

# Mahindra & Mahindra Ltd.

Industry **Automobiles**  
Bloomberg **MM IN**  
BSE CODE **500520**

## Higher launch cost and discounts weigh on margins; New products to drive growth in FY20

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>683</b>
<b>Price Target</b>	<b>782</b>
<b>Potential Upside</b>	<b>14%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	992/662
Mkt Capital (Rs Cr)	84910
Free float (%)	78%
Avg. Vol 1M (,000)	3817
No. of Shares (Cr.)	124
Promoters Pledged %	0%

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### 3QFY19 Result Update

- ❑ M&M posted a revenue growth of 12.9% YoY led by 11%YoY volume growth and 1.9%YoY realization growth. The automotive segment and farm equipment segment reported volume growth of 11% YoY.
- ❑ Gross margin has declined by 71 bps QoQ to 28% due to higher commodity prices and heavy discounting & incentives to promote sales. EBITDA margin also declined by 75 bps QoQ to 11.6% due to higher start up cost on new product launches.
- ❑ PAT for the quarter declined by 11.4% YoY to Rs.1077 crores. There was Rs.80 crores of impairment provision and net write back of tax provision of Rs.192 crores in 3QFY19 related to prior period.
- ❑ Other Income of Rs 342 crores includes dividend received from Subsidiaries, Associates and Joint Venture of Rs. 203.56 crores for the quarter.
- ❑ The company has made USD1 billion investment in Mahindra Ssangyong for product development. It will further invest USD1 billion in the next 3-4 years.

### View and Valuation

EBITDA margin declined by 75bps on sequential basis to 11.6% due to increased commodity cost, higher start up cost on new launches and extra discounts in 3QFY19. The management has lowered its tractor volume guidance to 10% from earlier 12% due to concern on Rabi sowing and reservoir level being low in few states like Maharashtra, Gujarat, Andhra Pradesh and Telangana. The growth outlook for overall industry continues to be muted due to benign consumer sentiments. However, new product launches in high volume segment (UVs) will help company to regain lost market share in medium to long term as per the management. Further, management's strategy to achieve 50% revenue contribution from tractor segment in next 3 years coupled with cost cutting initiatives (Kuber returns & horizon 500) will lead to sharp 500bps improvement in margins over a period of time. Factoring the subdued demand environment, high start up & launch cost on new models and increasing competition we expect further 20bps contraction in margins in FY19/20 respectively. Based on SOTP valuation method we have valued the standalone business at 12x FY20e EPS (earlier 14x) and subsidiaries at Rs. 292 per share. We maintain BUY on the stock with the revised target price of Rs. 782.

### Key Risks to our rating and target

- ❑ Slow down in automobile industry
- ❑ Higher launch costs

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	40875	43785	48686	54249	60415
EBITDA	4620	4769	6224	6681	7735
EBIT	3552	3442	4745	4872	5548
PAT	3205	3956	4356	4882	4859
EPS (Rs)	27	33	37	41	41
EPS growth (%)	(4)	23	10	12	(0)
ROE (%)	14.8	15.4	14.4	14.7	13.1
ROCE (%)	13.8	14.2	13.4	13.8	12.4
BV	183	216	255	280	312
P/B (X)	1.6	1.5	2.1	1.4	1.2
P/E (x)	10.8	10.0	14.9	9.3	9.4

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## 3QFY19 Results

PAT above estimates

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	11,578	13,308	13,520	12,989	13,070	13%	1%	43,785	48,686	11%
Other Income	97	171	265	846	341	253%	-60%	1,342	1,036	-23%
Total Income	11,674	13,479	13,785	13,835	13,411	15%	-3%	45,128	49,722	10%
COGS	8,031	9,236	9,557	9,256	9,407	17%	2%	31,803	34,135	7%
Staff Cost	723	706	752	742	778	8%	5%	2,595	2,841	9%
Other Exp.	1,329	1,611	1,340	1,386	1,369	3%	-1%	4,618	5,614	22%
Expenditure	10,082	11,554	11,648	11,384	11,553	15%	1%	39,016	42,462	9%
EBITDA	1,495	1,754	1,872	1,605	1,517	1%	-5%	4,769	6,224	31%
Depreciation	369	399	393	461	474	28%	3%	1,327	1,479	11%
EBIT	1,126	1,355	1,479	1,144	1,044	-7%	-9%	3,442	4,745	38%
Interest	25	33	33	28	25	1%	-10%	146	112	-23%
PBT	1,198	1,493	1,711	1,962	1,360	13%	-31%	4,639	5,669	22%
Excpt. Item	(386)	(48)	(21)	(134)	80	0%	0%	548	434	0%
Tax	368	482	511	447	203	-45%	-55%	1,232	1,746	42%
PAT	1,216	1,059	1,221	1,649	1,077	-11%	-35%	3,956	4,356	10%

## Revenue by Business

Revenue (Rs.crore)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Automotive Segment	7,453	8,911	7,682	7,890	7,115	9,136	8,188	8,639	8,084
Farm Equipment Segment	4,322	2,794	4,321	3,958	4,098	3,716	5,007	4,028	4,634
Others	9	388	437	410	445	554	405	405	445

## Revenue growth largely driven by volume growth

The company reported net sales of Rs.13070 crores with a growth of 12.9%YoY. The growth was largely attributed to 11%YoY volume growth both in automotive and farm equipment segment. However, realization increased by 2% YoY and 1.6%YoY in automotive and farm equipment segment respectively.

The commercial vehicle segment volumes increased by 16%YoY led by 19%YoY growth in LCV segment while MHCV segment declined by 22% YoY. Passenger vehicle volumes increased marginally by 1% YoY. However, 3 wheelers and exports volumes soared by 20% YoY and 36%YoY respectively. Farm Equipment volumes grew by 11%YoY due to loan waivers and government subsidy support across states.

## Higher commodity prices and start up costs on product launches dented EBITDA margin

Gross margin has declined by 71 bps QoQ to 28% due to higher commodity prices and heavy discounting offered to promote sales. EBITDA margin also declined by 75 bps QoQ to 11.6% due to higher start up cost on new product launches. The margins may further contract in Q4FY19 due to product launch cost of XUV300 in February 2019.

## PAT declined due to lower other income

PAT declined by 11.4% YoY to Rs.1077 crores due to lower other income and higher depreciation expenses. Tax expense for the quarter is net of write-back of tax provision of Rs. 192.34 crores. PAT margin stood at 8.24% in 3QFY19.

## M&amp;M performance including MVML

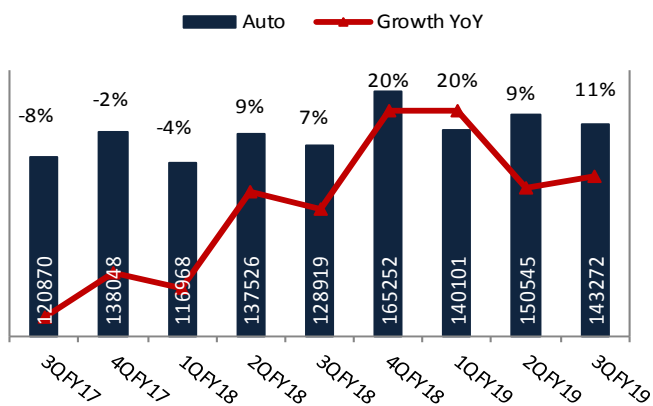
Net sales grew by 12.2 %YoY to Rs.12893 crores in 3QFY19 largely on account of 11%YoY volume growth. Though EBITDA margin declined by 125 bps on sequential basis due to weaker operating leverage and higher launch cost on new models. PAT for the quarter was Rs.1411 crores.

**Concall Highlights:-**

- Global growth is forecasted at 2.9%. The US is expected to grow by 2.5% in 2019. The economy is slowing down in China, but 6.2% growth is expected in 2019.
- The tractor segment is expected to remain flat in Q4FY19 and overall growth of 10% is expected in FY19.
- The management expects single-digit growth in the tractor segment in FY20.
- There has been the concern on Rabi sowing and reservoir level being low in few states like Maharashtra, Gujarat, Andhra Pradesh and Telangana.
- Based on healthy monsoon, loan waivers, good Kharif outputs, subsidy support and rural development, rural growth is expected to remain robust.
- On the BS-VI, the management has indicated that all the automobile manufacturers have to be ready with BS-VI compliant product by January 2020 as the Supreme Court has clearly stated that BS-IV vehicle will be not be allowed either to be manufactured or sold from 1st April 2020.
- The company is planning to make new launches in June and July month in Korea.
- The new XUV 300 model is to be launched on 14th February 2019. It has got 3000+ bookings.
- Electric 3W, Jawa motorcycles and E-KUV will be launched in the next financial year which will help to improve the market share.
- The JAWA motorcycles have been sold out till September 2019
- The company is expecting to get 9000 volumes from XUV300, Alturas and Marazzo model and if there is further demand, the company will increase its production in August-September 2019.
- By April 2020, the company will make available the petrol variants for all its models.
- The company is seeing good opportunity in electric three-wheelers. The company has launched the first lithium-ion 3W and has sold almost 200 models.
- Exceptional items of Rs. 80 crores for the quarter represent provision for impairment in case of certain investments.
- Margins were lower this quarter due to the commodity cost increase, extra discounts and incentives, and higher launch costs.
- Commodity cost pressure would be low next year which will have a positive impact on profitability.
- Inventory level is at 4-5 weeks.
- Debt equity ratio continues to be at 0.1.

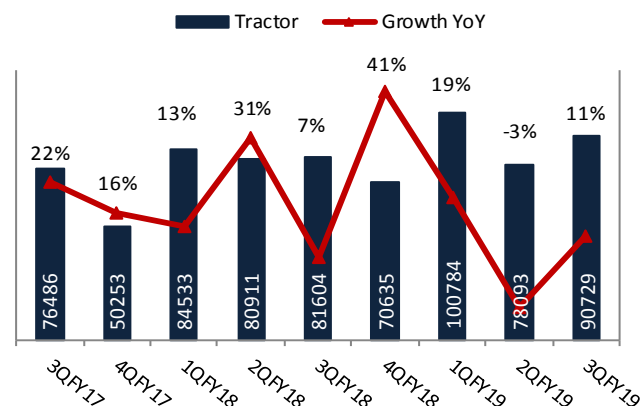
**Exhibit: Automotive Segment Volume & Growth Trend**

*Growth was driven by volume growth in LCV segment in commercial vehicles, 3 wheelers and exports*



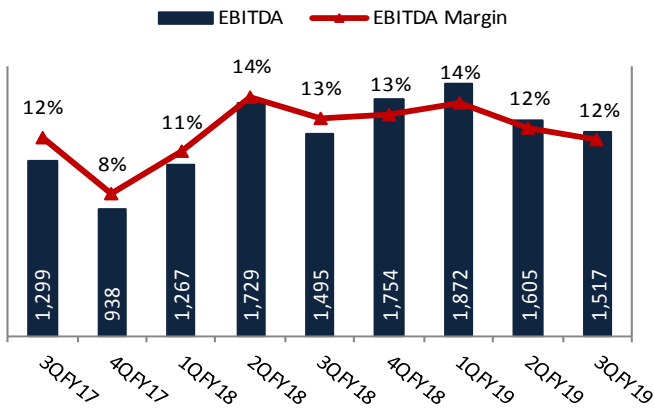
**Exhibit: Farm Equipment Volume & Growth Trend**

*Tractor volumes improved due to loan waivers and subsidy support across states*



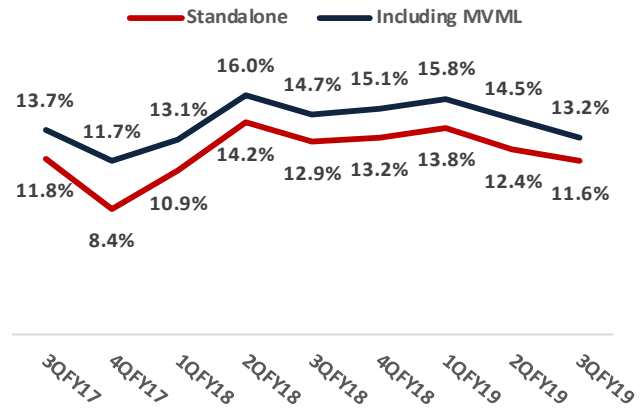
**Exhibit: EBITDA (Rs. Crore) and EBITDA Growth Trend**

Rising commodity prices, higher discounts and new model launch cost led to decline in EBITDA



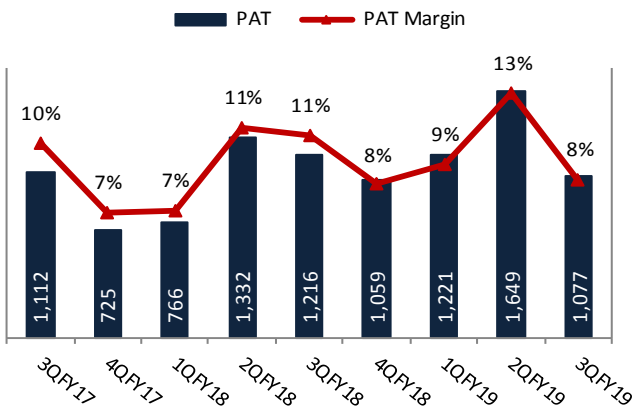
**Exhibit: EBITDA Margin Trend**

Margins including MVML were better than standalone margins



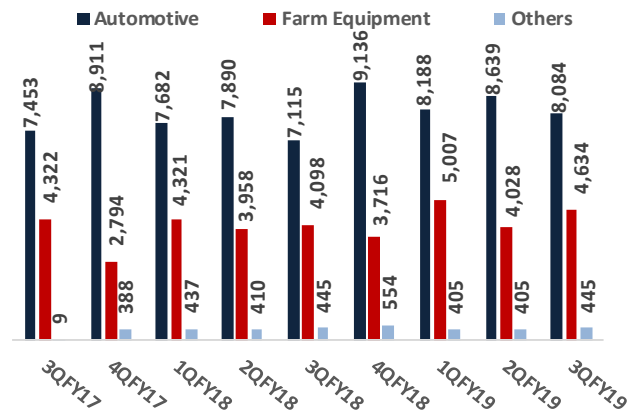
**Exhibit: PAT (Rs. Crore) and PAT Margin Trend**

Lower other income and higher depreciation expenses dented PAT margins



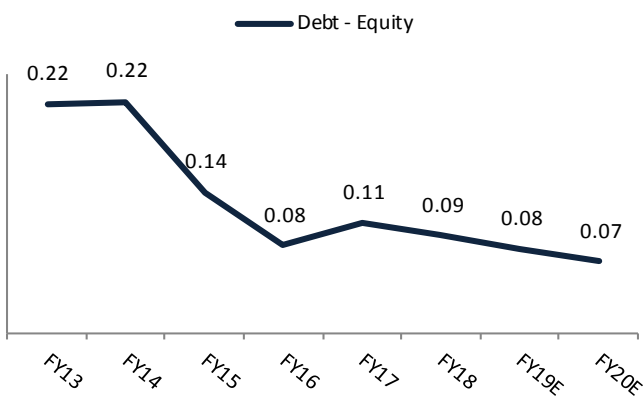
**Exhibit: Segment Revenue (Rs. Crore)**

Revenue earned across automotive, farm equipment and other segments



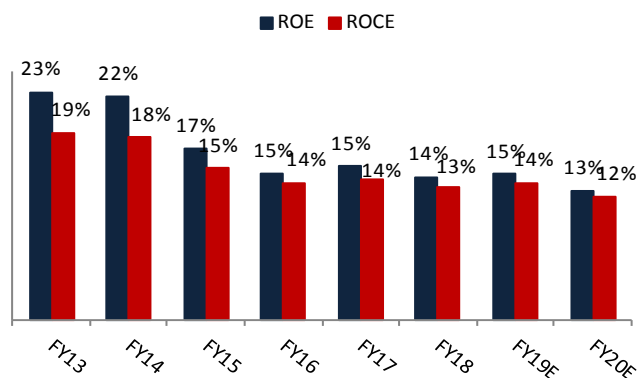
**Exhibit: Debt-Equity Ratio**

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	32,726	36,515
Networth	14,659	16,791	19,255	21,707	25,670	30,294	33,321	37,110
Debt	3,227	3,745	2,620	1,844	2,737	2,864	2,712	2,582
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	36,033	39,692
Net Fixed Assets (incl CWIP)	5,821	7,105	8,108	9,518	9,673	10,988	13,678	15,991
Non Cur Investments	10,572	9,788	11,373	11,145	14,295	16,645	16,455	17,795
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	3,010	3,353
Debtors	2,208	2,510	2,558	2,512	2,918	3,173	3,536	3,937
Cash & Bank	1,781	2,950	2,065	2,297	546	1,418	1,582	1,655
Other Curr Assets	509	487	529	581	452	2,062	2,297	2,559
Curr Assets	8,943	11,289	10,128	11,633	12,456	16,474	17,567	18,924
Creditors	5,580	6,069	5,365	6,764	7,156	8,603	9,512	10,593
Provisons (both)	1,464	1,564	1,461	1,339	440	667	744	828
Other Curr Liab	1,052	1,134	2,041	2,243	803	2,212	1,627	1,812
Curr Liabilities	8,096	8,766	8,868	10,346	8,956	12,655	13,055	14,405
Net Curr Assets	848	2,523	1,260	1,288	3,500	3,820	4,512	4,518
Total Assets	27,454	31,289	32,945	36,412	39,338	47,417	50,692	55,701

## 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	54,249	60,415
Change (%)	27	0	(4)	5	7	11	11	11
Other Income	549	718	849	850	1,342	1,036	1,611	1,502
<b>EBITDA</b>	<b>4,709</b>	<b>4,721</b>	<b>4,173</b>	<b>4,620</b>	<b>4,769</b>	<b>6,224</b>	<b>6,681</b>	<b>7,735</b>
Change (%)	25	0	(12)	11	3	31	7	16
<b>Margin (%)</b>	<b>11.6</b>	<b>11.7</b>	<b>10.7</b>	<b>11.3</b>	<b>10.9</b>	<b>12.8</b>	<b>12.3</b>	<b>12.8</b>
Depr & Amor.	711	863	975	1,068	1,327	1,479	1,810	2,187
EBIT	3,998	3,858	3,199	3,552	3,442	4,745	4,872	5,548
Int. & other fin. Cost	191	259	214	186	146	112	114	108
<b>PBT</b>	<b>4,356</b>	<b>4,317</b>	<b>3,833</b>	<b>4,216</b>	<b>4,639</b>	<b>5,669</b>	<b>6,369</b>	<b>6,942</b>
Exp Item	91	53	336	69	548	434	75	-
Tax	1,094	611	848	1,080	1,232	1,746	1,561	2,083
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>3,353</b>	<b>3,758</b>	<b>3,321</b>	<b>3,205</b>	<b>3,956</b>	<b>4,356</b>	<b>4,882</b>	<b>4,859</b>
<b>Adjusted PAT</b>	<b>3,353</b>	<b>3,758</b>	<b>3,321</b>	<b>3,205</b>	<b>3,956</b>	<b>4,356</b>	<b>4,882</b>	<b>4,859</b>
Change (%)	16	12	(12)	(4)	23	10	12	(0)
<b>Margin(%)</b>	<b>8.3</b>	<b>9.3</b>	<b>8.5</b>	<b>7.8</b>	<b>9.0</b>	<b>8.9</b>	<b>9.0</b>	<b>8.0</b>

## 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%	14.7%	13.1%
ROCE	18.8%	18.3%	15.3%	13.8%	14.2%	13.4%	13.8%	12.4%
Asset Turnover	1.47	1.29	1.18	1.12	1.11	1.03	1.07	1.08
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	43	51
P/E	4.5	5.7	10.4	10.8	10.0	14.9	9.3	9.4
Price / Book Value	1.0	1.3	1.8	1.6	1.5	2.1	1.4	1.2
EV/EBITDA	3.5	4.7	8.3	7.3	8.6	10.5	6.9	5.9
FCF per Share	2,756	2,050	1,197	3,319	1,911	4,358	1,876	2,877

## 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	6,369	6,942
(inc)/Dec in Working Capital	156	(213)	(370)	1,439	(31)	1,780	(300)	222
Non Cash Op Exp	315	259	388	651	210	754	1,810	2,187
Int Paid (+)	191	259	214	155	146	112	114	108
Tax Paid	(873)	(894)	(847)	(928)	(992)	(1,289)	(1,561)	(2,083)
others	-	-	-	-	-	-	(55)	-
CF from Op. Activities	4,146	3,728	3,219	5,479	3,971	7,027	6,376	7,377
(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	1,876	2,877
(Pur)/Sale of Inv	(109)	(265)	(85)	(509)	(1,096)	(160)	(21)	(155)
others	(1,352)	(438)	(303)	(865)	100	(2,267)	301	(1,340)
CF from Inv. Activities	(2,896)	(2,407)	(2,423)	(3,546)	(3,199)	(5,110)	(4,220)	(5,995)
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)	(114)	(108)
Div Paid (inc tax)	(867)	(894)	(961)	(846)	(839)	(923)	(1,856)	(1,070)
others	(0)	0	(0)	-	-	-	(58)	(36)
CF from Fin. Activities	(1,222)	(824)	(1,585)	(2,007)	(1,056)	(1,033)	(2,121)	(1,309)
Inc(Dec) in Cash	28	497	(788)	(75)	(284)	883	35	73
Add: Opening Balance	1,136	1,209	1,706	917	821	535	1,418	1,582
Closing Balance	1,164	1,706	917	842	537	1,418	1,453	1,655

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Analyst's ownership of the stocks mentioned in the Report	NIL
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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: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered 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 (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || 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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