

October 3, 2019

Mahindra & Mahindra Event Update Note

Note: CMP is as on 3 October 2019. Please refer to Disclaimer and Disclosure on the last slide.

The Event

Mahindra & Mahindra Limited (M&M) and Ford Motor Company (Ford) have signed a definitive agreement to create a joint venture (JV) that will develop, market and distribute Ford brand vehicles in India. JV will also develop, market and distribute Ford brand and Mahindra brand vehicles in high-growth emerging markets around the world.

Details:

M&M along with Ford Motor Company Inc., USA (Ford) has executed a Business Transfer Agreement and Share Subscription Agreement (the Agreements) to enable the formation of a JV by way of the Company and/or its subsidiaries acquiring 51% of the equity share capital of Ardour Automotive Private Ltd (NewCo), presently a wholly owned subsidiary of Ford in India. Ford would be transferring its India operations (Ford India Private Ltd) to the joint venture, including its personnel and assembly plants in Chennai and Sanand. FIPL is the sixth largest player in the four wheeled passenger vehicle market in India and one of the largest exporters of vehicles from India. Ford would be retaining the Ford engine plant operations in Sanand as well as the Global Business Services unit, Ford Credit and Ford Smart Mobility. The deal is valued at an enterprise value of Rs.19.25 bn (~0.1x EV/sales). Of this, Ford would be transferring Rs.6.36 bn debt into NewCo and balance would be equity component with M&M having 51% (Rs.6.57 bn) share and Ford having balance 49%(Rs.6.32 bn) share. Deal will be submitted for CCI approval and is expected to be completed by mid-2020.

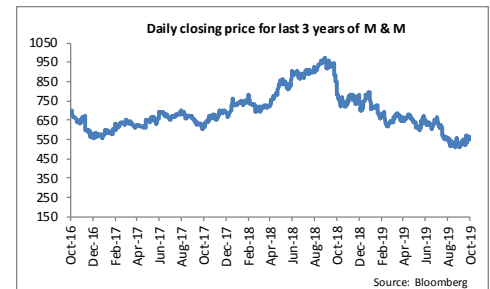
Benefits of the development:

The management highlighted that the company is likely to benefit from an operational efficiency which can be derived immediately. In medium term, the NewCo and M&M both would be getting benefit from local sourcing point of view, which is likely to increase from USD 5.6 bn (for M&M currently) to USD 7.0 bn (including the NewCo). In the long term, joint product development and platform sharing would help in bringing better products for both companies and also reduce cost for product development. While Ford would be getting deeper access and increase penetration for its products in India, M&M would be leveraging Ford's global reach (other emerging markets) for expanding exports. Ford and M&M are also expected to work jointly to develop and sell vehicles in C-segment SUV, B-segment SUV, electric car and MPV categories in domestic and export markets, under both Mahindra and Ford brands.

View: The deal is likely to be positive in the long-term for M&M, while no material benefits are expected to flow in near term. We await more clarity to ascertain the long term benefits of joint product development, penetration into emerging markets and joint sourcing efforts. Hence, we are not changing our estimate currently and would review the same post Q2FY20. Going ahead with the better monsoon rainfall and upcoming festive season, the demand sentiments are expected to improve and M&M is expected to be benefit from recent launches. Moreover, M&M ready with gasoline engine for BS-VI and also ready with its EV portfolio. We remain positive on the medium term potential of the company on the back of new product launches both in internal combustion engine (ICE) and electric vehicle (EV) space that is likely to drive revenue growth for the company and on healthy return ratios of 15% plus (i.e, RoCE in FY19). However, given the ongoing slowdown in automobile and tractor segment, the trend of improvement in volumes would be key driver for the company going ahead. **Currently, we have a Buy rating on the stock with the target price of Rs.793 at 13x FY21E EPS of Rs.46.1 adding Rs.194 as value of subsidiaries at 30% holding company discount.** Any earning/target price revision would depend on the performance of new launches, improvement in market share, any regulatory changes, changes in the value of subsidiaries, rollover to next financial year and changes in general business momentum.

Key Details

52 week H/L(Rs)	847/503
Market Cap (Rs. Bn)	699
Book Value (Rs) YTD	322
FV (Rs)	5.0
PE (X) (TTM)	13.5
Dividend Yield (%)	1.3



Disclaimer & Disclosures

Rating Interpretation	
Rating	Expected to
Buy	Appreciate more than 10% over 12-18 month period
Hold	Appreciate below 10% over 12-18 months period
Under Review	Rating under Review
Exit	Exited out of model portfolio

Disclaimer: Disclosure:

We, (Nilesh Jethani), (PGP in Global Financial Markets) and (Nishant Sharma), (PGDM in Finance), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may: (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.