

Mahindra & Mahindra

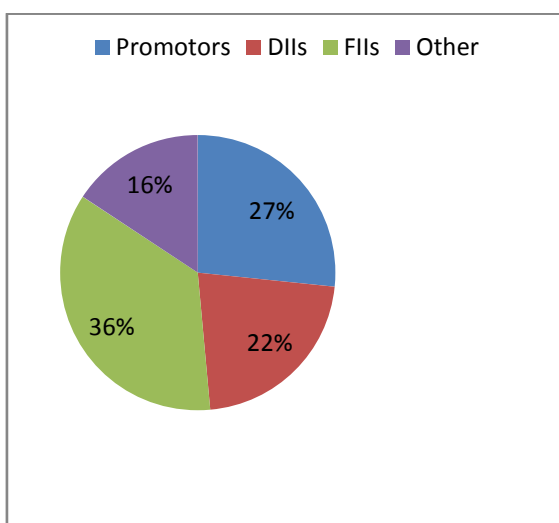
BUY

Target Price: Rs 1586

Value Parameters -

BSE Code	500520
NSE Symbol	M&M
CMP (As on 03 rd Oct, 2017)	Rs 1254
Face Value	Rs 5
52 Week High/Low	1141/1459
Market Cap (Rs cr)	79,473
EPS (TTM)	60.64
PE ratio (x)	21.10

Shareholding Pattern % (June '17)



Company Overview

Mahindra & Mahindra Limited operates in nine segments. The automotive segment includes sales of automobiles, spare parts and related services. Farm equipment segment includes sales of tractors, spare parts and related services; information technology (IT) services, which consists of services rendered for IT and telecom; financial services includes services relating to financing, leasing and hire purchase of automobiles and tractors;

steel trading and processing includes trading and processing of steel; infrastructure includes operating of commercial complexes, project management and development; hospitality segment includes sale of timeshare; Systech segment includes automotive components and other related products and services, and its others segment includes logistics, after-market and investment.

Investment Rationale

M&M, September sales were up 16% YoY at 53,663 units. Its tractor sales were up 49% YoY at 45,563 units. With the move towards developing all electric vehicles till 2030, M&M launched first e-Rickshaw, named e-Alfa. M&M is expected to improve on its sales with all new segments of EV's. To reduce the cost of batteries which accounts for 40-50% of vehicles cost. M&M is seeking a JV with another company this will further reduce the price of the vehicles and improve on margins. M&M has called it quits in the mass market two-wheeler category, nine years after it entered the segment, this move will help reducing its losses as two-wheeler was a loss making business.

Outlook

We expect strong bounce back in Q2FY18 onwards on account of expected demand revival from rural India, Government's strong focus on rural economy, EV vehicles and favourable monsoon helping agri industry and rural UV sales. Though present product pipe line is lean, company plans strong product pipeline over FY18 and FY19. Economic revival with new launches would help company clock double digit growth in FY18 and FY19. Our estimates for FY19 Net standalone revenues to be Rs 54,898 cr, operating margins to be 12.7% and PAT to be Rs 4,436 cr with the EPS of Rs 74.7.

Valuations

We value the core business at Rs 1195 per share, based on 16(x) FY19E PE(x) based on EPS of Rs 74.7. We have valued total investments (listed and unlisted) at Rs 391 per share, with a holding company discount of 30%. Our SOTP value for stock comes at Rs 1,586 per share.

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