Pick of the Week

Mahindra & Mahindra Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
650	1000	53.8%	993 / 616	807267

Key Highlights:

- The company pegged tractor industry growth rate at 10-12% yoy in FY2019E, which implies flattish volume growth in 4QFY19. Dealer inventory levels for the company in the tractor segment are at 4-5 weeks.
- The company expects single-digit growth for the tractor industry in FY2020 given that the past three years have been pretty strong for the industry.
- Festive season dented sales in the passenger vehicle industry, which led to higher inventory across the industry. Dealer inventory levels are 4-5 weeks, down from 5-6 weeks earlier. Given the weak consumer sentiment, the company expects the PV industry to grow by 5% in FY2019.
- The company expects Marazzo, Alturas G4 and XUV300 to increase their UV volumes by 9,000 units per month, which might be slightly impacted by some cannibalization across the models. The company will launch a new range of gasoline and CNG engines over the next two years, which will increase its addressable market segment.
- The company highlighted that the cost of diesel engines will increase by less than Rs100,000 post BS-VI norms implementation. The company mentioned that first BS-VI compliant vehicle will be ready by mid-December 2019. By March 2020, all but one model will be BS-VI compliant.
- M&M is quite positive on electric vehicles and is looking to expand its manufacturing capacity to 70,000 units by March 2020E. The company will target fleet segment (already tied up with Ola for electric car fleet in Ola) and will also launch premium electric vehicles over the next three years.
- Reasonable valuations, single-digit growth expectations in tractor demand for FY2020, potential recovery in the SUV segment due to new launches and efforts to reduce losses in subsidiaries drive our BUY rating.
- We expect overall volume to grow at a CAGR of 7% over FY19-21E. We expect M&M's EPS to grow by 13% CAGR over FY19-21E. SoTP-based fair value unchanged at Rs.1,000 based on 15X December 2020E EPS.

Financials (Rs mn)*	FY18	FY19E	FY20E
Volumes	866,773	999,233	1,138,778
Sales	475,774	559,216	660,818
Growth (%)	15.0	17.5	18.2
EBITDA	70,434	84,289	99,388
EBITDA margin (%)	14.8%	15.1%	15.0%
PBT	66,152	79,153	91,939
Adjusted Net profit	43,197	53,240	63,438
Adjusted EPS (Rs)	38.0	46.8	55.7
Growth (%)	22.2	23.2	19.0
P/E (x)	*17.1*	*13.9*	*11.7*
	EPS (Rs/Share)	Multiple (X)	Per share (Rs)
M&M standalone + MVML	45.9 **	15.0	688
Subsidiaries			319
SOTP - based value (round-off)			1,000

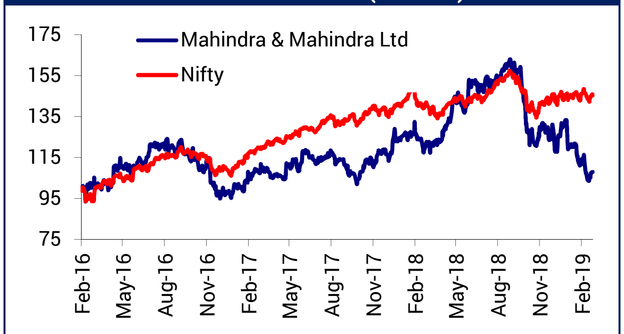
*Source: Kotak Insitutional Equities; *M&M+MVML*

*** Based on 15X December 2020 less dividend income from subs*

Financials (Rs mn)*	9M-FY18	9M-FY19	% Chg
Revenues	343,869	390,403	13.5
EBITDA	50,500	56,623	12.1
EBITDA Margin (%)	14.7%	14.5%	
Adj PAT	31,983	44,319	38.6
Adj PAT Margin (%)	9.3%	11.4%	
Adj EPS (Rs)	28.1	38.9	38.6

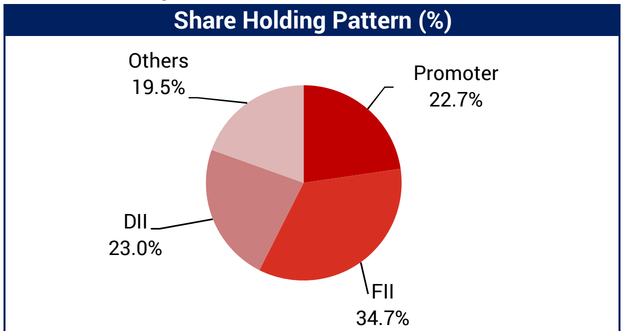
*Source: Kotak Insitutional Equities; *M&M+MVML*

Price Performance (3 Years)



Source: Bloomberg

Share Holding Pattern (%)



Source: Bloomberg

Rating Scale (Kotak Securities – Private Client Research) / Kotak Institutional Equities

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% 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.
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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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