

# Mahindra & Mahindra (MM IN)

Target Price **Rs1,000.0**  
 Current Price **Rs870.3**  
 % Upside **15%**

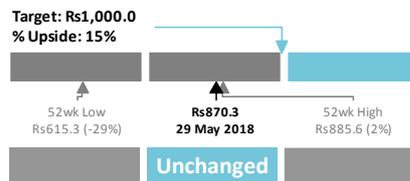
## The Scoop: Ends Fiscal Year on Strong Note, Multiple Growth Drivers in Place

### Automobiles & Components

#### India

30 May 2018

## BUY



#### Basic Share Information

Market cap	Rs1,082b / US\$15.94b
Daily traded value (3mth)	US\$26.41m
Shares outstanding	1,195m
Free float	74%
Net debt-to-equity	-0.1%
1 yr high	Rs885.6
1 yr low	Rs615.3
Foreign shareholding	33.6%

Note: Share price and market data as of 29 May 2018

#### Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	0.9%	19.5%	28%
Absolute USD	-0.9%	14.7%	21.6%
Relative to SENSEX	0.3%	16.6%	15%



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#### What event has happened?

Mahindra & Mahindra's (M&M) Q4 FY3/18 earnings of Rs10.2bn beat our estimate of Rs9.3bn, mainly due to better operating performance than we expected in the auto segment.

#### Why is it significant?

The Q4 EBITDA margin rose by 330bp YoY (from a low base) and 30bp QoQ to 13.2%. We see this as commendable given that the volume contribution from high-margin tractors fell by 9ppt QoQ to 30%. The key surprise for us was the auto segment, where the margin rose by 220bp QoQ, driven by the commercial vehicle (CV) business breaking even at the EBIDTA level amid strong volume growth. We think that the Indian government's recent budgetary focus on boosting the rural economy bodes well for M&M's tractor segment. We expect M&M to record 10% volume growth in tractors in FY3/19. Once the rural segment recovers, we expect demand for its *Bolero* and *Scorpio* models to pick up too as these are largely rural products. In addition, M&M plans to launch three new utility vehicle (UV) models in FY3/19: a large sport-utility vehicle (SUV, the *U321*); a compact SUV (the *S201*); and a model based on the *Rexton* platform. We believe that these new launches and a rural revival should help M&M recover some of its lost market share in UVs. Steady volume growth in these segments should help offset rising input costs, in our view. Overall, we project a 17% adjusted earnings CAGR over FY3/19–20. Excluding its subsidiaries, the standalone entity trades at 12.9x our FY3/20 EPS forecast, which we see as attractive versus its peers. We maintain our BUY rating.

#### Implications for our earnings forecast?

We revise up our EPS forecasts by 4% for FY3/19 and 5% for FY3/20.

#### How do valuations look now?

We raise our target price from Rs890 to Rs1,000, still based on our sum-of-the-parts model, to factor in our earnings-forecast revisions and the recent rise in valuations for other listed Mahindra Group entities such as Tech Mahindra (TECHM IN) and Mahindra & Mahindra Financial Services (MMFS IN). We value M&M's core business at 16x our one-year forward core EPS forecast and its stakes in listed entities at the current market prices. Our valuation multiple for the core business is a 10% premium over M&M's long-term median of 15x and in line with the BSE Sensex's current premium over its long-term average. The main risks to our rating and the attainment of our target price are a slower recovery in tractor volumes than we expect and a sharp rise in input costs.

#### What is distinctive about our stock view?

We see M&M's tractor and UV segments as among the main beneficiaries of a rural recovery in India.

	Mar-16A	Mar-17A	Mar-18A	Mar-19E	Mar-20E	Trend
Total turnover (Rsm)	408,751	437,854	486,855	579,616	666,940	▬ ▬ ▬ ▬ ▬
Operating profit (Rsm)	35,518	36,131	47,446	59,110	68,149	▬ ▬ ▬ ▬ ▬
Pre-tax profit (Rsm)	42,845	51,875	61,024	69,703	80,169	▬ ▬ ▬ ▬ ▬
Net income to ord equity (Rsm)	32,046	39,556	43,560	48,792	56,118	▬ ▬ ▬ ▬ ▬
Adjusted net profit (Rsm)	31,599	35,782	40,742	48,792	56,118	▬ ▬ ▬ ▬ ▬
Net profit growth	(3.5%)	23.4%	10.1%	12.0%	15.0%	▬ ▬ ▬ ▬ ▬
P/E (x)	32.45	26.29	23.87	21.31	18.53	▬ ▬ ▬ ▬ ▬
Adj P/E (x)	32.91	29.06	25.53	21.31	18.53	▬ ▬ ▬ ▬ ▬
Adj EV/EBITDA (x)	8.81	6.58	5.35	4.72	4.33	▬ ▬ ▬ ▬ ▬
P/B (x)	4.64	4.05	3.43	3.06	2.72	▬ ▬ ▬ ▬ ▬
ROE	15.4%	16.5%	15.6%	15.2%	15.6%	▬ ▬ ▬ ▬ ▬
Dividend yield	0.7%	0.8%	0.9%	1.0%	1.1%	▬ ▬ ▬ ▬ ▬
EPS HTI old (Rs)	26.82	33.10	34.09	39.32	44.83	▬ ▬ ▬ ▬ ▬
EPS HTI New (Rs)	26.82	33.10	36.45	40.83	46.96	▬ ▬ ▬ ▬ ▬
Adj EPS (Rs)	26.44	29.94	34.09	40.83	46.96	▬ ▬ ▬ ▬ ▬
Consensus EPS (Rs)	27.87	29.14	35.08	40.44	45.61	▬ ▬ ▬ ▬ ▬
HTI EPS vs Consensus	(3.8%)	13.6%	3.9%	1.0%	3.0%	▬ ▬ ▬ ▬ ▬

Source: Company data, Bloomberg, HTI estimates

Click [here](#) to download the working model

Strong volume growth was supported by high demand for tractors and pickups

Margins were ahead of expectations, led by a turnaround in the CV business

The auto segment margin improved due to a turnaround in the CV business

### M&M Quarterly Performance

Mn INR	FY17				FY18	
	3Q	4Q	1Q	2Q	3Q	4Q
Total volumes (nos)	197,457	188,496	201,717	218,437	210,223	235,887
<i>yoy change (%)</i>	2.1	2.5	2.9	16.3	6.5	25.1
ASP (INR per unit)	557,607	594,381	580,998	557,693	550,738	564,163
<i>yoy change (%)</i>	(2.0)	1.5	3.2	(0.3)	(1.2)	(5.1)
<b>Total income</b>	<b>110,103</b>	<b>112,039</b>	<b>117,197</b>	<b>121,821</b>	<b>115,778</b>	<b>133,079</b>
<b><i>yoy change (%)</i></b>	<b>0.1</b>	<b>4.1</b>	<b>6.1</b>	<b>15.9</b>	<b>5.2</b>	<b>18.8</b>
(Inc.)/ dec in fin. goods	4,513	-710	433	-1,969	3,874	-233
Net raw materials	75,073	82,882	83,770	86,056	76,432	92,597
<i>RM / sales (%)</i>	72.3	73.3	71.8	69.0	69.4	69.4
Staff cost	6,855	6,017	6,938	7,052	7,228	7,063
<i>Staff cost / sales (%)</i>	6.2	5.4	5.9	5.8	6.2	5.3
Other expenditure	10,669	12,756	11,951	13,389	13,291	16,110
<i>Oth. exp. / sales (%)</i>	9.7	11.4	10.2	11.0	11.5	12.1
Total cost	97,110	100,944	103,092	104,528	100,825	115,537
<b>EBITDA</b>	<b>12,994</b>	<b>11,095</b>	<b>14,106</b>	<b>17,293</b>	<b>14,953</b>	<b>17,542</b>
<b><i>EBITDA margin (%)</i></b>	<b>11.8</b>	<b>9.9</b>	<b>12.0</b>	<b>14.2</b>	<b>12.9</b>	<b>13.2</b>
<i>yoy change (%)</i>	1.5	3.9	9.7	52.6	15.1	58.1
Non-operating income	1,101	3,081	2,046	5,620	966	1,715
Extraordinary income	3,638	937	0	0	3,858	479
Extraordinary expense	0	1,710	1,440	0	0	0
Interest	381	445	308	229	246	330
Gross profit	17,351	12,957	14,404	22,684	19,530	19,405
<i>Less: depreciation</i>	<i>3,389.0</i>	<i>3,425.0</i>	<i>3,438.7</i>	<i>3,632.7</i>	<i>3,692.8</i>	<i>3,993.2</i>
PBT	13,962	9,532	10,966	19,051	15,838	15,412
Tax	2,840	2,281	3,306	5,736	3,678	4,821
<i>Effective tax rate (%)</i>	20.3	23.9	30.1	30.1	23.2	31.3
PAT	11,123	7,252	7,660	13,316	12,159	10,591
<i>yoy change (%)</i>	33.3	19.9	(19.8)	14.5	9.3	46.0
<b>Adj PAT</b>	<b>8,358</b>	<b>7,839</b>	<b>8,600</b>	<b>13,316</b>	<b>9,227</b>	<b>10,227</b>
<b><i>yoy change (%)</i></b>	<b>6.1</b>	<b>30.6</b>	<b>(2.9)</b>	<b>22.5</b>	<b>10.4</b>	<b>30.5</b>

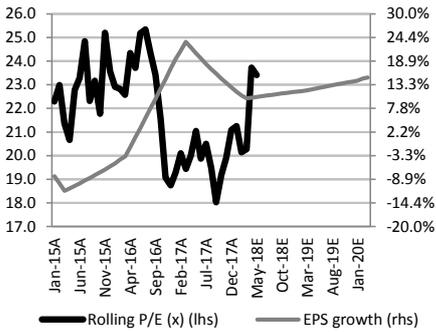
Source: Company data

### Segment EBIT Margin Trend

%	FY17				FY18	
	3Q	4Q	1Q	2Q	3Q	4Q
Automotive	4.5	5.1	3.9	8.6	6.2	8.4
Farm Equipment	17.6	15.5	17.2	21.3	20.5	19.5
Others	4.1	6.2	5.6	1.4	(2.3)	4.3
<b>Total</b>	<b>9.0</b>	<b>7.7</b>	<b>8.6</b>	<b>12.4</b>	<b>10.9</b>	<b>11.3</b>

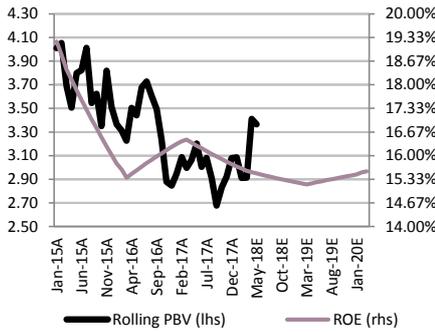
Source: Company data

**P/E (x) vs EPS Growth (%)**



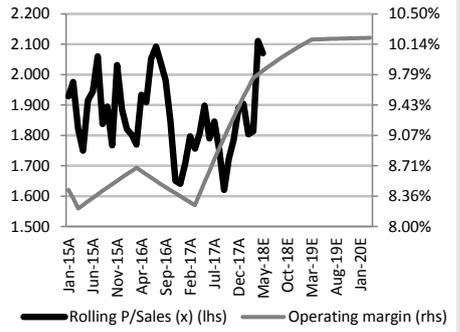
Source: Company data, Bloomberg, HTI estimates

**P/B (x) vs ROE**



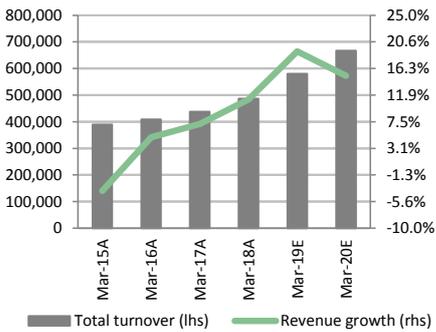
Source: Company data, Bloomberg, HTI estimates

**PSR (x) vs OPM (%)**



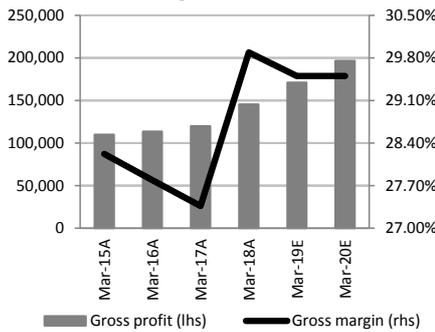
Source: Company data, Bloomberg, HTI estimates

**Turnover and Growth**



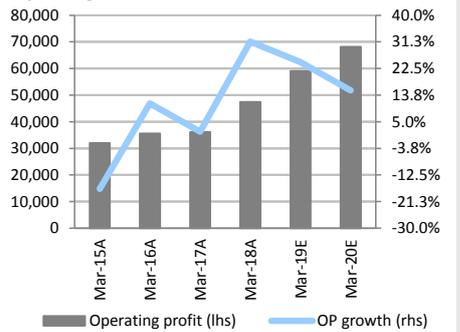
Source: Company data, Bloomberg, HTI estimates

**Gross Profit and Margin**



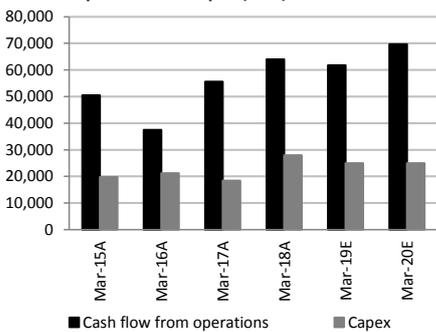
Source: Company data, Bloomberg, HTI estimates

**Operating Profit and OP Growth**



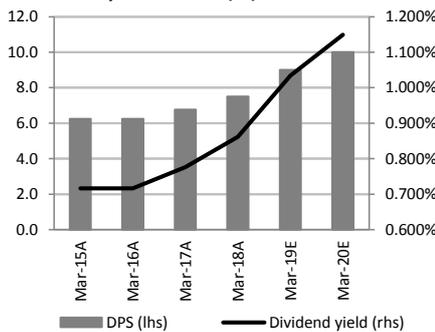
Source: Company data, Bloomberg, HTI estimates

**CF from operations vs Capex (Rsm)**



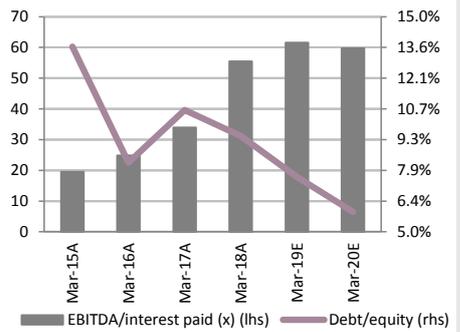
Source: Company data, Bloomberg, HTI estimates

**Dividend Payout and Yield (Rs)**



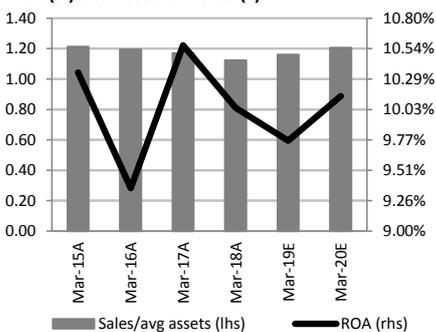
Source: Company data, Bloomberg, HTI estimates

**Debt to Equity (%) and Interest Cover (x)**



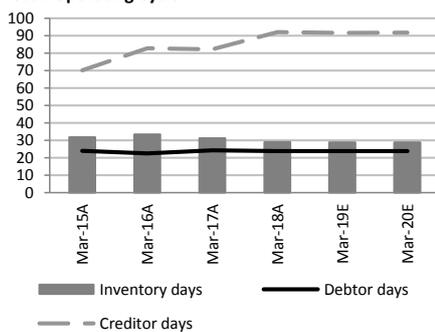
Source: Company data, Bloomberg, HTI estimates

**ROA (%) and Asset Turnover (x)**



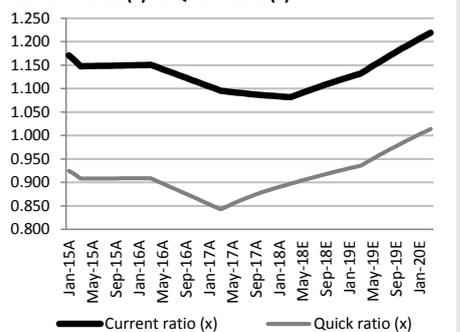
Source: Company data, Bloomberg, HTI estimates

**Cash Operating Cycle**



Source: Company data, Bloomberg, HTI estimates

**Current Ratio (x) vs Quick Ratio (x)**



Source: Company data, Bloomberg, HTI estimates

## APPENDIX

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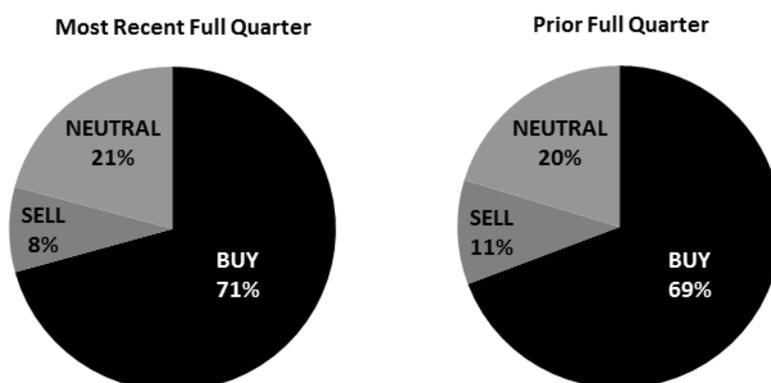
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Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2018-02-12	Buy	890.0	746.0
2017-11-14	Buy	836.5	714.8
2017-08-07	Buy	831.5	700.4
2017-02-01	Buy	782.0	651.2
2016-10-04	Buy	835.3	707.7

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

**Business Growth**

This is the metric which matches the top line in our report.

**Business profit**

This is the metric which best represents operating profit in our report

**Shareholder Returns**

Return on Equity

**Balance Sheet Risk**

Net Debt to Equity