

19 July 2018

Mahindra & Mahindra – BUY

CMP : Rs.914
Target Price : Rs.1,117
Upside : 22%+
Stop Loss : Rs.816 (Closing basis)

Investment Thesis

Recently, the stock price of Mahindra & Mahindra Ltd. (M&M) corrected by ~4% from 52-week high of Rs.940 despite reporting good set of numbers in the recent quarters.

M&M is considered pioneer in developing UV market in India with its famous brands like Scorpio and Bolero. It had phenomenal success during FY09-14 when its volumes grew by 27.3% CAGR with 44% market share. However since then it has witnessed consistent decline in its market share which touched as low as ~19% in November 2017. The fall in market share can be attributed to intense competition and slowdown in the rural economy influencing its rural focused models like Bolero & Scorpio. With high growth of UV segment, majority of car manufactures in India including Maruti, Hyundai, Ford, Tata Motors, etc. have launched vehicles in this category. To counter the decline in UV segment, M&M has introduced new models and variants like hybrid Bolero Power Plus. M&M plans to launch two more new MPVs in the next 12 months. It further plans to offer refresh of existing models KUV 100, Scorpio and XUV 500 in coming period. Going ahead, we expect an overall improvement in the demand scenario as new launches start to ramp up coupled with product mix improvements.

Currently M&M is the only carmaker in India that sells electric cars under two products e2o Plus and eVerito electric cars in PV category. It plans to capitalize on first mover advantage in EV segment in India and launch two more EV models in the next 18 months. It also has plans to spend Rs.5.0bn to set up 5000 vehicle producing capacity in India. Major components required in EV namely power electronics, transmission, motor and lithium batteries are likely to be manufactured/ assembled in India within M&M group. M&M remains highly upbeat on this opportunity and plans to have 5000 per month production capacity in the initial phase.

Financials

- During the past 5 years, revenue of M&M grew at a CAGR of 6.0% while PAT grew at a CAGR of 12.1% in the same period.

Consol. (Rs.Mn.)	FY16	FY17	FY18	FY19E	FY20E
Revenue	758,414	837,731	920,940	1,059,080	1,217,942
EBITDA	100,824	107,312	132,261	152,100	174,915
% growth	15.0	6.4	23.2	15.0	15.0
PAT	23,024	27,986	64,031	73,316	84,020
EPS (INR)	19.3	23.5	53.8	61.6	70.6
P/E (x)	46.4	38.1	16.7	14.6	12.7
RoE (%)	10.5%	10.8%	21.1%	22.0%	23.0%

- M&M has reported 10.8% YoY growth in revenue in Q4FY18 to Rs.133,079mn on the back of strong growth in farm equipment segment and others segment.

Stock Data

Market Cap (INR MN)	1,136,091
Market Cap (\$ MN)	16,707.80
Shares O/S (in MN)	1,189.90
Avg. Volume (3 month)	2,647,000
52-Week Range (Rs.)	940 / 612

Shareholding Pattern

Promoters	21.71%
FIIIs	33.60%
Institutions	21.33%
Others (incl. body corporate)	23.36%

Performance (%)	1M	6M	1Yr
Absolute	3.1%	19.5%	32.4%
BSE Auto	-3.8%	-11.5%	0.6%

Key Ratios

Div Yield	1.5%
TTM PE	16.7x
ROE	21.1%
TTM EPS (INR)	53.8/-

- Farm Equipment segment of M&M grew by ~33% YoY during the quarter, whereas others segment reported a growth of ~31% YoY.
- EBITDA of M&M grew by 86.9% YoY to Rs.17,542mn on the back of high topline growth and better operating performance. As a result, EBITDA margin grew by 537bps YoY to 13.2% in Q4FY18.
- M&M reported 46.1% YoY rise in its net profit to Rs.10,591mn on the back of strong top-line growth as well as lower interest and depreciation costs.

Key Business Highlights

- M&M is engaged in the manufacture of passenger cars, commercial vehicles and tractors. It is one of the largest vehicle manufacturers by production in India and largest manufacturer of tractors in the world.
- M&M, through its subsidiaries and group companies, has a presence in financial services, auto components, hospitality, infrastructure, retail, logistics, steel trading and processing, information technology businesses, agri, aerospace, consulting services, defence, energy and industrial equipment.
- M&M has set a milestone to reach to top 50 admired brands globally by 2021. It considers tractors and UV is its core competency businesses and likely continues to focus on the same.

Valuation

- M&M tractor business has done well and grown with 6% volume CAGR during FY15-17 on the back of normal monsoon. The Company has achieved highest ever market share of 44% in India. Management believes that total tractor industry volumes in India can reach to 12-13 lakhs from current 6.5 lakhs over the next 8-9 years indicating 8-9% CAGR potential. Post that tractor market is expected to reach to a saturation level with new tractor requirement likely to be driven by replacement demand only. This is likely to result in single digit growth for M&M, being largest tractor producer in India with 45% market share in the long term. We believe, tractor segment of M&M will grow by high single digit growth rate during FY19-20E.
- Owing to a well-diversified product mix, a strong pan-India presence and cost-efficient operations, M&M captured decent market share. Based on normal monsoons and improved rural sentiment, the management has upped the industry volume growth guidance to over 10% for FY18-20E. M&M has also made acquisitions like Mitsubishi and Sampo, which aid in diversifying farm equipment revenues as well as tap global growth opportunities. We expect M&M will post healthy volume growth in tractor sales on the back of better than average monsoon, good non-agri business (mining, construction and infrastructure) due to the Govt. initiative and replacement demand, which forms ~40% of total demand.
- With pioneer in developing UV market in India, launching of new models and variants, only carmaker in India that sells electric cars, plans to set up 5000 per month EV production capacity, high market share in tractor business and higher demand on normal monsoons and improved rural sentiment, we value M&M at 15.82x FY20E EPS of Rs.70.60 to arrive at target price of Rs.1,117.00, an upside of ~22%.

Risk & Concern

- Large part of M&M's business (Tractor and UV) depends on good monsoon and may impact due to weak monsoon in the country.
- Stiff competition from domestic players in CV segment may impact M&M's performance.
- Any regulatory hurdle arising out of diesel engine ban on 2000CC+ being implemented in other parts of the country also.

Graphs & Charts

Figure 1: Net Sales Trend

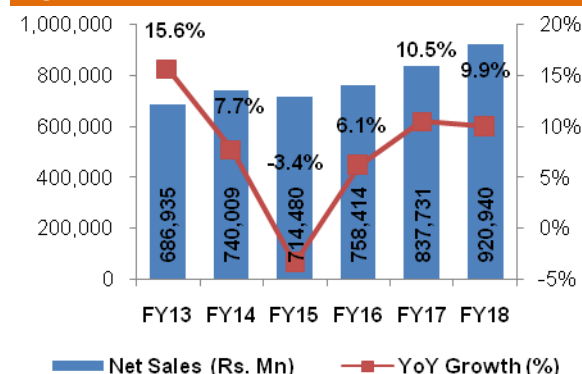


Figure 2: EBITDA & EBITDA Margin Trend

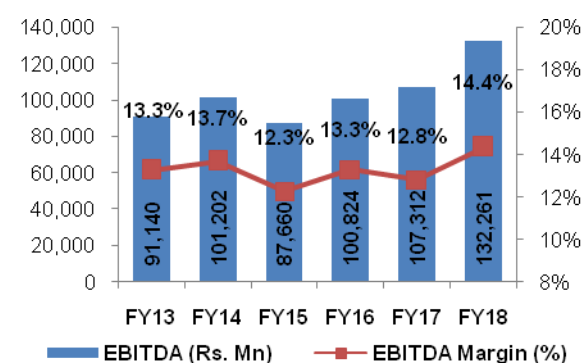


Figure 3: PAT Trend

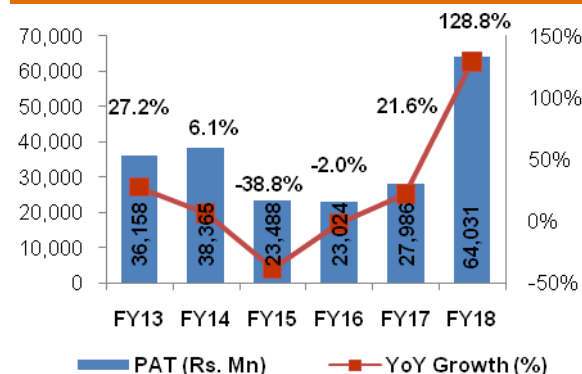
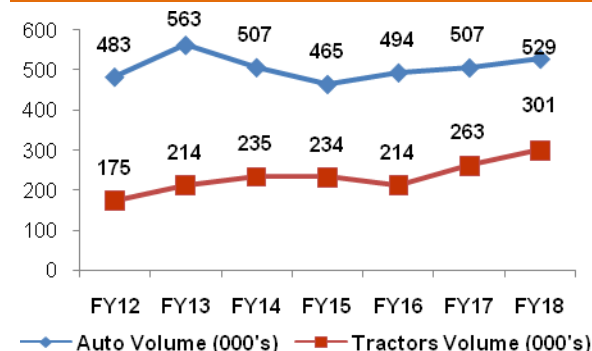


Figure 4: Volume Trend



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