

Mahindra & Mahindra

Mahindra & Mahindra Ltd (M&M) is an India-based company, operating in nine segments: automotive, farm equipment, IT services, financial services, steel trading & processing, infrastructure, hospitality, Systech (comprising automotive components and other related products & services), and Others (comprising logistics, after-market, two wheelers and investment).

Automotive segment likely to pick up growth: Over the last few years, M&M has been losing market share in Utility segment (down from 38.2% in FY16 to 26.1% in FY18) due to lack of petrol variants and absence in the fast-growing midsize SUV segment comprising Vitara Brezza, Tata Nexon, Ford Ecosport, Renault Duster etc. Currently M&M is looking to regain market share in the UV space on the back of new launches with petrol variants (high volume segment) and facelift of other existing variants. During FY19, the company expects 2 new launches including Mahindra S201 (competing against Hyundai Creta, Maruti Suzuki S-Cross and Renault Captur) & Mahindra U321 (against Maruti Ertiga, Innova Crysta, and Renault Lodgy) which should boost the overall revenues for the company.

Better monsoon to trigger further growth in tractor segment: The company has reported strong tractor growth number in FY17 (~23% yoy growth) and FY18 (~14% yoy growth) due to strong monsoons which resulted in overall improvement in rural markets. IMD & Skymet have predicted normal monsoon for FY19 for the third consecutive year which should be a strong trigger for tractor sales growth. In our view, strong growth in tractor industry would benefit M&M the most due to strong brand recall and leadership position in farm tractor.

Outlook and Valuation: We expect Mahindra & Mahindra (M&M) to report net revenue CAGR of ~15% to ~₹62,218cr over FY2018-20E mainly due to healthy growth in automobile segment like Utility Vehicles (on the back of new launches and facelift of some models) and strong growth in Tractors segment driven by strong brand recall and improvement in rural sentiment. Further on the bottom-line front, we expect CAGR of ~15% to ₹4771cr over the same period on the back of margin improvement. **Thus, we recommend BUY rating on the stock with target price of ₹990.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018E	FY2019E	FY2020E
Net sales	44,054	47,316	54,297	62,218
% chg	7.8	7.4	14.8	14.6
Adj. Net profit	3,220	3,614	4,143	4,771
% chg	0.4	12.2	14.6	15.2
EBITDA margin (%)	10.2	11.3	11.8	11.9
EPS (₹)	27.1	30.4	34.8	40.1
P/E (x)	31.8	28.3	24.7	21.4
P/BV (x)	4.0	3.6	3.2	2.9
RoE (%)	12.5	12.7	13.1	13.5
RoCE (%)	10.5	11.6	13.3	14.3
EV/Sales (x)	1.9	1.8	1.5	1.3
EV/EBITDA (x)	18.9	15.8	12.9	10.8

Source: Company, Angel Research Note: CMP as of May 09, 2018

BUY

CMP	₹860
Target Price	₹990
Investment Period	12 Months

Stock Info

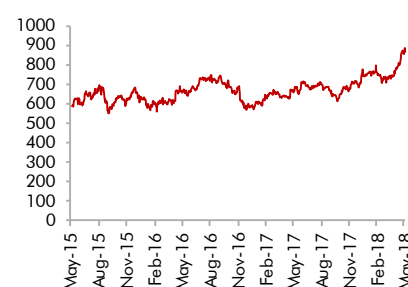
Sector	Automobile
Market Cap (₹ cr)	1,06,921
Net Debt (₹ cr)	(2,575)
Beta	0.8
52 Week High / Low	888/612
Avg. Daily Volume	93,271
Face Value (₹)	5
BSE Sensex	35,319
Nifty	10,742
Reuters Code	MAHM.BO
Bloomberg Code	MM.IN

Shareholding Pattern (%)

Promoters	21.7
MF / Banks / Indian Fls	9.7
FII / NRIs / OCBs	33.2
Indian Public / Others	35.4

Abs. (%)	3m	1yr	3yr
Sensex	2.3	17.7	30.0
M&M	14.8	26.7	46.5

3-year price chart



Source: Company, Angel Research

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Key investment arguments

Automotive segment likely to pick up growth: Over the last few years, M&M has been losing market share in Utility segment (down from 38.2% in FY16 to 26.1% in FY18) due to lack of petrol variants and absence in the fast-growing midsize SUV segment comprising Vitara Brezza, Tata Nexon, Ford Ecosport, Renault Duster etc. Currently M&M is looking to regain market share in the UV space on the back of new launches with petrol variants (high volume segment) and facelift of other existing variants. During FY19, the company expects 2 new launches including Mahindra S201 (competing against Hyundai Creta, Maruti Suzuki S-Cross and Renault Captur) & Mahindra U321 (against Maruti Ertiga, Innova Crysta, and Renault Lodgy) which should boost the overall revenues for the company.

Exhibit 1: Mahindra's market share gains from new launches (historical)

	Product launched during the years				
	FY12	FY13	FY14	FY15	FY16
XUV500	3.8%				
Thar				1.4%	
ST			1.5%		
Quanto		3.0%			
TUV300					4.1%
KUV100					2.4%

Source: Company, Angel Research

Better monsoon to trigger further growth in tractor segment: The company has reported strong tractor growth number in FY17 (~23% yoy growth) and FY18 (~14% yoy growth) due to strong monsoons which resulted in overall improvement in rural markets. IMD & Skymet have predicted normal monsoon for FY19 for the third consecutive year which should be a strong trigger for tractor sales growth. In our view, strong growth in tractor industry would benefit M&M the most due to strong brand recall and leadership position in farm tractor.

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Exhibit 2: STOP Valuation for M&M

Investment in listed companies	Value/Mcap (₹ cr)	M&M holding (%)	Value (₹ cr)
Tech Mahindra	64,393	26.7	17,193
MMFSL	30,873	51.2	15,807
Mahindra Lifespace Developers	2,387	51.1	1,220
Mahindra Holidays and Resorts	4,496	67.5	3,035
Mahindra CIE	9,076	17.3	1,570
CIE Automotive Spain	32,420	7.3	2,367
Swaraj Engines	2,498	33.2	829
Mahindra Logistic	3,904	58.8	2,296
Ssangyong	4,239	73.2	3,103
Sub-total			47,419
Investments valued at 25% discount			35,564
Core Business M&M (20PE*EPS FY20 - Excluding divided Income)			82,205
Total Equity Value			1,17,769
No of share			119
Value Per Share			990
CMP			860
Upsides			15%

Source: Company, Angel Research

Downside risks to our estimates

- Strong launches from competitors like Maruti Suzuki, Hyundai Motors and Ford can grab the market share from M&M
- Poor monsoons can impact the overall earning growth (47% EBIT contribution from tractors segment)
- Lower growth and profitability of subsidiaries company can be limit upside

Company Background

Mahindra & Mahindra Ltd (M&M) is an India-based company. The company operates in nine segments: automotive segment comprises sales of automobiles, spare parts and related services; farm equipment segment comprises sales of tractors, spare parts and related services; information technology (IT) services comprises services rendered for IT and telecom; financial services comprises services relating to financing, leasing and hire purchase of automobiles and tractors; steel trading and processing; infrastructure comprising operating of commercial complexes, project management and development; hospitality segment comprises sale of timeshare; Systech segment comprises automotive components and other related products and services, and others segment comprises logistics, after-market, two wheelers and investment.

Standalone Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Total operating income	40,875	44,054	47,316	54,297	62,218
% chg	6.3	7.8	7.4	14.8	14.6
Total Expenditure	36,255	39,539	41,969	47,890	54,814
Raw Material	29,516	32,082	33,784	38,442	44,112
Personnel	2,349	2,714	2,981	3,475	3,982
Others Expenses	4,390	4,742	5,205	5,973	6,720
EBITDA	4,620	4,515	5,347	6,407	7,404
% chg	10.7	(2.3)	18.4	19.8	15.6
(% of Net Sales)	11.3	10.2	11.3	11.8	11.9
Depreciation & Amortization	1,068	1,526	1,698	1,808	1,918
EBIT	3,552	2,988	3,649	4,599	5,486
% chg	11.0	(15.9)	22.1	26.0	19.3
(% of Net Sales)	8.7	6.8	7.7	8.5	8.8
Interest & other Charges	186	160	129	145	145
Other Income	919	1,894	1,500	1,300	1,300
(% of PBT)	21.4	40.1	29.9	22.6	19.6
Share in profit of Associates	-	-	-	-	-
Recurring PBT	4,284	4,723	5,020	5,754	6,641
% chg	2.8	10.2	6.3	14.6	15.4
Tax	1,080	1,079	1,406	1,611	1,870
(% of PBT)	25.2	22.9	28.0	28.0	28.2
PAT (reported)	3,205	3,643	3,614	4,143	4,771
Extraordinary Items	(4)	423	-	-	-
ADJ. PAT	3,208	3,220	3,614	4,143	4,771
% chg	5.1	0.4	12.2	14.6	15.2
(% of Net Sales)	7.8	7.3	7.6	7.6	7.7
Basic EPS (₹)	27.0	27.1	30.4	34.8	40.1
Fully Diluted EPS (₹)	27.0	27.1	30.4	34.8	40.1
% chg	5.1	0.4	12.2	14.6	15.2

Standalone Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	296	297	297	297	297
Reserves & Surplus	22,127	25,373	28,192	31,423	35,145
Shareholders Funds	22,423	25,670	28,489	31,720	35,441
Total Loans	2,917	2,816	2,900	2,900	2,900
Deferred Tax Liability	1,440	1,637	1,637	1,637	1,637
Total Liabilities	26,780	30,122	33,026	36,257	39,979
APPLICATION OF FUNDS					
Gross Block	13,799	14,938	15,938	16,938	17,938
Less: Acc. Depreciation	6,203	7,303	9,001	10,809	12,727
Net Block	7,596	7,635	6,937	6,128	5,210
Capital Work-in-Progress	1,562	2,038	2,038	2,038	2,038
Investments	13,547	17,902	17,902	17,902	17,902
Current Assets	12,794	11,764	14,597	19,388	25,304
Inventories	2,688	2,716	3,111	3,719	4,432
Sundry Debtors	2,512	2,918	3,370	4,165	5,114
Cash	2,287	1,687	2,674	4,445	7,048
Loans & Advances	1,763	1,528	2,129	2,715	3,422
Other Assets	3,544	2,914	3,312	4,344	5,289
Current liabilities	9,699	10,158	9,390	10,141	11,418
Net Current Assets	3,095	1,605	5,207	9,247	13,886
Deferred Tax Asset	980	942	942	942	942
Mis. Exp. not written off	-	-	-	-	-
Total Assets	26,780	30,122	33,026	36,257	39,979

Standalone Cashflow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	4216	4639	5020	5754	6641
Depreciation	1068	1327	1698	1808	1918
Change in Working Capital	1412	(31)	(2615)	(2269)	(2037)
Interest / Dividend (Net)	(493)	(834)	0	0	0
Direct taxes paid	0	0	(1406)	(1611)	(1870)
Others	196	(138)	0	0	0
Cash Flow from Operations	6398	4964	2697	3682	4652
(Inc.)/ Dec. in Fixed Assets	(2152)	(2060)	(1000)	(1000)	(1000)
(Inc.)/ Dec. in Investments	(1387)	(1160)	0	0	0
Cash Flow from Investing	(3538)	(3221)	(1000)	(1000)	(1000)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	0	0	84	0	0
Dividend Paid (Incl. Tax)	(846)	(839)	(795)	(911)	(1050)
Interest / Dividend (Net)	(1161)	(59)	0	0	0
Cash Flow from Financing	(2007)	(898)	(711)	(911)	(1050)
Inc./(Dec.) in Cash	853	845	987	1771	2603
Opening Cash balances	917	842	1687	2674	4445
Closing Cash balances	1770	1687	2674	4445	7048

Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	31.9	31.8	28.3	24.7	21.4
P/CEPS	23.9	19.8	19.3	17.2	15.3
P/BV	4.6	4.0	3.6	3.2	2.9
Dividend yield (%)	0.7	0.7	0.8	0.9	1.0
EV/Sales	2.2	1.9	1.8	1.5	1.3
EV/EBITDA	19.3	18.9	15.8	12.9	10.8
EV / Total Assets	3.3	2.8	2.6	2.3	2.0
Per Share Data (₹)					
EPS (Basic)	27.0	27.1	30.4	34.8	40.1
EPS (fully diluted)	27.0	27.1	30.4	34.8	40.1
Cash EPS	35.9	43.5	44.7	50.0	56.2
DPS	5.9	6.0	6.7	7.7	8.8
Book Value	188.5	215.8	239.5	266.7	298.0
Returns (%)					
ROCE	14.0	10.5	11.6	13.3	14.3
Angel ROIC (Pre-tax)	37.4	33.6	33.7	37.5	41.0
ROE	14.3	12.5	12.7	13.1	13.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.0	2.9	3.0	3.2	3.5
Inventory / Sales (days)	24	22	24	25	26
Receivables (days)	22	24	26	28	30
Payables (days)	54	53	49	45	44
Working capital cycle (ex-cash) (days)	(7)	(7)	1	8	12

Source: Company, Angel Research

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Disclosure of Interest Statement	Mahindra & Mahindra
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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