

JUNE 28, 2018

Equity	27-Jun	% Chg		
		1 Day	1 Mth	3 Mths

Indian Indices				
SENSEX Index	35,217	(0.8)	0.8	6.2
NIFTY Index	10,671	(0.9)	0.6	4.8
NSEBANK Index	26,423	(0.7)	0.6	8.1
NIFTY 500 Index	9,129	(1.1)	(0.9)	1.7
CNXMcap Index	18,183	(1.5)	(3.2)	(4.1)
BSESMCAP Index	15,970	(2.0)	(6.9)	(6.9)

World Indices				
Dow Jones	24,118	(0.7)	(2.6)	1.1
Nasdaq	7,445	(1.5)	0.2	7.1
FTSE	7,622	1.1	(1.4)	8.2
NIKKEI	22,272	(0.3)	(1.4)	5.5
Hangseng	22,272	(0.3)	(1.4)	5.5
Shanghai	28,356	(1.8)	(7.7)	(5.3)

Value traded (Rs cr)	27-Jun	% Chg Day	
Cash BSE	2,212	(15.7)	
Cash NSE	28,960	11.0	
Derivatives	1,264,849	35.8	

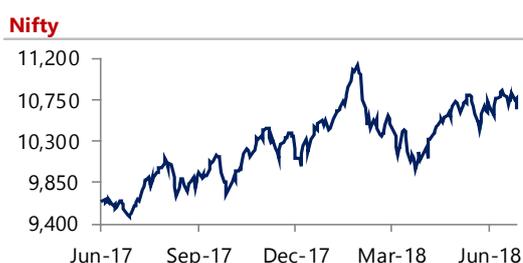
Net inflows (Rs cr)	26-Jun	MTD	YTD
FII	(414)	(3,284)	(5,546)
Mutual Fund	616	5,798	65,170

Nifty Gainers & Losers	27-Jun	Price	Chg	Vol
		(Rs)	(%)	(mn)
Gainers				
Tech Mahindra		714	3.8	5.6
Bharti Infra		300	2.3	4.1
DRL		2,294	1.2	1.6
Losers				
BPCL		383	(7.8)	8.5
HPCL		277	(7.5)	10.5
Indian Oil Corp		156	(6.7)	14.1

Advances / Declines (BSE)					
27-Jun	A	B	T	Total	% total
Advances	62	126	27	215	100
Declines	327	943	125	1,395	649
Unchanged	2	15	7	24	11

Commodity	27-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Crude (US\$/BBL)	77.6	(0.1)	3.0	11.6
Gold (US\$/OZ)	1,252	(0.5)	(3.4)	(5.4)
Silver (US\$/OZ)	16.1	(1.5)	(2.1)	(1.1)

Debt / forex market	27-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	-	-	-	-
Re/US\$	-	-	-	-



Source: Bloomberg

News Highlights

- ▶ State-run oil marketing companies (OMCs) plan to firm up long-term crude supply contracts and increase spot purchase of crude oil from the United States, said sources from these companies. (Mint)
- ▶ The government has started discussions for sale of the Air India building at Nariman Point, Mumbai, to Jawaharlal Nehru Port Trust (JNPT) as part of efforts to raise funds for the cash-strapped national carrier, said people familiar aware of the development. (Mint)
- ▶ The government hiked the price of ethanol produced from C-molasses by Rs2.85 per litre to Rs43.70 for the new season starting December 2018, according to people in the know. (Mint)
- ▶ Thyssenkrupp AG and **Tata Steel Ltd** are nearing a €15 billion (\$17.4 billion) deal this week to combine their European assets into a global steel giant, people familiar with the talks told. (Mint)
- ▶ The National Company Law Appellate Tribunal (NCLAT) refused to stay the delisting of **Electrosteel Steel Ltd** shares by its new promoter Vedanta Ltd, pursuant to the approval of the latter's insolvency resolution plan for the debt-ridden steel manufacturer. (Mint)
- ▶ **GMR Infra's** Kakinada SEZ Limited is declared as selected bidder for development of a commercial port in East Godavari District, AP (BSE)
- ▶ **Indiabulls Real Estate** said it has raised Rs4.80 bn through issue of debentures on private placement basis. (Mint)
- ▶ **Allahabad Bank** has sought Rs 70 bn from the government, which is 78% of its annual capital requirement, bank's executive director NK Sahoo said. (ET)
- ▶ **JSW Steel** plans to invest Rs 75 bn on capacity expansion and upgradation of projects at its Vijayanagar Works plant in Karnataka, taking the annual steel manufacturing capacity at the facility to 13 million tonne per annum (MTPA) by March 2020, from the current 12 MTPA. (FE)
- ▶ **Exide Industries** announced signing of a pact with Swiss-based firm Leclanche SA for setting up a joint venture company to build lithium-ion batteries and provide energy storage systems for India's electric vehicle market. (Moneycontrol)

What's Inside

- ▶ **Analyst Meet Update:** Mahindra & Mahindra Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Analyst Meet Update

Stock Details

Market cap (Rs mn)	:	1109736
52-wk Hi/Lo (Rs)	:	934 / 612
Face Value (Rs)	:	5
3M Avg. daily vol	:	2,638,540
Shares o/s (m)	:	1243

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenues	486,856	545,031	603,766
Growth (%)	10.5	11.9	10.8
EBITDA	62,240	70,472	76,613
EBITDA margin (%)	12.8	12.9	12.7
Adj. Net profit	40,395	44,719	47,801
Adj. EPS (Rs)	34.0	37.7	40.3
Adj. EPS Growth (%)	13.4	10.7	6.9
Book value (Rs/share)	255.2	283.4	314.1
Dividend per share (Rs)	7.5	7.5	7.5
ROE (%)	14.2	14.0	13.5
ROCE (%)	18.4	18.7	18.2
P/E (x)	26.2	23.7	22.2
EV/EBITDA (x)	16.4	14.5	13.1
P/BV (x)	3.5	3.2	2.8

Source: Kotak Securities - PCG; Company

Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	21.7	21.6	21.6
FII	33.6	33.7	36.0
DII	21.3	20.4	21.0
Others	18.2	24.3	21.4

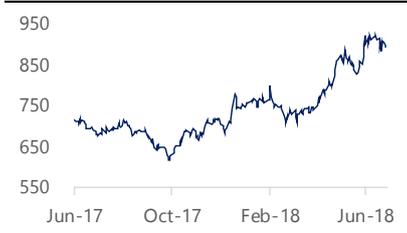
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Mah & Mah	4.1	19.8	19.5
Nifty	0.6	4.8	1.7

Source: Bloomberg

Price chart



Source: Bloomberg

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MAHINDRA & MAHINDRA (M&M)

PRICE Rs.893

TARGET Rs.958

ACCUMULATE

We attended the farm equipment segment (FES) investor day and visited M&M's tractor plant at Nagpur. In the meet, M&M shared its global strategy in the farm equipment segment.

Key Highlights

In the global FES industry, M&M has 2% global market share. M&M will be focussing on small farm holdings. M&M's overall strategy in the farm equipment segment is focused on significantly growing its global business, focus on farm machinery segment in India and global markets, use of technology, gain market share in the domestic tractor market and improve financial performance across all companies in the farm equipment segment. M&M is aiming at increasing global revenue share in the farm equipment segment from 37% to 50% and improve their EBIT margins.

Valuation and Outlook

M&M has planned few new products in the passenger vehicle segment in FY19. We expect these new launches coupled with volume growth in the commercial vehicle segment to drive revenue growth in the auto segment over FY19/FY20. In the tractor segment, expectation of normal monsoon will likely support tractor demand in FY19. On the back of cost saving program and economies of scale of higher volumes, we expect the company to broadly maintain its EBITDA margin near FY18 levels. We retain ACCUMULATE on the stock with unchanged price target of Rs958.

Analyst Meet Highlights

Increasing global presence

M&M's FES revenues stands at \$3.5bn of the \$155bn global industry, translating into a market share of ~2%. In order to expand the global presence, M&M has invested in few companies over the past few years. Management expects the companies that it has acquired stake in, to reach significant revenue scale going forward.

M&M is the third largest player in US in the sub 80HP tractor segment. Company recently expanded its portfolio there by entering the 80-120 HP segment. Further, M&M introduced a new product – Retriever (83 HP), in the UTV segment. Globally, USA is the second largest agri-machinery market (industry value of \$22bn) and third largest tractor market (annual volume of more than 200,000 units). M&M plans to grow in US market through brand strengthening, introducing new products and expand dealer network.

In volume terms, Brazil is globally the fifth largest tractor market and third largest harvester market having agricultural machinery industry size of \$7bn. M&M started operations in Brazil in 2013, through distributor model. Now, M&M have a full assembly plant in Brazil and 19 dealers. M&M wants to be present in the 20-150HP tractor segment and class 4 to 6 harvesters. Focus area for the company is to localize tractor and harvester portfolio for subsidy benefit. M&M's long term plan is to leverage Brazil as a hub for entire South America region.

M&M recently began operations in Mexico and started an assembly line in August 2017. Management sees lot of similarities between India and Mexico in terms of climate, geography and crops and wants to leverage that to expand its footprint.

Current dealer network stands at 29 and will increase going ahead. Mexico annual industry size is 13,000 units (strong in 70-130 HP segment).

In the Americas business (North America, Mexico, Brazil), the management aims to reach revenues of \$1bn, from \$600mn currently.

Japan's farm equipment industry size is \$3.5bn (~46% of India's industry size) and is strong in rice transplanters, harvesters and light weighted tractors. Japan is largest tractor export in the world. M&M have presence in Japan through Mitsubishi Agricultural Machinery Co. Ltd. (MAM). With 7% market share, MAM is the fourth largest player in Japan. MAM's growth strategy includes growing in the domestic market and leveraging its strong products (rice transplanter and light weighted tractors) globally. Through this, MAM aims to grow its revenues from \$450mn to \$1bn.

Turkey, with a farm equipment industry size of \$3.5bn, is the fourth largest tractor market in the world and amongst top 10 farm equipment market globally. In the past two years, M&M entered into the Turkey market by buying stake in Hisarlar and Erkunt. Hisarlar is the biggest player in Turkey in the soil tillage segment and is amongst the few companies in the country to have a R&D center. Hisarlar, with end to end mechanization solution (from tillage to post harvesting), provides M&M to participate in the USD1.3bn agri-machinery industry in Turkey. Erkunt is the third biggest player and has an opportunity to be the second largest brand (market share difference between second and third largest player is 1.5%). Erkunt has second largest dealer network in Turkey. On the back of good product range, strong brand, product portfolio from tillage to post harvesting and export opportunities, M&M aims at a combined revenue of \$500mn from Erkunt and Hisarlar.

In geographies with local brands, M&M's management is looking to nurture the local brands and not looking at introducing M&M brands. M&M's global revenues account for 37% of its FES revenues and the company's aim is take to the same to 50%.

Farm machinery – new vertical to focus on opportunities outside tractor segment

M&M has created a new business vertical "farm machinery", with the purpose of exploring opportunities in agri-machinery (excluding tractor) segment in India and abroad. Management is of the view that labor shortage can lead to significant demand for mechanization in farming activities.

India's farm machinery segment is relatively very small when compared globally. In India, the tractor segment is around Rs390bn and the farm machinery segment is ~Rs70bn. Globally, the farm machinery industry (\$100bn) is much bigger than the tractor industry (\$60bn).

In India rice transplanters volumes is 2,000 units per annum as compared 110,000 units per annum in China. Despite being a key sugar cane growing nation, sugarcane harvester sold in India is 110 units a year. While tractor penetration in India is 20% (per 1,000 hectare of cultivable land), rice transplanter and harvester penetration stands at 0.2% and 0.5% respectively.

In the farm machinery business, M&M will be focusing simultaneously at India and global markets. In this segment, M&M is looking to target small farmers by offering products in the rice value chain, harvester and farm implements segment. For this, M&M will use technical expertise and product support of Sampo (Finland), MAM (Japan) and Hisarlar (Turkey). M&M aims to increase farm machinery revenues from \$340mn to \$1bn.

Precision farming strategy

M&M is targeting on a new segment that focusses on better crop growth, better yield and lower input cost. Company believes that precision has a global addressable market of \$240bn. M&M is looking to target farmers having small landholdings.

For this the company strategy is launching a global brand "Maati" that is more comprehensive with respect to its earlier application "My agriguru". Under this initiative, the first step would be collect detailed data from fields and second step to deploy on the field by feeding the collected data into machines and connecting them with implements. Company is also building partnership with Resson, Carnot and Virginia Tech Corporate Research Centre.

Increase market share in the domestic tractor segment

In the domestic tractor segment, M&M will follow a three brand strategy – Mahindra, Swaraj and Trakstar. With the help of these three brands the company is aiming for a market share of 50% (current market share is ~43%).

Under the Mahindra brand, M&M has less than 43% market share in 50% of the states. In order to come to 43% market share in these states, they need to add 3.5% share. For this, the company indicated that they have strategy in place. M&M has three platforms under the Mahindra brand – Novo (50HP plus), Yuvo (30-45HP) and Jivo (less than 35HP).

In the Swaraj Division, more than 70% of employees have agricultural background. Swaraj makes tractors in the 15-65HP category). Swaraj sees growth opportunity from the horticulture segment, new products (recently launched 60HP tractor and will launch 75HP tractor), 4W drive options, improve its performance in locations where it is currently third largest players (431 locations accounting for 53% of industry volumes).

Trakstar is new brand which is targeted at customers that price sensitive. M&M launched Trakstar few months back and this brand will have its own distribution channel. Trakstar is priced 5-10% lower than competition and is currently sold in 5-6 states.

Focus on improving financial performance of the farm equipment segment

Management highlighted that despite volatility in demand, the EBIT margins has been between 17-20% in the past three years. Core working capital days declined from a high of 52 days in FY15 to 27 days in FY18 and margin of safety (% above break-even sales) has consistently been above 50%. With reducing working capital days and growth in EBITDA, FCF to EBITDA increased from 68% in FY15 to 100% in FY18.

In order to keep margins robust, the company has an internal program called "Project Kuber". This project was initiated in 2013 to bring balance between market share, volume and profit. Going ahead, the focus of this project will be on increased commonality of parts, weight reduction and cost reduction.

FES global business revenues was 37% of the consolidated FES revenues and an EBIT loss of 1.3%. Company stated that they plan to have 50% of revenues from global operations in the farm equipment segment and improve EBIT margins of global business to 5-6%. Growth in revenues will come from Turkey acquisition impact (~\$150mn), growth in Japan, Turkey and Mahindra USA. Improvement in margins will come from revenue growth, removing inefficiencies and reduction in working capital/interest cost.

Other Highlights

- Management expects the tractor industry to grow by 8-10% CAGR over the longer term.
- Farm machinery business was not a key focus area for the company in the past as interest amongst customers was low. However, the interest in this segment has seen traction in the past two years.
- Management highlighted that they have sufficient production capacity for the next two years. In the global business, the management said that there will not be any significant capex. Loss funding in global operations will be over by next year. M&M will not be funding additional working capital requirement and individual company have balance sheet strength to borrow on their own. Currently, global operations does not require any large investments on product and capacity.
- In China, the company exited as it was losing money. Going ahead, the focus on China will be machinery business and not the tractor business as the machinery business has lower dependence on subsidies.

Outlook

In the passenger vehicle segment, the company will launch a compact SUV (codenamed S201 - based on Tivoli platform), MPV (codenamed U321 – engineered at the North America technical center) and a premium SUV (codenamed Y400 – based on G4 Rexton). Recently, the company launched TUV300 Plus and refreshed XUV500. In the commercial vehicle segment, M&M will launch various new products in intermediate commercial vehicle (ICV) segment – 7.5T -16T. Furthermore, the company expects to cover its entire range of passenger vehicle with petrol and diesel options. We believe that recent launches coupled with upcoming new products, will translate into double-digit volume growth for M&M's auto segment over FY18-FY20E.

Prediction of normal monsoon in 2018, has improved growth outlook for the tractor industry. M&M and Escorts are expecting 8-11% domestic volume growth for the tractor industry in FY19.

M&M's auto segment in the past few years has been under pressure but the company broadly been able to maintain its margins. We expect that with expected higher volume growth coupled with cost control initiatives, margins in the auto business to witness expansion. Tractor segment volume growth in FY19/FY20 is expected to be lower as compared with growth reported in FY18. In order to counter margin pressure from possibly lower volume growth, the management is reinitiating the cost saving and margin improvement program in its tractor division. We expect the overall EBITDA margin to broadly remain stable for M&M in FY19/FY20.

We retain ACCUMULATE on the stock with unchanged price target of Rs958. We value M&M+MVML at Rs683 valuing at 16x FY20E adjusted earnings (unchanged) and assign value of Rs274 to its subsidiaries.

Company Background

M&M, the flagship company of the Mahindra Group, operates in the automobiles and the tractor space. In the automotive sector, M&M has presence across segments - passenger vehicle, commercial vehicles, three wheelers and two wheelers. Utility Vehicle (UV) segment is the key part of the company automobile business. M&M has been the market leader in the domestic tractor industry for the past many years. With ~43% market share, M&M is well ahead of the nearest competitor. M&M's dominance in this industry is across regions and segments.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	440,535	486,856	545,031	603,766
% change YoY	7.7	10.5	11.9	10.8
EBITDA	45,147	62,240	70,472	76,613
% change YoY	(1.2)	37.9	13.2	8.7
Depreciation	15,264	14,794	16,654	19,309
EBIT	29,883	47,446	53,819	57,305
% change YoY	-13.7	58.8	13.4	6.5
Net interest	1,596	1,122	1,650	1,550
Other Income	13,455	10,364	11,715	12,532
Exceptional income/(loss)	5,485	4,336	0	0
Profit before tax	47,226	61,024	63,884	68,286
% change YoY	11.6	29.2	4.7	6.9
Tax	10,792	17,464	19,165	20,486
as % of PBT	22.9	28.6	30.0	30.0
Profit after tax	36,434	43,560	44,719	47,801
Adjusted PAT	32,430	40,395	44,719	47,801
% change YoY	4.7	24.6	10.7	6.9
Shares outstanding (m)	1,187	1,187	1,187	1,187
Adjusted EPS (Rs)	27.3	34.0	37.7	40.3
DPS (Rs)	6.5	7.5	7.5	7.5

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	52,942	68,332	63,031	80,358
Accounts receivable	29,388	31,730	35,838	39,700
Inventories	27,580	27,017	31,289	34,603
Loans and Adv & Others	46,093	69,652	63,176	69,494
Current assets	156,003	196,731	193,333	224,155
Others	2,548	1,101	1,101	1,101
LT investments	143,017	166,455	181,455	196,455
Net fixed assets	98,114	109,881	121,940	127,632
Total assets	399,683	474,168	497,829	549,342
Payables	68,811	86,034	89,594	99,249
Other liabilities	21,388	38,485	27,666	32,461
Current Liabilities	90,199	124,519	117,260	131,711
Provisions	13,899	15,292	15,054	16,559
Deferred Tax Liability	0	2,772	2,772	2,772
Debt	27,729	28,644	26,340	25,340
Equity	5,936	5,950	5,936	5,936
Reserves	261,920	296,991	330,467	367,024
Total liabilities	399,683	474,168	497,829	549,342
BVPS (Rs)	226	255	283	314

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	29,883	47,446	53,819	57,305
Depreciation	15,264	14,794	16,654	19,309
Change in working capital	(2,942)	15,445	(4,819)	2,479
Chg in other net current asset	12,054	(5,069)	(4,582)	(17)
Operating cash flow	54,259	72,616	61,071	79,075
Interest	(1,596)	(1,122)	(1,650)	(1,550)
Tax	(17,941)	(12,143)	(19,165)	(20,486)
Other Income	13,455	10,364	11,715	12,532
EO Income/(loss)	5,485	4,336	-	-
Others / OCI	15,107	(2,965)	-	-
CF from operations	68,768	71,086	51,971	69,571
Capex	(21,797)	(26,561)	(28,713)	(25,000)
(Inc)/dec in investments	(43,610)	(26,766)	(14,960)	(15,000)
CF from investments	(65,407)	(53,327)	(43,673)	(40,000)
Proceeds from issue of equities	5	2,982	(14)	-
Increase/(decrease) in debt	(1,441)	915	(2,304)	(1,000)
Proceeds from share premium	496	-	-	-
Dividends	(8,417)	(9,593)	(11,243)	(11,243)
CF from financing	(9,357)	(5,697)	(13,561)	(12,243)
Opening cash	22,870	16,875	28,937	23,675
Closing cash	16,875	28,937	23,675	41,003

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Margins				
EBITDA margin (%)	10.2	12.8	12.9	12.7
EBIT margin (%)	6.8	9.7	9.9	9.5
Adj. net profit margin (%)	7.4	8.3	8.2	7.9
Working capital days				
Inventory (days)	23	20	21	21
Receivable (days)	24	24	24	24
Payable (days)	57	65	60	60
Ratios				
Debt/equity ratio (x)	0.1	0.1	0.1	0.1
ROE (%)	13.2	14.2	14.0	13.5
ROCE (%)	15.7	18.4	18.7	18.2
Valuations				
EV/ Sales	2.3	2.1	1.9	1.7
EV/EBITDA	22.4	16.4	14.5	13.1
Price to earnings (P/E)	32.7	26.2	23.7	22.2
Price to book value (P/B)	4.0	3.5	3.2	2.8

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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