

Stock Update

Volume growth to accelerate, Retain Buy with PT of Rs1,525

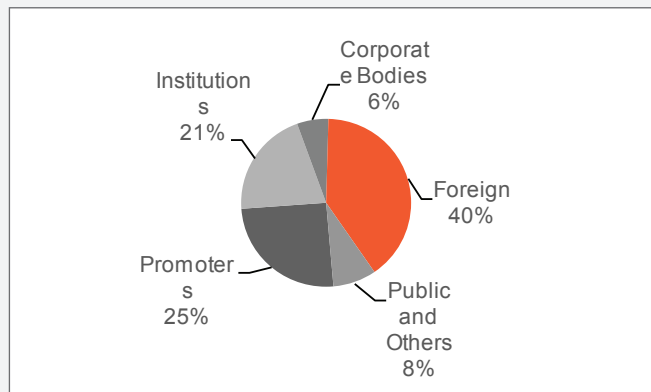
Mahindra & Mahindra

Reco: Buy | CMP: Rs1,418

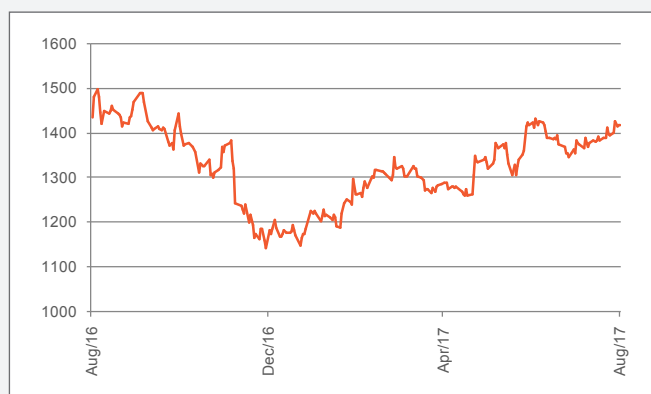
Company details

Price target:	Rs1,525
Market cap:	Rs88,090 cr
52-week high/low:	Rs1,509 / 1,142
NSE volume: (No of shares)	11 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	46.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.6	6.0	13.4	-1.1
Relative to Sensex	1.1	-2.4	-1.6	-16.2

Key points

- In-line operating performance:** Mahindra & Mahindra's (M&M) topline for Q1FY2018 increased by 5% YoY to Rs11,094 crore on account of 2.7% YoY volume growth and 2.6% YoY increase in realisation. Farm equipment sales grew sharply by 12% YoY, while the auto segment's revenue remained flat for the quarter. Revenue came in line with estimates. Operating profit margin (OPM) for the quarter declined by 110BPS YoY to 13.1% (in line with our estimate of 12.9%). Higher raw-material costs and GST-related dealer compensation (Rs.144 crore) impacted margins. Adjusting for dealer compensation, margins stand at 14.4%, up 20BPS YoY. On account of higher depreciation charge (up 9% YoY) and higher tax outgo (Tax/PBT – 33.4% in Q1FY2018 vs. 29% for Q1FY2017) PAT at Rs768 crore declined by 20% YoY and came in below our estimates of Rs831 cr.
- Encouraging outlook for farm equipment business to result in a double-digit volume growth:** The strong momentum for M&M's tractor business is expected to sustain going ahead as well. A well progressing and evenly spread out monsoon, increase in sowing acreages and recent farm loan waivers in select states are expected to drive tractor volumes. Additionally, new tractor launch in the 24 HP segment (aimed at horticulture activities) coupled with sustained demand for existing Yuvo brand of tractors would further boost tractor volumes. Based on the above factors, we expect M&M's tractors volumes to report a 12% CAGR over FY2017-FY2019.
- Price reduction under GST regime, new launches and upcoming festive season to fuel auto volumes:** Under the GST regime, prices of utility vehicles (UV) have come off by 2-7%. As UV constitutes half of M&M's auto portfolio, it is likely to be a major beneficiary of GST rollout. M&M has planned two new products in the UV space over the next two years (one MUV in FY2018 and one compact UV in FY2019). Further, given the pickup in economic growth and improved rural demand, we expect LCV (30% of auto volumes) growth to remain strong for M&M. Cumulatively, we expect M&M's auto segment's volumes to report a 8% CAGR over FY2017-FY2019.
- Outlook:** The automotive segment (constituting 65% of revenue) is likely to pick up in FY2018, following the favourable environment post GST for both the UV (UV segment has seen price reduction of 2-7%) and light commercial vehicle segment (demand improvement expected).

Further, new launches by M&M would aid in volume growth. We expect the automotive segment's volumes to improve from 3% in FY2017 to 8% CAGR in FY2017-FY2019. Given the strong tractor demand due to normal monsoon and increased kharif sowing (double-digit growth expected), we expect about 10% overall volume growth for M&M over the next two years.

- ♦ **Valuation:** Given the in-line operating results for Q1FY2018, we have broadly maintained our earnings assumptions for FY2018 and FY2019. We maintain our Buy recommendation on the stock with an SOTP-based price target of Rs1,525.

Result					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	
Revenue	11,094.1	10,524.7	5.4	10,612.1	4.5	
Total Expenses	9,640.2	9,027.6	6.8	9,375.4	2.8	
EBITDA	1,453.9	1,497.1	-2.9	1,236.8	17.6	
Other income	128.2	129.4	-1.0	294.0	-56.4	
Depreciation	378.3	348.4	8.6	378.2	0.0	
Interest	49.9	51.5	-3.0	67.3	-25.8	
PBT	1,153.8	1,226.6	-5.9	1,085.3	6.3	
Tax	385.6	356.3	8.2	305.2	26.3	
Adjusted PAT	768.3	870.3	-11.7	780.0	-1.5	
Reported PAT	768.3	961.3	-20.1	873.7	-12.1	
EPS	12.4	14.0		12.6		
EBITDA margin (%)	13.1	14.2	(110) BPS	11.7	150 BPS	
Eff tax rate (%)	33.4	29.0		28.1		

Segmental performance					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	
Automotive division						
Volumes (units)	116,968	121,530	-3.8	138,048	-15.3	
Revenues	6,538.6	6,492.5	0.7	7,612.8	-14.1	
PBIT	458.0	510.5	-10.3	546.1	-16.1	
PBIT Margins (%)	7.0	7.9	(90 bps)	7.2	(20 bps)	
Farm Equipment division						
Volumes (units)	84,533	74,595	13.3	50,253	68.2	
Revenues	4,286.1	3,806.7	12.6	2,702.0	58.6	
PBIT	742.0	755.5	-1.8	466.9	58.9	
PBIT Margins (%)	17.3	19.8	(250 bps)	17.3	-	
Others						
Revenues	415.4	349.4		370.8		
PBIT	24.5	16.3		24.0		
PBIT Margins (%)	5.9	4.7		6.5		

Valuation					Rs cr	
Particulars	FY15	FY16	FY17	FY18E	FY19E	
Total Income (Rs cr)	37,468.3	38,887.9	41,895.4	46,329.1	50,254.4	
Growth (%)	-3.5%	3.8%	7.7%	10.6%	8.5%	
EBITDA (Rs cr)	4,603.3	5,234.9	5,655.6	6,380.6	7,107.6	
EBITDA margin (%)	12.3%	13.5%	13.5%	13.8%	14.1%	
PAT (Rs cr)	3,423.3	3,337.8	3,687.7	3,919.5	4,530.6	
Growth (%)	-12.3%	-2.5%	10.5%	6.3%	15.6%	
FD EPS (Rs)	55.1	53.7	59.4	63.1	72.9	
P/E (x)	25.7	26.4	23.9	22.5	19.4	
P/B (x)	4.3	3.8	3.4	3.1	2.8	
EV/EBITDA (x)	19.1	16.0	14.8	13.1	11.6	
ROE (%)	16.6%	14.3%	14.4%	13.9%	14.5%	
ROCE (%)	16.7%	16.5%	16.7%	16.7%	17.4%	

SoTP valuation

Particulars	Per share	Remarks
Core business (MM+MVML)	1,118	At 16x FY19 earnings
Key Subsidiaries		
Tech Mahindra	186	Bloomberg Consensus target price
M&MFSL	183	2.5x its FY2019 Book value
Mahindra Lifespace	18	Market cap
Mahindra Holiday Resort	54	Market cap
Mahindra CIE	26	Market cap
Ssangyong	59	Market cap
Swaraj Engines	13	Market cap
EPC Industries	5	Market cap
Value of subsidiaries before discount	543	
After holdings 25% discount	407	
Target Price	1,525	

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