,108	2,73,161	3,04,874	3,43,235	3,85,914
Total Loans	31,615	39,002	32,142	27,142	22,142
Def Tax Liability	6,243	-916	4,557	4,557	4,557
Total Liabilities	2,68,966	3,11,247	3,41,573	3,74,934	4,12,613
Gross Block	1,55,201	1,81,053	2,09,617	2,39,617	2,69,617
Less: Acc. depreciation	46,549	63,294	79,547	98,033	1,19,416
Net block	1,08,653	1,17,759	1,30,070	1,41,584	1,50,201
Investments	1,41,666	1,67,502	2,29,349	2,44,349	2,59,349
Inventories	33,262	32,285	33,271	38,054	42,581
Debtors	23,493	28,758	30,984	34,164	38,229
Cash	23,610	17,333	29,242	30,789	52,292
Loans and advances	50,011	55,736	45,013	51,483	57,608
Other Current assets	0	5607	20764	20764	20764
Current assets	1,30,376	1,39,719	1,59,274	1,75,254	2,11,474
Current liabilities	1,00,690	97,139	1,48,982	1,54,071	1,72,400
Provisions	11,038	16,593	28,138	32,182	36,011
Net current assets	18,648	25,986	-17,846	-10,999	3,063
Total Assets	2,68,966	3,11,247	3,41,573	3,74,934	4,12,613

Source: Karvy Stock Broking

Mahindra & Mahindra (M&M)
Exhibit 5: Cash Flow Statement

Cash Flow	FY16	FY17	FY18	FY19E	FY20E
Net profit	33,438	39,239	46,232	49,625	55,211
Depreciation	10,762	0	16,254	18,485	21,383
Deferred tax	12,047	16,745	0	0	0
Change in W/C	5,478	-13,616	55,741	-5,299	7,441
Operating cash flow	61,724	42,368	1,18,227	62,811	84,036
Capex	-19,893	-22,406	-23,091	-30,000	-30,000
Investments	-35,906	-36,441	-61,847	-15,000	-15,000
Investing cash flow	-55,799	-58,847	-84,938	-45,000	-45,000
Free Cash Flow	41,832	19,962	95,136	32,811	54,036
Dividend	-8,354	-9,055	-10,494	-11,264	-12,532
Equity	7,255	11,870	-4,025	0	0
Debt	-2,270	7,387	-6,860	-5,000	-5,000
Financing cash flow	-3,369	10,202	-21,379	-16,264	-17,532
Net change in cash	2,556	-6,277	11,909	1,547	21,504
Opening cash	21,053	23,610	17,333	29,242	30,789
Closing cash	23,610	17,333	29,242	30,789	52,292

Source: Karvy Stock Broking

Exhibit 6: Ratios

Key Ratios	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs)	28.2	28.4	35.2	41.7	46.4
EPS (Core EPS)	26.1	26.7	34.1	40.7	45.3
Book value (Rs)	195	230	256	288	324
P/E (Standalone)	28.3	28.1	22.6	19.1	17.2
EV/EBDITA (x)	15.4	14.8	10.2	8.5	7.2
P/B (x)	4.1	3.5	3.1	2.8	2.5
Subsidiary Valuation (Rs)	301	301	301	301	301
P/E (Core)	18.9	18.6	14.5	12.2	10.9
EV/EBITDA (Core)	10.7	10.6	7.8	6.7	5.7
ROCE (%)	14.0%	12.5%	13.4%	14.3%	14.4%
ROE (%)	15.5%	13.4%	14.5%	15.3%	15.1%
Dividend/Share (Rs)	6	7	8	8	9
Dividend Yield (%)	0.8%	0.8%	1.0%	1.1%	1.2%
Gross Asset Turnover (x)	2.7	2.5	2.4	2.4	2.4
Avg Net WC Days	-2	2	-15	-30	-27
Net W/C (% of sales)	-1.3%	2.1%	-9.9%	-7.7%	-8.1%

Source: Karvy Stock Broking

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-61491500

Disclosures Appendix

Analyst certification

The following analyst(s), **Mahesh Bendre**, who is (are) primarily responsible for this report and whose name(s) is/are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

Karvy Stock Broking Limited [KSBL] is registered as a research analyst with SEBI (Registration No INH200003265). KSBL is also a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production, profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. Actual results may differ materially from those set forth in projections.

- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts, primarily responsible for this report and whose name(s) is/ are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Mahesh Bendre**, Research Analyst did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

Karvy Stock Broking Limited

Office No. 701, 7th Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051
 RegdOff :Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India
 Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.