

Industry	Automobiles
Bloomberg	MM IN
BSE CODE	500520

Multiple Dimensions for growth ahead

RATING	BUY
CMP	771
Price Target	1018
Potential Upside	32%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	992/683
Mkt Capital (Rs Cr)	95825
Free float (%)	78%
Avg. Vol 1M (,000)	3637
No. of Shares (Cr.)	124
Promoters Pledged %	0%

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Key Highlights

- ❑ M&M is the leading Tractor manufacturer in the country with a market share of over 42%. It also continues to be 3rd largest PV and the largest SCV manufacturer in India.
- ❑ The management expects rising commodity prices will continue to put pressure on margins for next 2 quarters as the company will not be able to take significant price hike in order to pass on full impact.
- ❑ The management targets cost reduction of ~500bps in FES through cost control measures like "Horizon 500" and "Kuber Returns" over the next 2-3 years.
- ❑ The company will be launching a SUV in premium variant (Alturas G4) on 24th November and there will be one more launch S201 (high volume product) in 4QFY19.

2Q FY19 Result Update

Net sales grew by 7% YoY to Rs.12989 crores. Gross margin has declined by 58 bps QoQ to 28.8% due to steep rise in commodity prices. EBITDA margin also declined by 149 bps QoQ to 12.4% due to expenses incurred on new product launches. PAT grew by 24% YoY to Rs.1649 crores led by higher other income during the quarter. The company has received dividend from subsidiaries and JVs to the tune of Rs.578 crores and also there was an exceptional gain of Rs.134 crores on account of sales of investmentPAT margins also improved by 367 bps QoQ to 12.7%.

View and Valuation

EBITDA margin was down by 150bps on sequential basis due to rising commodity cost, higher start up cost on Marazzo and weaker operating leverage. The management has retained the tractor volume guidance of 12-14% but expect growth to be tilted towards 12% (12.5%YoY growth in 1HFY19). The passenger vehicle segment continues to be subdued but the growth outlook for other segment seems better in rest of FY19. However, new product launches in high volume segment (UVs) will help company to regain lost market share in medium term. Further, management's strategy to achieve 50% revenue contribution from tractor segment in next 3 years will lead to sharp improvement in margins over a period of time. Factoring the high start up & launch cost on new models (new launches in Q3 & Q4FY19) and inability to pass on full impact of rising commodity prices we expect 70/30bps contraction in margins in FY19/20 respectively. Based on SOTP valuation method we have valued the standalone business at Rs. 713 per share (16x FY20e EPS) and subsidiaries at Rs. 305 per share. We maintain BUY on the stock with target price of Rs. 1018.

Key Risks to our rating and target

- ❑ Slow down in tractor industry
- ❑ Delay in new model launches

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	40875	43785	48686	55796	62257
EBITDA	4620	4769	6224	6992	8603
EBIT	3552	3442	4745	5215	6410
PAT	3205	3956	4356	4677	5302
EPS (Rs)	27	33	37	39	45
EPS growth (%)	(4)	23	10	7	13
ROE (%)	14.8	15.4	14.4	14.1	14.2
ROCE (%)	13.8	14.2	13.4	13.3	13.5
BV	183	216	255	278	314
P/B (X)	1.6	1.5	2.1	1.7	1.5
P/E (x)	10.8	10.0	14.9	11.7	10.3

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2QFY19 Results

PAT above estimates

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	12,182	11,578	13,308	13,520	12,989	7%	-4%	43,785	48,686	11%
Other Income	562	97	171	265	846	51%	219%	1,342	1,036	-23%
Total Income	12,744	11,674	13,479	13,785	13,835	9%	0%	45,128	49,722	10%
COGS	8,409	8,031	9,236	9,557	9,256	10%	-3%	31,803	34,135	7%
Staff Cost	705	723	706	752	742	5%	-1%	2,595	2,841	9%
Other Exp.	1,339	1,329	1,611	1,340	1,386	3%	3%	4,618	5,614	22%
Expenditure	10,453	10,082	11,554	11,648	11,384	9%	-2%	39,016	42,462	9%
EBITDA	1,729	1,495	1,754	1,872	1,605	-7%	-14%	4,769	6,224	31%
Depreciation	363	369	399	393	461	27%	17%	1,327	1,479	11%
EBIT	1,366	1,126	1,355	1,479	1,144	-16%	-23%	3,442	4,745	38%
Interest	23	25	33	33	28	21%	-15%	146	112	-23%
PBT	1,905	1,198	1,493	1,711	1,962	3%	15%	4,639	5,669	22%
Excpt. Item	-	(386)	(48)	(21)	(134)	0%	0%	548	434	0%
Tax	574	368	482	511	447	-22%	-13%	1,232	1,746	42%
PAT	1,332	1,216	1,059	1,221	1,649	24%	35%	3,956	4,356	10%

Revenue by Business

Revenue	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	4QFY18	1QFY19	2QFY19
Automotive	7,830	7,453	8,911	7,682	7,890	7,115	9,136	9,136	8,188	8,639
Farm	3,534	4,322	2,794	4,321	3,958	4,098	3,716	3,716	5,007	4,028
Others	8	9	388	437	410	445	554	554	405	405

Revenue growth largely driven by volume growth

The company reported net sales of Rs.12989 crores (vs our estimates of Rs.12685 crores) with a growth of 7%YoY. The growth was largely attributed to 5%YoY volume growth and 2%YoY realization growth.

The commercial vehicle segment volumes increased sharply by 24%YoY led by 48%YoY growth in MHCV segment. LCV segment also posted strong growth of 23%YoY. Passenger vehicle volumes declined by 7%YoY and 3 wheelers and exports volumes soared by 31% and 24%YoY respectively. Farm Equipment volumes declined by 3%YoY due to higher base and delayed festive season in 3QFY19.

Higher commodity prices and expenses on new launches dented EBITDA margin

Gross margin has declined by 58 bps QoQ to 28.8% due to steep rise in commodity prices. EBITDA margin also declined by 149 bps QoQ to 12.4% during the quarter due to increase in commodity prices and higher other expenses incurred on the launch of new Marazzo. The management expects rising commodity prices will continue to put pressure on margins for next 2 quarters as the company will not be able to take significant price hike in order to pass on full impact. The margins will further contract due to product launch cost and new product start up cost as there will be launches in Q3 and Q4 FY19.

Higher other income resulted in higher PAT

PAT grew by 24% YoY to Rs.1649 crores led by higher other income during the quarter. The company has received dividend from subsidiaries and JVs to the tune of Rs.578 crores and also there was an exceptional gain of Rs.134 crores on account of sales of investment. Tax expense was also down because of Rs.121 crores of tax credit received during the quarter. PAT margins also improved by 367 bps QoQ to 12.7%.

M&M performance including MVML

Net sales grew by 6%YoY to Rs.12790 crores in 2QFY19 largely on account of 5%YoY volume growth. Though EBITDA margin declined by 134bps on sequential basis due to weaker operating leverage and higher launch cost on Marazzo. PAT for the quarter was Rs.1779 crores. The company has received dividend from subsidiaries/JVs of Rs.578 crores and also there was an exceptional gain of Rs.138 crores on account of sales of investment which resulted in 26%YoY increase in PAT.

Concall Highlights:-

- ❑ The management has retained the tractor volume guidance of 12-14% but expect growth to be tilted towards 12%. The passenger vehicle segment continues to be subdued but the growth outlook for other segment seems better in rest of FY19.
- ❑ The management expects rising commodity prices will continue to put pressure on margins for next 2 quarters as the company will not be able to take significant price hike in order to pass on full impact.
- ❑ The margins will further contract due to product launch cost and new product start up cost as there will be launches in Q3 and Q4 FY19.
- ❑ EBITDA was largely impacted by rising commodity cost and Marazzo launch during the quarter.
- ❑ Automotive segment margins were impacted by 250bps due to commodity cost increase and the company was able to pass on only half of the impact. Further 50bps impact due to start up cost and 70bps impact due to launch expenses.
- ❑ Axle Norms: There has been a change in customer buying preference due to the norm. The customers are asking for lower load vehicles.
- ❑ NBFC liquidity issue: The management has said that the impact was not seen on the M&M volumes due to M&M financials and also the issue has a limited impact on overall automobile sector.
- ❑ The company has received 13000 bookings for Marazzo till date and have waiting period of 6-8 weeks.
- ❑ On the electric vehicle front the company has witnessed 30%YoY growth in 1HFY19. The management is expecting second phase of EESL order to start soon.
- ❑ The company launched JAWA motorcycle and electric 3 wheeler on 15th November and will be launching a SUV in premium variant (Alturas G4) on 24th November. There will be one more launch S201 (high volume product) in 4QFY19.
- ❑ On the BS-VI the management has indicated that all the automobile manufacturers has to be ready with BS-VI compliant product by January 2020 as the Supreme Court has clearly stated that no BS-IV vehicle will be allowed to either for manufacturing or for sale from 1st April 2020.

Exhibit: Automotive Segment Volume & Growth Trend

Growth was driven by robust volume growth in commercial vehicles, 3 wheelers and exports

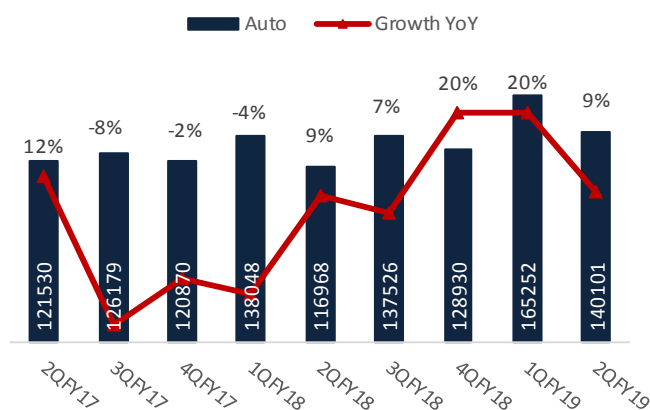


Exhibit: Farm Equipment Volume & Growth Trend

Tractor volumes declined due to higher base and delayed festive season in 3QFY19

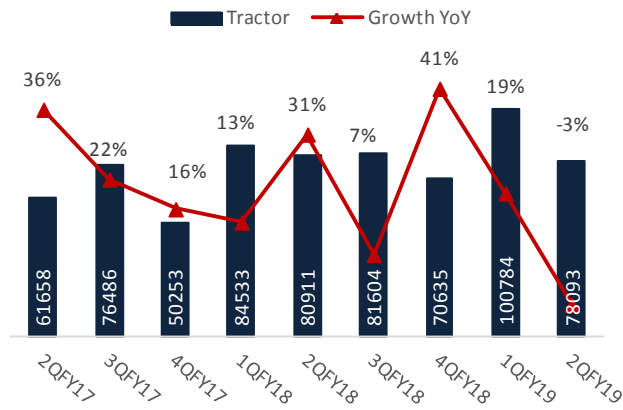


Exhibit: EBITDA (Rs. Crore) and EBITDA Growth Trend

Due to rising commodity prices and weaker operating leverage led to decline in EBITDA

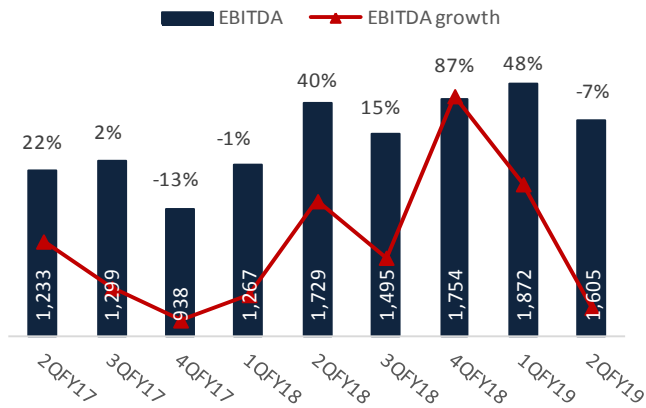


Exhibit: EBITDA Margin Trend

Margins including MVML were better than standalone margins

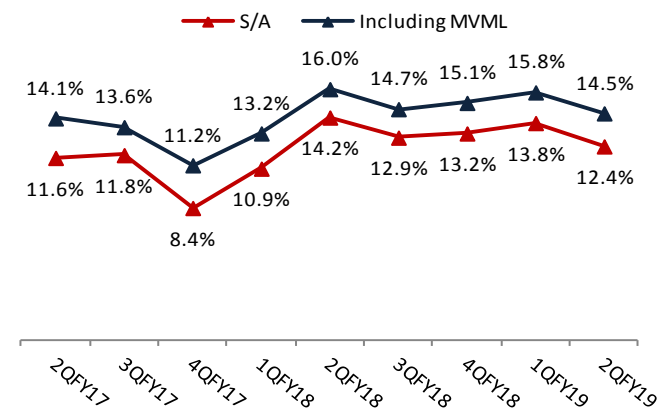


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income and exceptional item led to improvement in PAT margins

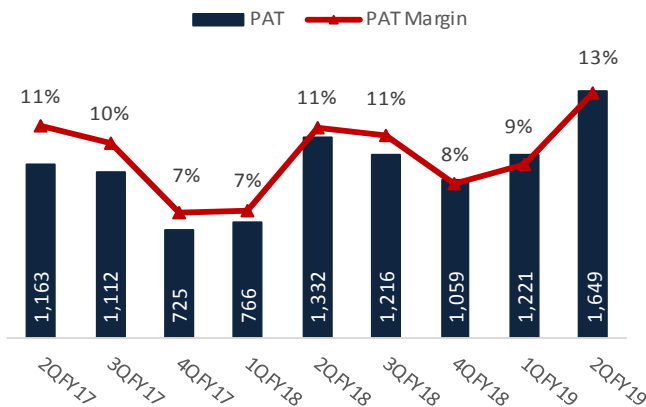


Exhibit: Segment Revenue (Rs. Crore)

Due to delayed festive season and lower than expected rainfall in some of the states led to adverse product mix

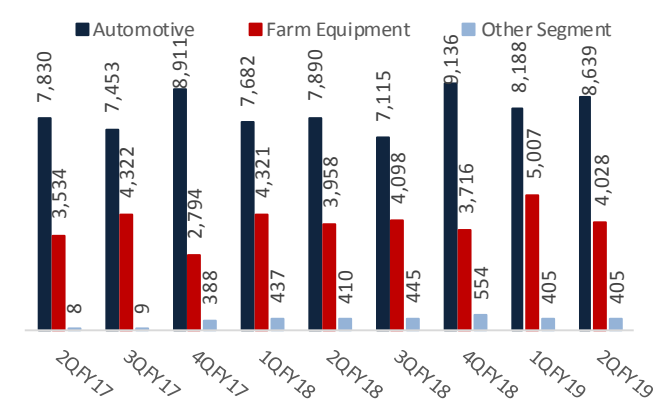


Exhibit: Debt-Equity Ratio

With the increase in profitability debt to equity ratio will improve further going ahead

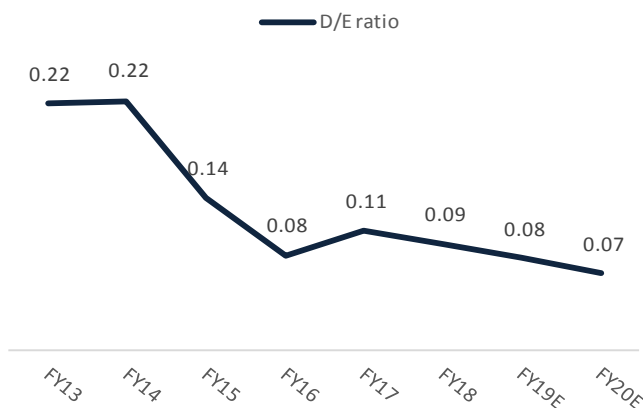
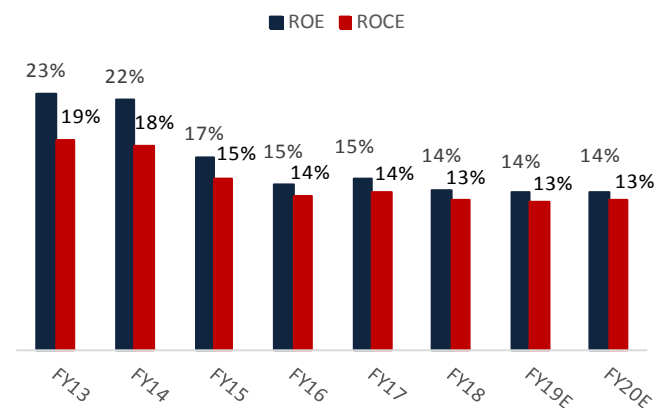


Exhibit: Return Ratios

As the profitability improves going ahead return ratios will follow the same



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	295	295	296	296	297	595	595	595
Reserves	14,364	16,496	18,959	21,411	25,373	29,699	32,521	36,752
Networth	14,659	16,791	19,255	21,707	25,670	30,294	33,116	37,347
Debt	3,227	3,745	2,620	1,844	2,737	2,864	2,730	2,600
Other Non Cur Liab	1,472	1,986	2,201	2,516	1,976	1,604	1,604	1,604
Total Capital Employed	17,886	20,536	21,875	23,551	28,407	33,158	35,846	39,947
Net Fixed Assets (incl CWIP)	5,821	7,105	8,108	9,518	9,673	10,988	13,711	16,018
Non Cur Investments	10,572	9,788	11,373	11,145	14,295	16,645	16,668	18,519
Other Non Cur Asst	30	88	103	59	2,146	2,140	1,822	1,822
Non Curr Assets	2,087	3,018	3,232	4,057	768	1,169	1,169	1,169
Inventory	2,420	2,804	2,438	2,688	2,716	2,702	3,096	3,455
Debtors	2,208	2,510	2,558	2,512	2,918	3,173	3,636	4,057
Cash & Bank	1,781	2,950	2,065	2,297	546	1,418	1,361	1,548
Other Curr Assets	509	487	529	581	452	2,062	2,363	2,637
Curr Assets	8,943	11,289	10,128	11,633	12,456	16,474	17,474	18,832
Creditors	5,580	6,069	5,365	6,764	7,156	8,603	9,783	10,916
Provisions (both)	1,464	1,564	1,461	1,339	440	667	765	853
Other Curr Liab	1,052	1,134	2,041	2,243	803	2,212	1,674	1,868
Curr Liabilities	8,096	8,766	8,868	10,346	8,956	12,655	13,394	14,809
Net Curr Assets	848	2,523	1,260	1,288	3,500	3,820	4,080	4,023
Total Assets	27,454	31,289	32,945	36,412	39,338	47,417	50,843	56,360

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	40,441	40,509	38,945	40,875	43,785	48,686	55,796	62,257
Change (%)	27	0	(4)	5	7	11	15	12
Other Income	549	718	849	850	1,342	1,036	1,165	1,267
EBITDA	4,709	4,721	4,173	4,620	4,769	6,224	6,992	8,603
Change (%)	25	0	(12)	11	3	31	12	23
Margin (%)	11.6	11.7	10.7	11.3	10.9	12.8	12.5	13.8
Depr & Amor.	711	863	975	1,068	1,327	1,479	1,777	2,193
EBIT	3,998	3,858	3,199	3,552	3,442	4,745	5,215	6,410
Int. & other fin. Cost	191	259	214	186	146	112	107	102
EBT	4,356	4,317	3,833	4,216	4,639	5,669	6,273	7,574
Exp Item	91	53	336	69	548	434	155	-
Tax	1,094	611	848	1,080	1,232	1,746	1,751	2,272
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	3,353	3,758	3,321	3,205	3,956	4,356	4,677	5,302
Adjusted PAT	3,353	3,758	3,321	3,205	3,956	4,356	4,677	5,302
Change (%)	16	12	(12)	(4)	23	10	7	13
Margin(%)	8.3	9.3	8.5	7.8	9.0	8.9	8.4	8.5

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	22.9%	22.4%	17.2%	14.8%	15.4%	14.4%	14.1%	14.2%
ROCE	18.8%	18.3%	15.3%	13.8%	14.2%	13.4%	13.3%	13.5%
Asset Turnover	1.47	1.29	1.18	1.12	1.11	1.03	1.10	1.10
Debtor Days	20	23	24	22	24	24	24	24
Inv Days	22	25	23	24	23	20	20	20
Payable Days	50	55	50	60	60	65	64	64
Int Coverage	21	15	15	19	24	42	49	63
P/E	4.5	5.7	10.4	10.8	10.0	14.9	11.7	10.3
Price / Book Value	1.0	1.3	1.8	1.6	1.5	2.1	1.7	1.5
EV/EBITDA	3.5	4.7	8.3	7.3	8.6	10.5	7.9	6.4
FCF per Share	2,756	2,050	1,197	3,319	1,911	4,358	1,686	3,330

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	4,356	4,317	3,833	4,161	4,639	5,669	6,273	7,574
(inc)/Dec in Working Capital	156	(213)	(370)	1,439	(31)	1,780	(245)	233
Non Cash Op Exp	315	259	388	651	210	754	1,777	2,193
Int Paid (+)	191	259	214	155	146	112	107	102
Tax Paid	(873)	(894)	(847)	(928)	(992)	(1,289)	(1,751)	(2,272)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	4,146	3,728	3,219	5,479	3,971	7,027	6,186	7,830
(inc)/Dec in FA & CWIP	(1,436)	(1,704)	(2,035)	(2,172)	(2,202)	(2,683)	(4,500)	(4,500)
Free Cashflow	2,710	2,023	1,185	3,306	1,769	4,344	1,686	3,330
(Pur)/Sale of Inv	(109)	(265)	(85)	(509)	(1,096)	(160)	135	11
others	(1,352)	(438)	(303)	(865)	100	(2,267)	88	(1,851)
CF from Inv. Activities	(2,896)	(2,407)	(2,423)	(3,546)	(3,199)	(5,110)	(4,277)	(6,340)
inc/(dec) in NW	-	184	3	-	-	-	-	-
inc/(dec) in Debt	(153)	146	(385)	(950)	(83)	59	(94)	(94)
Int. Paid	(202)	(261)	(242)	(211)	(134)	(170)	(107)	(102)
Div Paid (inc tax)	(867)	(894)	(961)	(846)	(839)	(923)	(1,856)	(1,070)
others	(0)	0	(0)	-	-	-	-	-
CF from Fin. Activities	(1,222)	(824)	(1,585)	(2,007)	(1,056)	(1,033)	(2,097)	(1,303)
Inc(Dec) in Cash	28	497	(788)	(75)	(284)	883	(188)	187
Add: Opening Balance	1,136	1,209	1,706	917	821	535	1,418	1,361
Closing Balance	1,164	1,706	917	842	537	1,418	1,230	1,548

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Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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