



15 Dec 2017

Fundamental Report on **EQUITY**

[Mahindra & Mahindra]



Mahindra

Sensex	33,082
Nifty	10,207
Action	Buy
Scrip	Mahindra & Mahindra Ltd
Current Price	1442.50
Target Price	1810



Fundamental Outlook

Mahindra & Mahindra Ltd is an India-based company. The company operates in nine segments: automotive segment comprises of sales of automobiles, spare parts and related services; farm equipment segment comprises of sales of tractors, spare parts and related services; M&M is the market leader in UV and tractors, with Market share of over 40% in both segments. It also has presence into CVs, 3-wheelers and 2-wheelers Segments. Also, SsangYong, its subsidiary in South Korea is focused on SUV segment in global markets. Apart from core auto business, it has subsidiaries/Associates in various businesses like IT, NBFC, Auto Ancillaries, hospitality, infrastructure etc. Mahindra & Mahindra, Mitsubishi Agricultural Machinery and Mahindra announce Start of their Strategic partnership. Mahindra Introduces the All New Automatic Transmission of The New Age XUV500. Pininfarina S.p.A ('Pininfarina'), an automotive design and engineering services company was acquired by the Mahindra group during the year under review.

- Mahindra & Mahindra announced its auto sales performance for November 2017 which stood at 38,570 vehicles, compared to 32,564 vehicles during November 2016.
- The Passenger Vehicles segment (which includes UVs, Cars and Vans) sold 16,030 vehicles in November 2017, as against 13,198 vehicles during November 2016, a growth of 21%. The company's domestic sales stood at 36,039 vehicles during November 2017, as against 29,869 vehicles during November 2016, registering a growth of 21%. In the Medium and Heavy Commercial Vehicles segment, M&M sold 792 vehicles for the month, a growth of 122%. Exports for November 2017 stood at 2,531 vehicles, a de-growth of 6%

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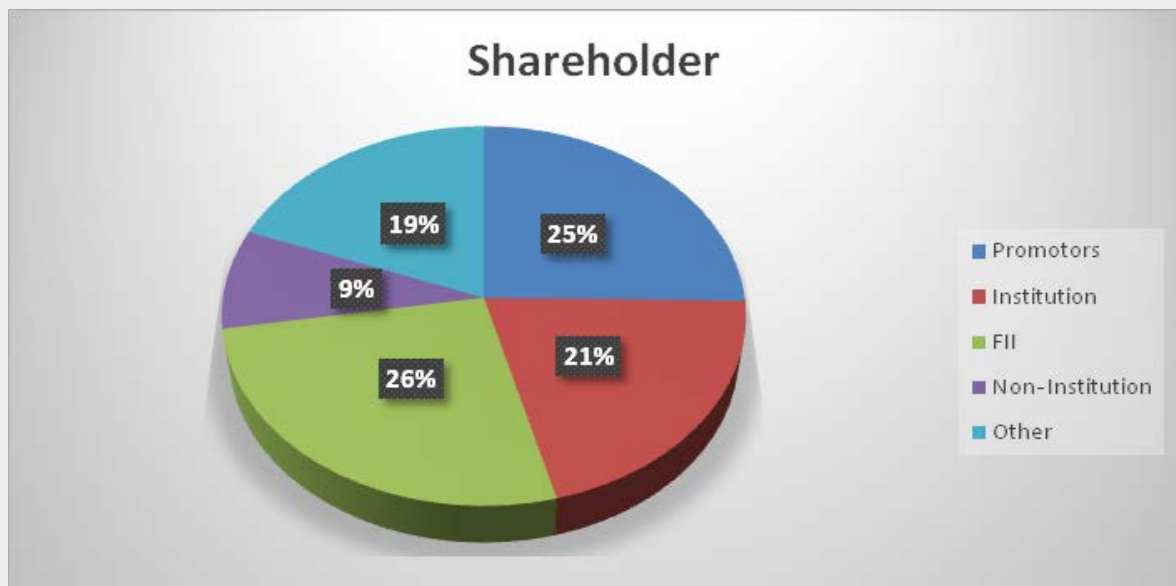
Share Holding Pattern (%)

Category	Percentage
Promoters	25.26%
Institution	20.66%
FII	26.48%
Non- Institution	8.49%
Other	19.11%

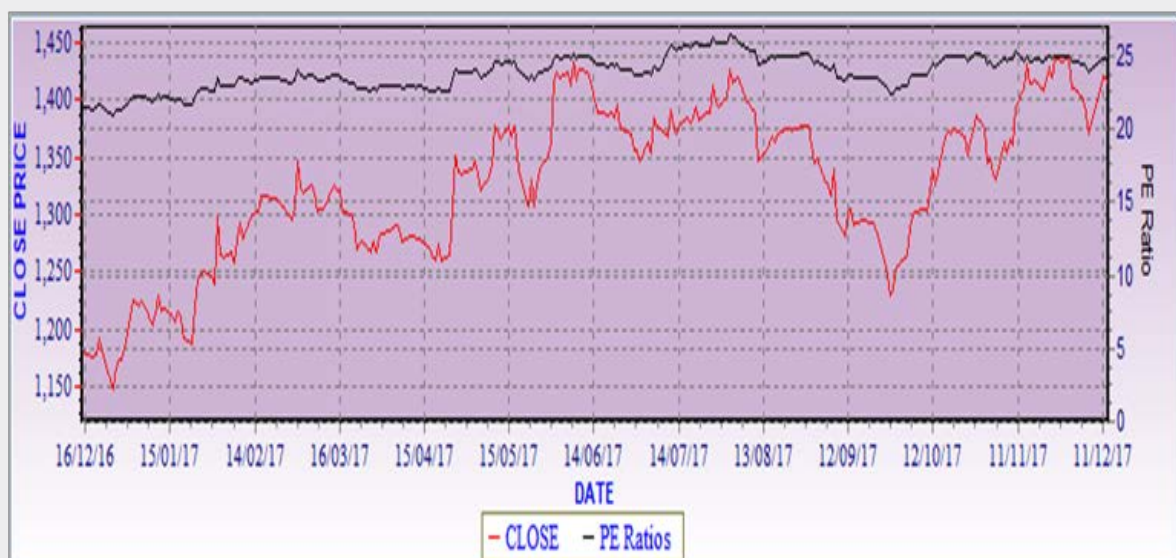
Value Parameter

Face Value (₹)	5.00
52 Week High	1458.95
52 Week Low	1141.40
Market Cap (Cr.)	87803.58
EPS (₹)	68.26
P/E Ratio (times)	21.82
P/B Ratio (times)	2.95
Dividend Yield (%)	0.92%

Fundamental Outlook



P/E Chart:-



Estimate Change	Increase
Target price Change	Increase
Rating	Neutral

Financial & Valuation Point			
	2017A	2018E	2019E
Revenue	43885.40	47979.10	54546.40
EBITDA	4805.50	6265.25	7050.40
EBIT	3550.15	5050.75	5725.75
ROE	15.50	16.70	17.80
ROCE	14.40	15.60	16.75
Consolidated P/E	22.50	20.75	19.50

Fundamental Outlook

Valuation Discussion: -According to Valuation Point of View very strong fundamental of Mahindra & Mahindra .Company's volume growth is on an uptrend led by strong demand in tractors and a cyclical recovery light commercial vehicles. A pick up in rural economy is likely and this should benefit M&M. Thus, it expected that the company would see good growth going forward and the stock will see a price target of Rs. 1877 in 10 to 12 months' time frame on a three year average P/E of 20.9x. We lower our S/A EPS by 2.5% for FY18E/19E to factor in for higher tax rate. However, our consol. At the current market price Mahindra & Mahindra is trading at a P/E of 22050x its FY19E. We assign a P/E of 19.5x its FY19E to arrive at a target price of INR 1810 and rate the stock as BUY.

Key Highlight and Investment Rational:-

- 1) The stock had outperformed the market over the past 30 days till 23 November 2017, rising 4.06% compared with 1.65% rise in the Sensex. The scrip had underperformed the market in past one quarter, rising 3.20% as against Sensex's 6.30% rise. The scrip had also underperformed the market in past one year, rising 21.92% as against Sensex's 29.88% rise.
- 2) The large-cap company has equity capital of Rs 310.80 crore. Face value per share is Rs 5.
- 3) Mahindra & Mahindra (M&M) announced that it will collaborate with Uber, the global transportation technology company, to explore the deployment of electric vehicles (EVs) on the Uber platform in several cities across India.
- 4) To begin with, the companies will deploy hundreds of electric vehicles in Delhi and Hyderabad. M&M's electric vehicles on the Uber platform will include the e20Plus hatch and the eVerito sedan. As part of this collaboration, both the companies will also explore deployment of M&M electric vehicles to other cities.
- 5) M & M's net profit rose 24.8% to Rs 1331.57 crore on 14% rise in net sales to Rs 12182.07 crore in Q2 September 2017 over Q2 September 2016.
- 6) M&M enjoys a leadership position in tractors and utility vehicles in India

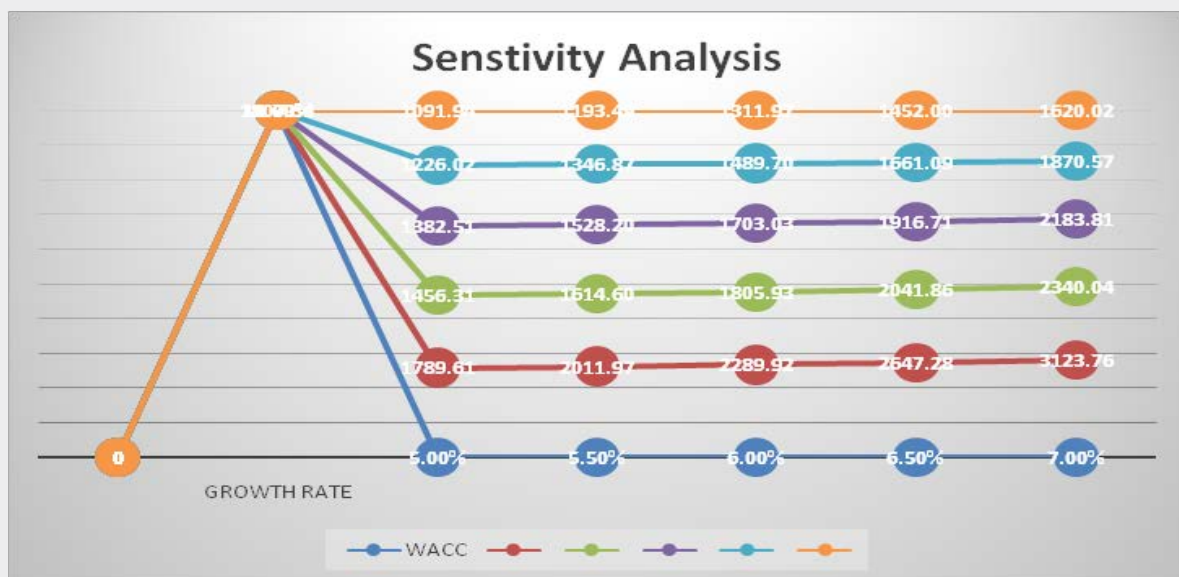
Stock Price Graph

Months	Price
14-08-2017	1355.75
13-09-2017	1307.33
13-10-2017	1325.30
13-11-2017	1410.20
13-12-2017	1412.50



Fundamental Outlook

SENSITIVITY ANALYSIS						
WACC						
Growth Rate	1807.34	10.00%	10.79%	11.00%	11.50%	12.00%
	5.00%	1789.61	1456.31	1382.51	1226.02	1091.94
	5.50%	2011.97	1614.60	1528.20	1346.87	1193.49
	6.00%	2289.92	1805.93	1703.03	1489.70	1311.97
	6.50%	2647.28	2041.86	1916.71	1661.09	1452.00
	7.00%	3123.76	2340.04	2183.81	1870.57	1620.02



Sensitivity Analysis

Overall GST and business environment

- The prices of vehicles for end customers on large UVs and SUVs have been reduced by an average of 6.9%, while those that come under small car segment have been reduced by an average of 1.4%, Mahindra said in a regulatory filing.
- Reported EBITDA declined ~3% YoY to ~INR14.5b (v/s EST INR15.6b).
- Reported EBITDA margins declined 110bp YoY (+140bp QoQ) to 13.1% (v/s EST14.3%), led by 110bp impact due to GST.
- MM provided INR 1.44b for compensation to dealers due to unavailability of
- Input credit for certain taxes paid as well as due to tractors being exempt from Excise duty in the earlier regime.
- Adjusted for this, EBITDA grew 7% YoY to INR16b (v/s est INR15.6b) and EBITDA Margins were 14.2%.
- Adj. PBIT margins of Auto business declined 10bp YoY (+70bp QoQ) to 7.8%, and Of Tractor business declined by 90bp YoY (+160 QoQ) to 18.9% (impacted due to Absorption of RM cost pressure).
- PAT adjusted for GST impact declined 4% YoY to ~INR8.6b (v/s est. INR9.8b), Impacted by lower other income and higher tax rate.

Automobile Industry

The turnover of Maruti Suzuki for 2016-17 is more than the total of turnovers of three major brands -- Hyundai, Ford and Nissan -- put together. Except Maruti Suzuki, no original equipment manufacturers are listed in India. Maruti Suzuki in 2016-17 clocked a revenue of ~77,266.20 crore as against ~57,746.30 crore in 2015-16, up by 34 per cent. The country's second largest carmaker and South Korean automajor Hyundai Motor has clocked a revenue of ~41,075 crore in 2016-17 against ~36,155 crore in 2015-16, with a growth of around 14 per cent. 'We will continue to excite the market with new products and customer-led innovative marketing campaigns in 2018. We will maintain the same momentum to achieve market leadership,' the company said. US-based Ford's Indian arm also saw 34 per cent jump in revenue to ~22,238 crore from ~16,649 crore, a year ago. The loss dropped marginally to ~553 crore from ~584 crore. Ford's revenue has grown up by around 30 per cent for the past three years along with good Ebitda growth, said a company spokesperson. Ford has attributed the loss to investment in setting up a facility in Sanand, which doubled its capacity. The rise in competition has also affected Ford's performance. To improve profitability, Ford said it was looking at increasing brand awareness and train its employees to improve customer service and promote low-cost operations. The company will set up an export hub and a centre of excellence for small cars. Nissan Motor's revenue dropped 11 per cent to ~9,495.40 crore from ~9,874 crore, a year ago. While 2016-17 profit loss numbers were not reported, Nissan posted a profit of ~373.22 crore as against loss of ~171.91 crore, a year ago.



Comparable Company Analysis									EPS			P/E (x)		EV / EBITDA (x)			
	Price (INR)	# of shares	Debt (INR)	Cash (INR)	Market Cap (INR)	Enterprise Value (INR)	EBITDA (INR)	Net Income (INR)	FY2017A	FY2018E	FY2019E	FY2017A	FY2018E	FY2019E	FY2017A	FY2018E	FY2019E
Automobile Sector																	
Maruti Suzuki	9129.05	302.08	483.60	23.50	2,75,839.82	2,76,299.92	10127.2	7511	248.71	270.2	295.5	36.7x	33.8x	30.9x	27.3x	19.8x	18.0x
Tata Motors	408.65	2,155	74,489.12	36,077.88	1,29,152.07	1,67,563.31	8200.23	6063.56	17.85	25.5	32.2	22.9x	16.0x	12.7x	20.4x	66.1x	59.0x
Hero Motocorp	3,468.05	199.7	247.98	195.39	68,733.17	68,785.76	4568.39	3229.29	159.87	150.8	170.35	21.7x	23.0x	20.4x	15.1x	10.7x	8.9x
Bajaj Auto	3,173.65	289.3	0.00	301.36	91,605.86	91,304.50	5332.93	3824.86	139.96	155.95	175.25	22.7x	20.4x	18.1x	17.1x	13.8x	11.7x
TVS Motor Company	754.45	475	1,242.08	51.26	36,117.10	37,307.92	657.76	509.09	10.21	15.25	19.23	73.9x	49.5x	39.2x	56.7x	28.2x	21.7x
Eicher Motors	28,959.00	27	44.41	25.06	77,893.31	77,912.66	2243.91	1523.61	612.67	675.25	690.3	47.3x	42.9x	42.0x	34.7x	21.4x	17.0x
Mean									198.2	215.5	230.5	37.5	30.9	27.2	28.6	26.7	22.7
Median									149.9	153.4	172.8	29.8	28.4	25.6	23.9	20.6	17.5
Mahindra & mahindra	1,426.6	54.1	40,281.4	4,654.0	77,205.3	1,33,441.4	10,638.0	3,698.0	68.3	86.3	88.4	20.9	16.5	16.1	12.5	11.8	11.4

Conclusion

Discssion on DCF Valuation

- Terminal Value of the firm is calculated at FY21E end. Terminalperpetual Growth rate is assumed as 6% keeping it around GDP growth rate of India.
- DCF Valuation gives fair value of share price as Rs.1807.34 Market share price is trading below the calculated fair value (1807.34).It clearly indicates that the share is currently undervalued in the market.

Hence, Buy is recommended.

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