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[Mahindra](#) and Mahindra attended our 4-7 June Nomura Investment Forum Asia 2018 in Singapore. Overall the company maintained a positive outlook on the rural segment in India. Rural recovery has been driven by government initiatives in road infra, irrigation and crop insurance, and favourable monsoons in the past two years. This should benefit M&M's key UV and tractors segments.

Overall, we maintain our positive outlook on the stock, which is currently trading at 14.2x/12.4x FY19F/20F EPS (adjusted for subsidiaries). This is an attractive level compared with the sector average of 18x FY20F EPS and given MM's FY18-20F EPS CAGR of 17%. Revival of rural growth and a volume recovery in UVs should help the stock re-rate, in our view.

### Key takeaways

**Tractors:** The tractor industry has done well over the past two years and management expects positive growth to continue owing to several measures taken by the government and a favourable monsoon outlook. M&M has grown in line with the industry so far and guided for 8-10% growth in FY19. Near term, the growth outlook for Q1FY19 is stronger in the

mid teens. The company already has \$600 m in revenues in the US from small tractors for the hobby farming sector (less than 60HP).

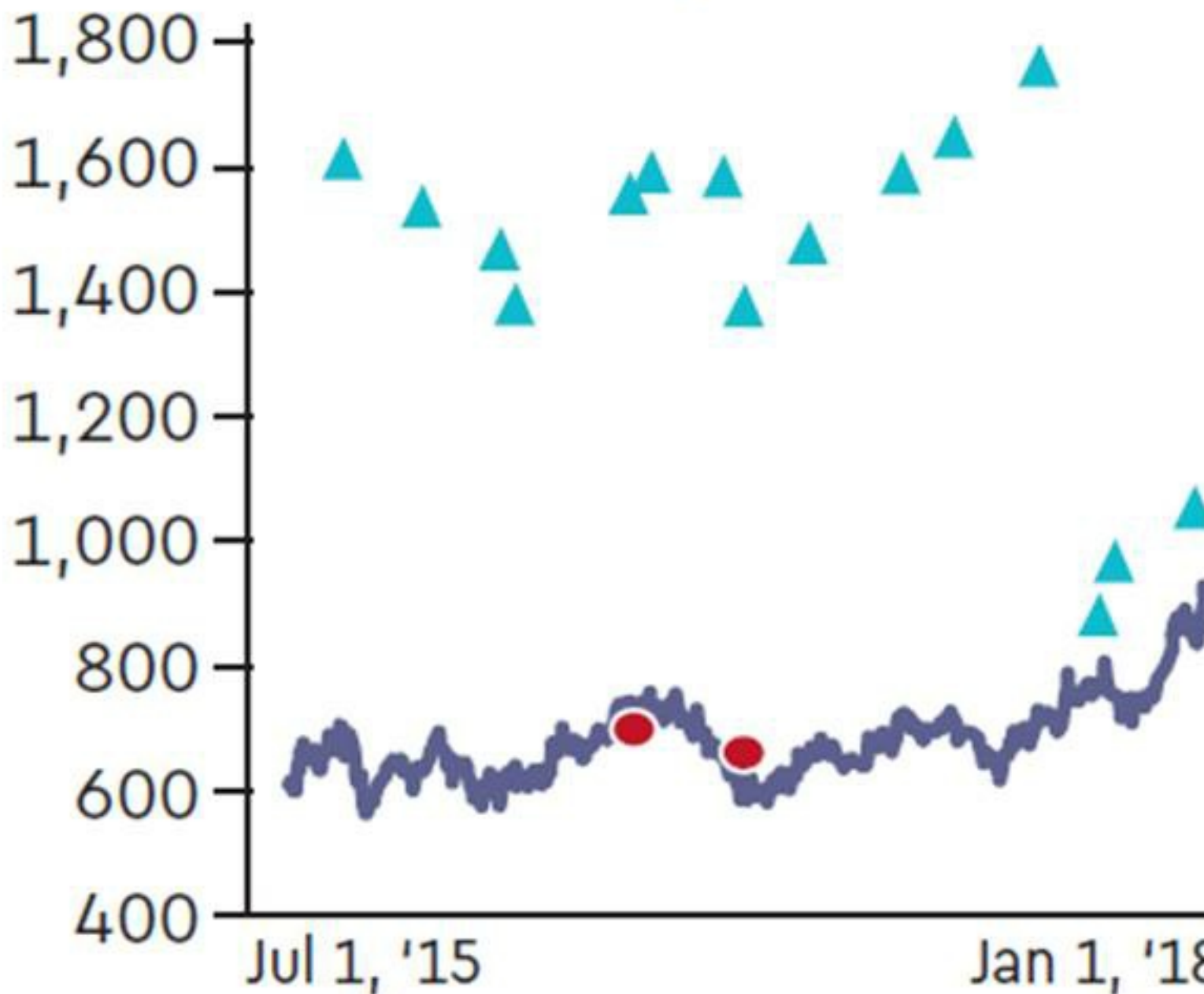
The company also plans to generate additional growth from mechanisation. For this purpose it has acquired three companies—Sampo in Finland, Isalrar and [Mitsubishi](#) AM.

**Autos:** UV is 30% of the industry and has grown at 20%. The definition of UV is shifting to compact UV. M&M's share has dropped from 52% to 27% over the past few years as it did not have products in this segment. The company plans three new products in FY19F, with two of these scheduled to come before Diwali.



## Target price chart (₹) (three year history)

— Closing price    ▲ Target price change  
● Recommendation change



Source: Thomson Reuters, Nomura research

In LCVs, M&M has 48% share and plans to continue performing well. In MHCV, there will be a new launch in the 12-25 T segment in FY19 as it is a white space. In Q4FY18, the

MTBL was Ebitda positive. 1k MHCVs per month is the break-even volume and the company hopes to achieve that in FY19F.

In EVs, the company has a strong product portfolio with 3Ws, cars, e-KUVs, buses and e-rickshaws. But the volumes are very low. M&M is expecting orders from state governments this year.

### **Valuation methodology**

We value M&M based on a SOTP methodology to arrive at our target price of Rs 1,049. We value the core M&M + MVML business at Rs 707/share, based on a 15x target multiple on average FY20F-21F EPS (ex-subsidiary dividends) of Rs 47.1. We value its investments in other listed subsidiaries at Rs 342/share, at the current market price for listed subs and at FY17 book value for unlisted subs (ex-MVML) after applying a 20% holding discount.

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