

October 2, 2019

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	563		547	
Sales (Rs. m)	502,914	509,404	536,553	503,496
% Chng.	(6.3)	1.2		
EBITDA (Rs. m)	59,661	59,974	65,884	58,860
% Chng.	(9.4)	1.9		
EPS (Rs.)	32.1	31.2	35.8	30.5
% Chng.	(10.4)	2.2		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	487	536	503	509
EBITDA (Rs. bn)	62	66	60	60
Margin (%)	12.8	12.4	11.9	11.8
PAT (Rs. bn)	40	48	38	37
EPS (Rs.)	34.0	40.4	32.1	31.2
Gr. (%)	25.4	18.9	(20.7)	(2.9)
DPS (Rs.)	7.5	8.5	10.0	10.0
Yield (%)	1.3	1.5	1.8	1.8
RoE (%)	14.2	14.9	10.9	10.0
RoCE (%)	15.1	13.7	9.8	8.7
EV/Sales (x)	1.3	1.2	1.3	1.3
EV/EBITDA (x)	10.0	9.4	10.7	10.7
PE (x)	16.4	13.8	17.4	17.9
P/BV (x)	2.2	1.9	1.8	1.7

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.864 / Rs.503
Sensex / Nifty	38,305 / 11,360
Market Cap	Rs.692bn / \$ 9,731m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.4280.17m

Shareholding Pattern (%)

Promoter's	24.31
Foreign	34.49
Domestic Institution	24.06
Public & Others	17.15
Promoter Pledge (Rs bn)	3.74

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	(15.8)	(34.3)
Relative	2.6	(14.5)	(37.4)

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M&M, Ford JV – limited focus to cap synergies

M&M (MM) and Ford Motor company (Ford) have formed 51:49 JV (that will develop, market and distribute Ford brand vehicles in India and Ford & Mahindra brand vehicles in exports markets) by expanding two-year old alliance (for EV, connected vehicles and co-development of ICE products). The JV, a) to get Ford's manufacturing plants in Chennai (including powertrain) and Gujarat, b) will be managed by MM while governance will be equally composed of both the partners and c) will use Ford's distribution network in emerging markets for exports of Ford and MM products. While the JV can bring long term manufacturing and sourcing synergies to both the partners, we believe the limited scope of the same (only UV focused) may not result in significant financial gains for the JV. We maintain Hold with price target of INR563.

JV's initial focus will be restricted to just UV segment (31% of PV market)

- The JV will be developing four new products for both partners – a) C SUV (work started before JV), 2 new products based on Ford's B platform and c) a new MPV based on MM's platform. As shared by the management, jointly developed products will be sold independently by both partners.
- The increased pace of new co-developed product however will be restricted to UV segment currently (~31% of PV segment).
- We believe with restricted market focus, the expected benefit of economies of scale in local/global RM sourcing, vendor negotiation/rationalization and faster adoption of technologies will be limited.

Focus is to grow beyond ICE – will complement MM's EV head start

- Another focus area for the JV is will be to co-develop electric vehicles (EV) and grow beyond ICE (internal combustion engine). The JV to start working on BEV product built on Ford's Aspire platform.
- As per MoU signed in Mar-18 ([Link](#)) MM and Ford is currently focusing on new product development for India and emerging markets, co-development of EVs along with sharing powertrain portfolios and joint development of connected vehicle solutions. The scope of a JV currently does not include development of hybrid vehicles.

MM's exports footprint to get expanded significantly

- MM's automotive exports have been struggling in the past with its share in overall exports remain stagnant at 3-5% in past three years exported to South Africa, Nepal, Bangladesh, Sri Lanka and Chile, among other nations.
- However, with Ford being one of the largest exporters from India, this JV will help MM scale significantly as it can leverage on Ford's established distribution network globally.

Other highlights

- **MM's total investments will be capped at INR14b (including equity value of INR6.6b for its 51% stake).**
- **Cross benefits:** Management expects MM to benefit from Ford's advance technologies, product development maturity, global reach and sourcing while Ford to benefit from MM's emerging market business model, integrated product development infrastructure (MRV) and strong India sourcing.
- **Dealer network:** While MM to use Ford's global network, in turn existing MM dealers are taking up Ford dealerships to strengthen its network expansion. Sales and marketing functions will be independent between MM and Ford.
- Going forward vehicle manufacturing capacities can be used interchangeably. Based on the current plan C SUV will be made in M&M plant while B SUV will be made in Ford's plant in Chennai.
- The JV is limited to FIPL (Ford India Pvt Ltd) and the same does not include GBS (Global business Service) which is in to engineering services.

Valuation and View

- While the JV can bring long term manufacturing and sourcing synergies to both the partners, we believe the limited scope of the same (JV focused) may not result in significant financial gains for the JV.
- Limited scope for incremental benefits except exports as MM-Ford alliance were already working on new product development/ manufacturing efficiencies areas since Sep-17.
- We maintain Hold with price target of INR563. The stock currently trades at 17.4x/17.9x FY2021 EPS.

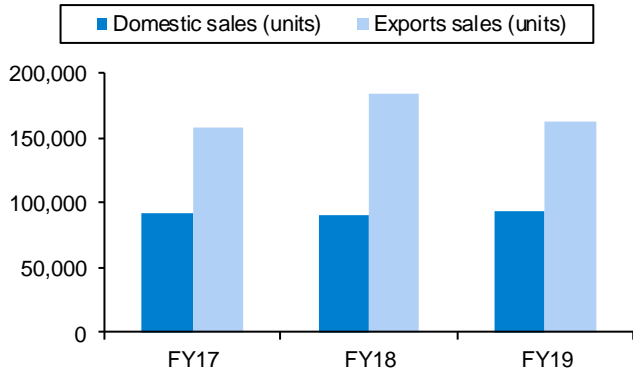
Ford – MM Alliance – a flash back

Exhibit 1: Series of announcements over the past two years

Timeline	Announcement
Sep-17	Ford MM agree to jointly develop EV in India
Mar-18	M&M and Ford India sign 5 MoUs for connected vehicles projects, EV batteries, new product development and power trains.
Mar-18	A jointly develop a mid-sized Sports Utility Vehicle (SUV) based on the Mahindra platform, which will be sold independently by both companies a separate brands.
Oct-18	Mahindra will develop and supply a low-displacement petrol engine to Ford India for use in its present and future vehicles, starting in 2020.
Oct-18	The BS-VI compliant powertrain will help Ford extend and strengthen its existing offering of petrol engines, that currently includes the all-new three-cylinder TiVCT family
Apr-19	Ford likely to end its independent operations from India

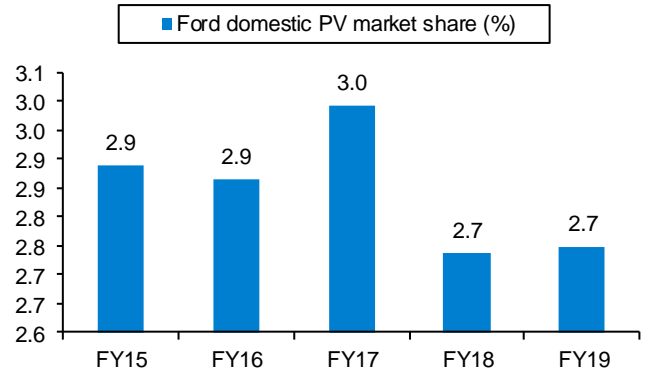
Source: Company, Industry

Exhibit 2: Ford – exports outgrow domestic sales



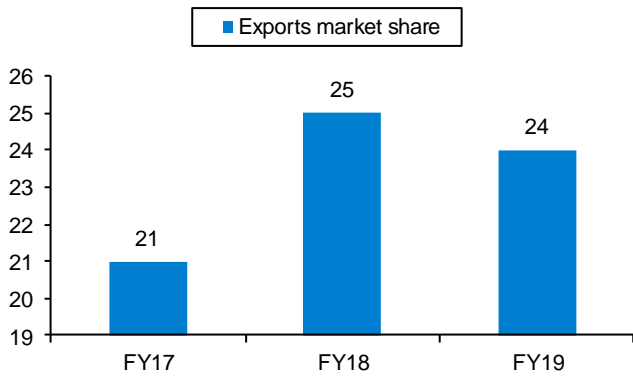
Source: SIAM, PL

Exhibit 3: Ford - Domestic PV market remain stagnant



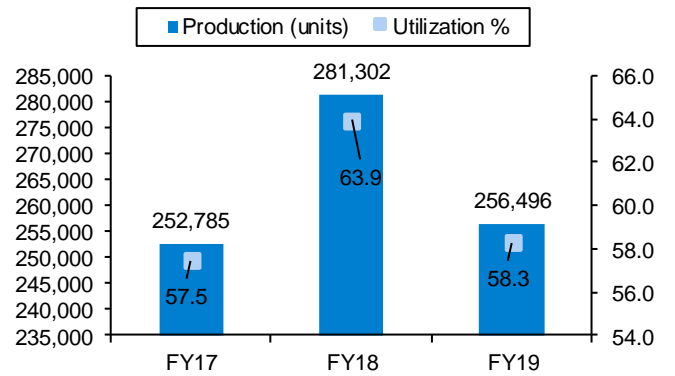
Source: SIAM, PL

Exhibit 4: ...while it has ~1/4th share in exports (%)



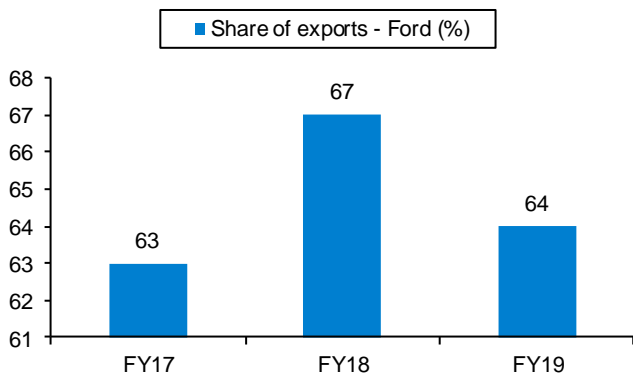
Source: SIAM, PL

Exhibit 5: Exports help maintain utilization



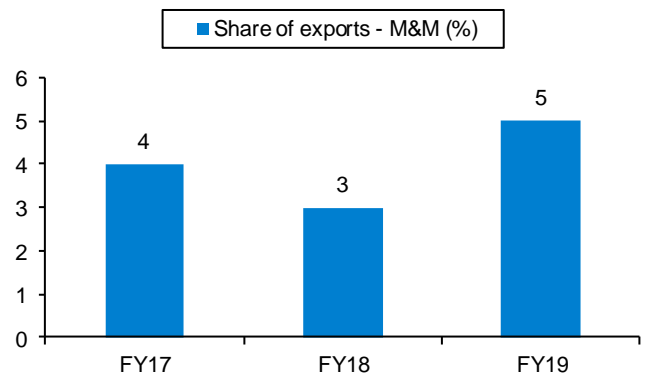
Source: SIAM, PL

Exhibit 6: Ford – exports form ~2/3rd in sales mix...



Source: Company, PL

Exhibit 7: While for M&M it remains meagre at 5%



Source: Company, PL

Exhibit 8: SOTP price target

M&M: Sum-of-the-parts (INR/share)	FY21E
Core EPS (excl. subsidiary dividend)	32.9
PE attributable (x)	12
Value of core business	395
Value of subsidiaries	
1. Tech Mahindra	86
2. M&M Financial Services	47
3. Mahindra Lifespaces	5
4. Mahindra Holidays	9
5. Ssangyong	10
6. Mahindra CIE	4
7. Mahindra Logistics	8
Target price	563

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	486,856	536,140	502,914	509,404
YoY gr. (%)	10.5	10.1	(6.2)	1.3
Cost of Goods Sold	341,347	382,565	358,075	361,677
Gross Profit	145,509	153,575	144,839	147,727
Margin (%)	29.9	28.6	28.8	29.0
Employee Cost	28,409	29,802	33,378	36,049
Other Expenses	54,860	57,377	51,800	51,705
EBITDA	62,240	66,396	59,661	59,974
YoY gr. (%)	37.9	6.7	(10.1)	0.5
Margin (%)	12.8	12.4	11.9	11.8
Depreciation and Amortization	14,794	18,604	22,901	25,503
EBIT	47,446	47,792	36,760	34,471
Margin (%)	9.7	8.9	7.3	6.8
Net Interest	1,122	1,134	1,029	1,054
Other Income	10,364	16,890	18,101	18,869
Profit Before Tax	61,024	63,250	40,161	52,286
Margin (%)	12.5	11.8	8.0	10.3
Total Tax	17,464	15,290	11,647	15,163
Effective tax rate (%)	28.6	24.2	29.0	29.0
Profit after tax	43,560	47,960	28,514	37,123
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	40,465	48,186	38,221	37,123
YoY gr. (%)	25.7	19.1	(20.7)	(2.9)
Margin (%)	8.3	9.0	7.6	7.3
Extra Ord. Income / (Exp)	3,095	(225)	(9,706)	-
Reported PAT	43,560	47,960	28,514	37,123
YoY gr. (%)	19.6	10.1	(40.5)	30.2
Margin (%)	8.9	8.9	5.7	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	43,560	47,960	28,514	37,123
Equity Shares O/s (m)	1,190	1,192	1,192	1,192
EPS (Rs)	34.0	40.4	32.1	31.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	182,295	229,854	279,052	314,052
Tangibles	182,295	229,854	279,052	314,052
Intangibles	-	-	-	-
Acc: Dep / Amortization	103,700	129,036	151,937	177,440
Tangibles	103,700	129,036	151,937	177,440
Intangibles	-	-	-	-
Net fixed assets	78,594	100,818	127,115	136,611
Tangibles	78,594	100,818	127,115	136,611
Intangibles	-	-	-	-
Capital Work In Progress	31,287	24,198	10,000	10,000
Goodwill	-	-	-	-
Non-Current Investments	166,455	190,321	205,321	220,321
Net Deferred tax assets	(2,772)	(6,341)	(6,341)	(6,341)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	39,375	29,840	25,000	25,000
Inventories	27,017	38,393	36,013	36,478
Trade receivables	31,730	39,463	37,017	33,495
Cash & Bank Balance	28,937	37,317	21,836	22,087
Other Current Assets	60,591	59,513	59,513	59,513
Total Assets	474,168	526,971	528,485	553,973
Equity				
Equity Share Capital	5,950	5,958	5,958	5,958
Other Equity	296,991	336,135	352,733	377,940
Total Network	302,941	342,093	358,691	383,898
Non-Current Liabilities				
Long Term borrowings	28,644	24,803	24,803	24,803
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	86,034	96,782	82,671	83,738
Other current liabilities	53,777	56,952	55,978	55,193
Total Equity & Liabilities	474,168	526,971	528,485	553,973

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	56,688	63,547	36,760	34,471
Add. Depreciation	14,794	18,604	22,901	25,503
Add. Interest	(8,084)	(13,184)	18,101	18,869
Less Financial Other Income	10,364	16,890	18,101	18,869
Add. Other	1,957	(327)	-	-
Op. profit before WC changes	65,354	68,640	77,762	78,843
Net Changes-WC	17,803	(5,060)	(9,819)	(460)
Direct tax	(12,887)	(14,341)	(11,647)	(15,163)
Net cash from Op. activities	70,271	49,239	56,296	63,221
Capital expenditures	(51,104)	(25,487)	(45,160)	(50,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(51,104)	(25,487)	(45,160)	(50,000)
Issue of share cap. / premium	-	-	1,930	1,930
Debt changes	592	(3,725)	-	-
Dividend paid	(9,230)	(10,117)	(12,084)	(12,084)
Interest paid	(1,695)	(1,710)	(1,029)	(1,054)
Others	-	-	-	-
Net cash from Fin. activities	(10,333)	(15,552)	(11,183)	(11,208)
Net change in cash	8,834	8,199	(47)	2,013
Free Cash Flow	43,583	18,923	21,296	28,221

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20E
Net Revenue	130,704	140,352	129,227	114,571
YoY gr. (%)	12.9	5.5	(4.4)	(11.8)
Raw Material Expenses	94,069	100,368	91,591	81,918
Gross Profit	36,634	39,983	37,636	32,653
Margin (%)	28.0	28.5	29.1	28.5
EBITDA	15,172	16,458	16,227	13,798
YoY gr. (%)	1.6	(6.2)	(13.3)	(14.0)
Margin (%)	11.6	11.7	12.6	12.0
Depreciation / Depletion	4,735	5,325	5,454	5,410
EBIT	10,437	11,132	10,774	8,388
Margin (%)	8.0	7.9	8.3	7.3
Net Interest	249	281	271	245
Other Income	3,409	2,368	3,191	4,300
Profit before Tax	12,797	12,172	27,364	12,443
Margin (%)	9.8	8.7	21.2	10.9
Total Tax	2,028	3,683	4,226	2,692
Effective tax rate (%)	15.8	30.3	15.4	21.6
Profit after Tax	10,769	8,489	23,138	9,751
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	11,442	9,219	13,364	9,751
YoY gr. (%)	24.4	(10.2)	10.8	(36.8)
Margin (%)	8.8	6.6	10.3	8.5
Extra Ord. Income / (Exp)	(673)	(730)	9,774	-
Reported PAT	10,769	8,489	23,138	9,751
YoY gr. (%)	(11.4)	(19.8)	89.5	(40.9)
Margin (%)	8.2	6.0	17.9	8.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,769	8,489	23,138	9,751
Avg. Shares O/s (m)	1,192	1,192	1,192	1,192
EPS (Rs)	9.6	7.7	11.2	8.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	34.0	40.4	32.1	31.2
CEPS	46.4	56.1	51.3	52.6
BVPS	254.6	287.1	301.0	322.2
FCF	36.6	15.9	17.9	23.7
DPS	7.5	8.5	10.0	10.0
Return Ratio(%)				
RoCE	15.1	13.7	9.8	8.7
ROIC	13.8	12.8	7.9	7.0
RoE	14.2	14.9	10.9	10.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	(20)	(13)	(7)	(10)
Valuation(x)				
PER	16.4	13.8	17.4	17.9
P/B	2.2	1.9	1.8	1.7
P/CEPS	46.4	56.1	51.3	52.6
EV/EBITDA	10.0	9.4	10.7	10.7
EV/Sales	1.3	1.2	1.3	1.3
Dividend Yield (%)	1.3	1.5	1.8	1.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Tractor Volumes	319,623	330,436	304,001	288,801
Auto volumes	539,670	597,758	558,362	560,063

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Aug-19	Hold	547	518
2	4-Jul-19	BUY	815	672
3	29-May-19	BUY	815	672
4	5-Apr-19	BUY	878	658
5	11-Feb-19	BUY	878	682
6	7-Jan-19	BUY	984	730
7	14-Nov-18	BUY	984	770
8	5-Oct-18	BUY	1,058	795

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	69
2	Bajaj Auto	Reduce	2,646	2,619
3	Bharat Forge	BUY	430	401
4	CEAT	Reduce	757	803
5	Eicher Motors	Reduce	15,800	16,348
6	Exide Industries	Accumulate	209	181
7	Hero Motocorp	Accumulate	2,529	2,259
8	Mahindra & Mahindra	Hold	547	518
9	Maruti Suzuki	BUY	6,842	5,806
10	Motherson Sumi Systems	Accumulate	111	97
11	Tata Motors	Hold	139	144
12	TVS Motors	Hold	405	380

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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