

Stock Update

On a firm footing

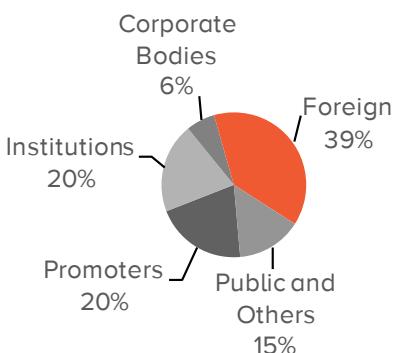
Mahindra & Mahindra

Reco: Buy | CMP: Rs951

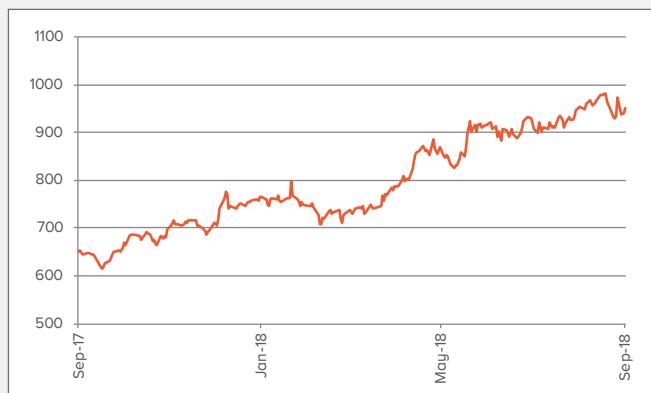
Company details

Price target:	Rs1,075
Market cap:	Rs118,165 cr
52-week high/low:	Rs992/613
NSE volume: (No of shares)	23.4 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	98.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	3.1	28.3	45.4
Relative to Sensex	-0.6	-3.0	14.4	22.6

Key points

- **M&M launching three new products in the UV space in FY2019; Gunning for market share regains:** M&M has raised the ante in the new utility vehicle (UV) launches, with plans to launch three products in the space. Of these, two launches would be in white spaces (where M&M has no presence), leading to market share gains. The company recently launched Marazzo MPV (priced Rs. 9.99 lakh), marking its entry in the MPV space. The company will also enter the compact UV space with the launch of S201 UV in Q4FY2019 (based on the highly successful Korean subsidiary ‘Tivoli’ platform). Further, M&M would launch the nine-seater XUV700 (extended version of XUV500 in the premium UV category) in October 2018. Between the three new models, M&M is aiming to garner volumes of 9,000 units/month compared to the UV industry’s size of about 80,000 units. Launches in new areas will enable M&M to outpace the industry. We are factoring at least 3-4% market share regain by M&M. M&M’s market share has nose-dived to ~25% (Q4FY2018) from ~40% (FY2016). The new launches will enable M&M to recoup its market position to a certain extent.

- **LCV segment to sustain strong momentum as clarity emerges on axle load regulations:** The CV industry has received clarity on the higher axle load norms, which were notified in July 2018. As per CV players, the new vehicles are not required to have certification for carrying enhanced loads. Since the existing vehicles do not require modification and are compliant to carry higher loads, production and sale of new trucks remain unaffected by the norms. Moreover, OEM overloading is already rampant in the LCV space, given the higher proportion of small fleet operators who typically overload fleet. M&M’s LCV segment’s volumes grew sharply by 28% and 22% for July and August 2018, respectively. The LCV segment is poised for strong double-digit volume growth in FY2019, given the boom in ecommerce and strong rural demand.

- **Outlook: Automotive outlook improves; Tractors on strong footing; M&M is the preferred pick:** M&M is poised for market share re-gains in the UV space, led by launches in new segments. Moreover, LCV outlook has improved post clarity on axle load norms. We

expect the automotive segment's volumes to report a 15% CAGR in FY2018-FY2020. In addition, the tractor segment's outlook is robust given the uptick in rural economy. We expect tractor volumes to report an 11% CAGR over the next two years. M&M remains our preferred pick in the automotive space, given the strong volume outlook.

- ♦ **Valuation: Raise estimates; Retain Buy with a revised PT of Rs. 1,075:** Given aggressive

launches in the UV space and improving LCV segment's outlook, we have raised our earnings estimates by 7% and 8% for FY2019 and FY2020, respectively. We expect revenue and earnings to grow by 15% and 21%, respectively, over the next two years and retain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,075 (earlier PT of Rs. 1,020)

Valuation

Particulars	FY16	FY17	FY18	FY19E	FY20E	Rs cr
Total Income (Rs. cr)	38,887.9	41,377.9	47,577.4	55,774.9	63,319.7	
Growth (%)	3.8	6.4	15.0	17.2	13.5	
EBITDA (Rs. cr)	5,234.9	5,404.2	7,043.4	8,745.4	9,983.5	
EBITDA margin (%)	13.5	13.1	14.8	15.7	15.8	
PAT (Rs. cr)	3,337.8	3,375.4	4,189.6	5,287.4	6,095.5	
Growth (%)	-2.5	1.1	24.1	26.2	15.3	
FD EPS (Rs.)	26.8	27.2	33.7	42.5	49.0	
P/E (x)	35.4	35.0	28.2	22.4	19.4	
P/B (x)	5.1	4.3	3.9	3.5	3.1	
EV/EBIDTA (x)	21.9	21.1	15.9	12.7	10.7	
RoE (%)	14.3	12.2	13.7	15.6	16.1	
RoCE (%)	16.5	15.0	18.0	20.5	21.0	

SOTP:

Particulars	per share	Remarks
Core business (MM+MVML)	784	At 16x FY2020 earnings
Key Subsidiaries		
Tech Mahindra	163	Bloomberg Consensus target price
M&MFSL	130	2.5x its FY2020 Book value
Mahindra Lifespace	11	Market cap
Mahindra Holiday Resort	21	Market cap
Mahindra CIE	14	Market cap
Ssangyong	24	Market cap
Mahindra Logistics	19	Market cap
Swaraj Engines	6	Market cap
Value of subsidiaries before discount	388	
After holdings 25% discount	291	
Target Price	1,075	

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