

Pick of the week



Mahindra & Mahindra Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 510

Target Price

₹ 820

Potential Upside

61%

Investment Argument

- M&M + MVML (Mahindra Vehicle Manufacturers Limited) 2QFY20 result – Revenues declined by 15% yoy led by 16% yoy decline in volumes. In 2QFY20, automotive volumes declined by 21% yoy led by weak consumer sentiment and inventory correction by the OEMs while tractor segment volumes declined by 8% yoy. EBITDA margin came in at 14.1% (down 40 bps yoy and up 10 bps qoq). EBIT margin in the auto segment was 5.8% (down 210 bps yoy and down 70 bps qoq). EBIT margin in the tractor segment declined by 90 bps yoy to 19.3%.
- The company highlighted that commodity prices were benign in 2QFY20, resulting in 100 bps yoy positive impact on gross margins during the quarter. The company had also taken a price increase, which positively impacted gross margin by 100 bps yoy.
- The company expects tractor industry to decline by 7-8% yoy in FY2020E. The company expects demand in the tractor industry to be tepid till January 2020 and post that the company expects some recovery. The company highlighted that the unseasonal rains will negatively impact the near-term demand; however, higher reservoir levels and good moisture content in the soil augurs well for the tractor industry in FY2021E.
- The company expects domestic passenger vehicle industry to decline by 5% yoy in 2HFY20
- The company will launch three new vehicles from 1QCY20 onwards over a span of 5-6 quarters. The company will launch electric KUV100 in 4QFY20 followed by electric CUV in 2QFY21. The company will also launch electric XUV300 in 1QFY22.
- Post BS-VI, the diesel mix in compact SUV will come down to 40% from 60% currently. Also, the company expects 10-15% of the vehicles will shift towards petrol in the large SUV segment.
- KIE maintain BUY rating with SoTP-based FV of Rs820. Reasonable valuations and strong growth outlook for tractors in the medium term drive KIE's BUY rating.