

## MAHINDRA AND MAHINDRA LTD

Industry  
Bloomberg  
BSE Code  
NSE Code

Automobiles  
MM IN  
500520  
M&M

09 August 2018

RATING	BUY
CMP	926
Price Target	1065
Previous Target	950
Potential Upside	15%

## Stock Info

52wk Range H/L	945/613
Mkt Capital (Rs Cr)	1,15,157
Free float (%)	78%
Avg. Vol 1M (,000)	2059
No. of Shares (Crore)	124
Promoters Pledged %	1%

## Multiple Dimensions for growth

## 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 targets farm equipment revenues to touch 50% in next 3 years (currently 32%) and also aims to reduce cost by ~500bps through cost control measures like "Horizon 500" and "Kuber Returns" over the next 2-3 years in the tractor segment.
- ☑ The company will launch 2 new products in UV space in the current fiscal and after then there will not be any new launches in CY19.
- ☑ The company has also earmarked investment of Rs.700-800 crores towards electric vehicles and it will give the capacity of 5000 units per month.

## 1Q FY19 Result:

M&M has once again reported a stellar operating performance driven by strong growth across segments. Net sales grew by 17%YoY to Rs.13520 crores. Gross margin has declined by 128bps QoQ to 29.3% due to steep rise in commodity prices in last 2 quarters. However, EBITDA margin has improved by 66bps QoQ to 13.8% largely driven by higher tractor contribution and operating leverage benefit. PAT grew by 59%YoY to Rs.1221 crores led by higher other income during the quarter. PAT margins also improved by 107bps QoQ to 9.03%.

## View and Valuation

M&M continued its leadership position in the tractor space with market share of over 42%. The management has revised the tractor industry guidance from 9-11% to 12-14% for FY19. Farm Equipment revenue contribution is around 32% and management targets it to be 50% in next 3 years. The management has also focused approach towards strengthening its UV portfolio with the development of new products and upgrades to the existing model line-up in order to regain its lost market share. Further improvement in rural infrastructure leading to last mile connectivity and increase of hub and spoke model will drive the LCV volumes for long term. Going ahead we expect margins to further go up on the back of increasing tractor contribution, cost cutting exercises and operating leverage benefit arising from higher volumes across segments. Based on SOTP valuation method we have valued the standalone business at Rs. 760 per share (16x FY20e EPS) and subsidiaries at Rs. 305 per share. We recommend BUY on the stock with target price of Rs. 1065.

## Key Risks to our rating and target

- ◆ Increase in interest rates beyond this level can hamper Tractor & CV sales
- ◆ Delay in new model launches

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	40875	43785	48686	55263	61079
EBITDA	4620	4769	6224	7493	8644
EBIT	3552	3442	4745	5977	6968
PAT	3205	3956	4356	4873	5651
EPS (Rs)	27	33	37	41	48
EPS growth (%)	-3.5	23.4	10.1	11.9	16.0
ROE (%)	14.8	15.4	14.4	14.6	14.9
ROCE (%)	13.8	14.2	13.4	13.8	14.2
BV	183	216	255	281	319
P/B (X)	0.8	0.8	2.1	2.2	1.9
P/E (x)	5.4	5.0	14.9	15.2	13.1

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## 1Q FY 19 Results

In-line with estimates

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	11,576	12,182	11,578	13,308	13,520	16.8%	1.6%	43,785	48,686	11.2%
Other Income	205	562	97	171	265	29.5%	54.5%	1,342	1,036	-22.8%
COGS	8,420	8,409	8,031	9,236	9,557	13.5%	3.5%	31,803	34,135	7.3%
Gross Margin	27%	31%	31%	31%	29%	2.1%	-1.3%	27%	30%	2.5%
Employee Cost	694	705	723	706	752	8.3%	6.4%	2,595	2,841	9.5%
Other Expenses	1,195	1,339	1,329	1,611	1,340	12.1%	-16.8%	4,618	5,614	21.6%
EBITDA	1,267	1,729	1,495	1,754	1,872	47.8%	6.7%	4,769	6,224	30.5%
EBITDA Margin	11%	14%	13%	13%	14%	2.9%	0.7%	11%	13%	1.9%
Depreciation	344	363	369	399	393	14.3%	-1.6%	1,327	1,479	11.5%
EBIT	923	1,366	1,126	1,355	1,479	60.3%	9.1%	3,442	4,745	37.8%
Interest	31	23	25	33	33	6.4%	-0.8%	146	112	-22.9%
PBT	1,097	1,905	1,198	1,493	1,711	56.0%	14.6%	4,639	5,669	22.2%
Exceptional	-	-	(386)	(48)	(21)	-	-	548	434	-
Tax	331	574	368	482	511	54.5%	6.0%	1,232	1,746	41.8%
PAT	766	1,332	1,216	1,059	1,221	59.4%	15.3%	3,956	4,356	10.1%
PAT Margin	7%	11%	11%	8%	9%	2.4%	1.1%	9%	9%	-0.1%

## Revenue by Business

Revenue (Rs.crore)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Automotive Segment	7,826	7,830	7,453	8,911	7,682	7,890	7,115	9,136	8,188
Farm Equipment Segment	4,118	3,534	4,322	2,794	4,321	3,958	4,098	3,716	5,007
Others	8	8	9	388	437	410	445	554	405

## Healthy 17%YoY revenue growth led by strong volume growth of 19.5%YoY

The company reported 16.8%YoY growth in net sales to Rs.13520 crore in 1QFY19. Total volumes (Auto + Farm Equipment) grew by 19.5%YoY while realization declined by 2%YoY aggressive pricing and change in product mix.

The commercial vehicle segment witnessed sharp 23%YoY increase in the volumes led by over 120%YoY growth in MHCV segment. LCV segment also posted strong growth of 19%YoY. Passenger vehicle volumes grew by 9%YoY and 3 wheelers volumes soared by 29%YoY. Exports volumes grew robustly by 100%YoY because of improved economic condition in Sri-Lanka and Nepal, the major export markets of the company. Farm Equipment volumes grew handsomely by 19%YoY to 100784 units and it was driven by improving rural income and lower tractor penetration.

## Higher tractor sales and operating leverage benefit drove margins upward

Gross margin has declined by 128bps QoQ to 29.3% due to steep rise in commodity prices in last 2 quarters. However, EBITDA margin has improved by 66bps QoQ to 13.8% largely driven by higher tractor contribution and operating leverage benefit

## Better operational efficiencies coupled with higher other income resulted in higher PAT

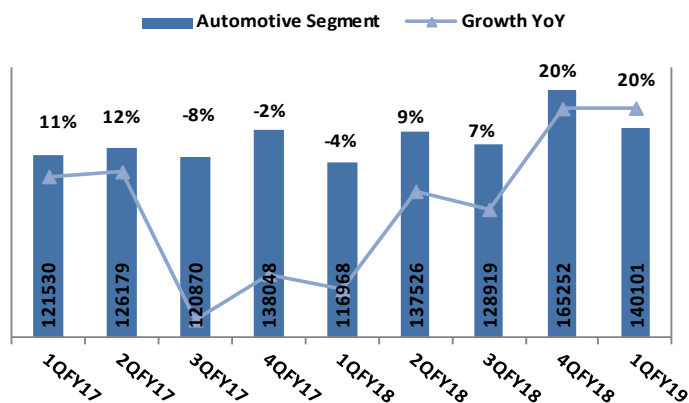
PAT grew by 59%YoY to Rs.1221 crores led by higher other income during the quarter. PAT margins also improved by 107bps QoQ to 9.03%.

## Concall Highlights :

- ✓ The management has revised the tractor industry guidance from 9-11% to 12-14% for FY19 and also expects 8-10% growth for FY20.
- ✓ The management has maintained auto industry's double digit growth guidance for FY19
- ✓ Based on government's focus in rural development and healthy monsoon rural growth remains robust.
- ✓ The company took 1.5% price hike in auto segment and 1.3% hike in tractor segment in 1QFY19.
- ✓ Monsoon has been normal in 82% parts of the country. The deficiencies have been seen in North East, Gujarat, Karnataka, Andhra Pradesh and Jharkhand.
- ✓ The company will shift its existing products to gasoline engines by April 2020, considering the uncertainties regarding use of diesel engines in domestic as well as export markets.
- ✓ The company will launch 2 new products in UV space in the current fiscal after then there will not be any new launch in CY19.
- ✓ MHCV market share improved to 5.7% in 1QFY19 from 5.2% in 1QFY18.

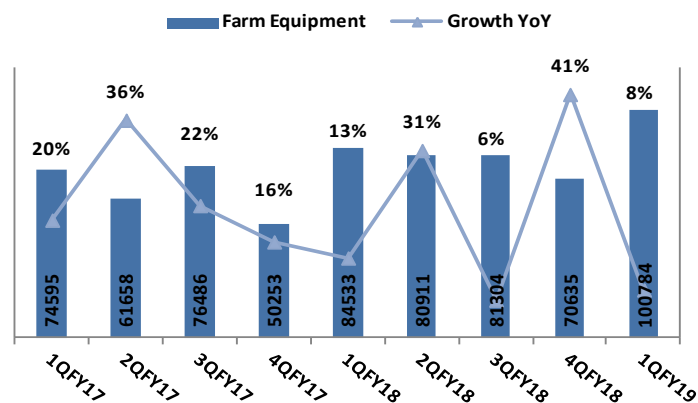
### Exhibit: Automotive Segment Volume & Growth Trend

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



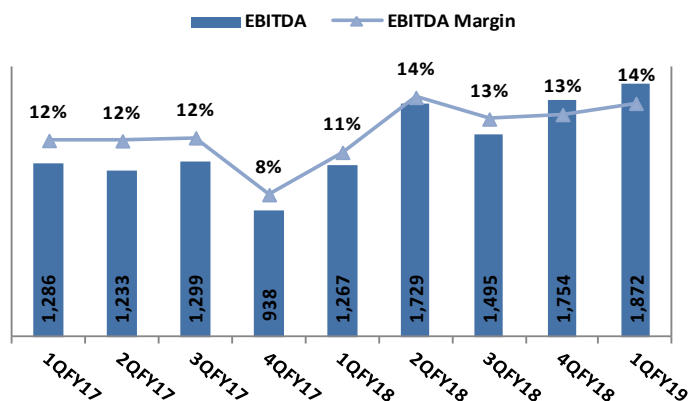
### Exhibit: Farm Equipment Volume & Growth Trend

The company reported highest ever quarterly tractor volumes on the back of improving rural scenario



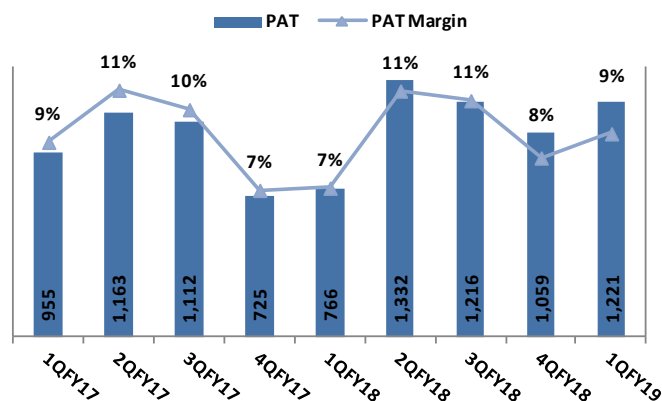
### Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Price hikes and operating leverage benefit has led to improvement in EBITDA margin



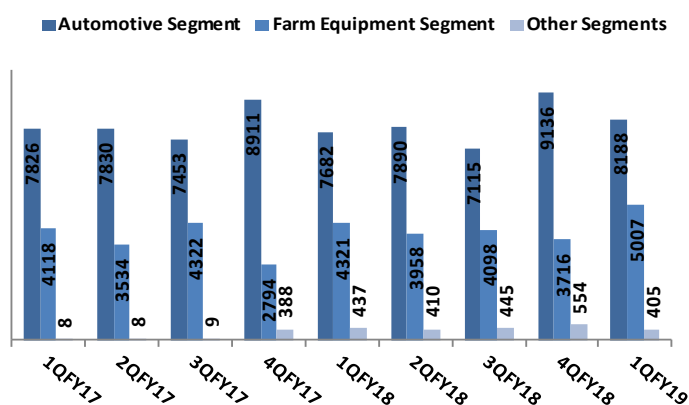
### Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin improved on account of improved operational efficiencies and higher other income



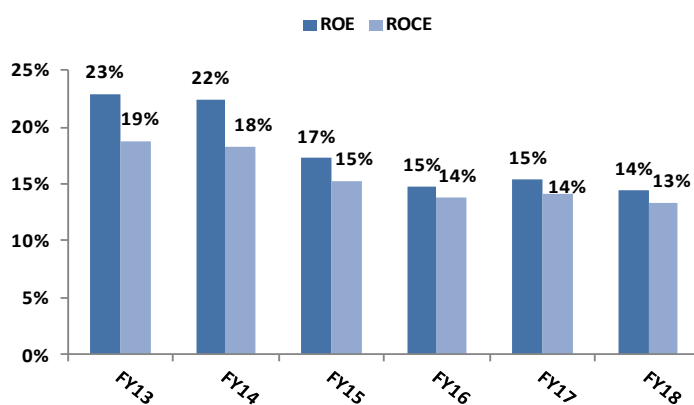
### Exhibit: Segment Revenue (Rs. Crore)

Mix changing in favour of Farm Equipment segment on the back of robust rural demand



### 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	32,716	37,297
<b>Networth</b>	<b>14,659</b>	<b>16,791</b>	<b>19,255</b>	<b>21,707</b>	<b>25,670</b>	<b>30,294</b>	<b>33,311</b>	<b>37,892</b>
Debt	3,227	3,745	2,620	1,844	2,737	2,864	2,724	2,589
Other Non Current Liab	1,472	1,986	2,201	2,516	1,976	1,604	1,513	1,513
<b>Total Capital Employed</b>	<b>17,886</b>	<b>20,536</b>	<b>21,875</b>	<b>23,551</b>	<b>28,407</b>	<b>33,158</b>	<b>36,035</b>	<b>40,480</b>
Net Fixed Assets (incl CWIP)	5,821	7,105	8,108	9,518	9,673	10,988	11,972	12,797
Non Current Investments	10,572	9,788	11,373	11,145	14,295	16,645	17,730	20,860
Other Non Current Assets	30	88	103	59	2,146	2,140	2,140	2,140
<b>Non Current Assets</b>	<b>2,087</b>	<b>3,018</b>	<b>3,232</b>	<b>4,057</b>	<b>768</b>	<b>1,169</b>	<b>1,169</b>	<b>1,169</b>
Inventory	2,420	2,804	2,438	2,688	2,716	2,702	3,067	3,389
Debtors	2,208	2,510	2,558	2,512	2,918	3,173	3,602	3,981
Cash & Bank	1,781	2,950	2,065	2,297	546	1,418	1,076	1,272
Other Current Assets	509	487	529	581	452	2,062	2,340	2,587
<b>Current Assets</b>	<b>8,943</b>	<b>11,289</b>	<b>10,128</b>	<b>11,633</b>	<b>12,456</b>	<b>16,474</b>	<b>17,815</b>	<b>19,579</b>
Creditors	5,580	6,069	5,365	6,764	7,156	8,603	9,690	10,710
Provisions	1,464	1,564	1,461	1,339	440	667	758	837
Other Current Liabilities	1,052	1,134	2,041	2,243	803	2,212	1,658	1,832
<b>Curr Liabilities</b>	<b>8,096</b>	<b>8,766</b>	<b>8,868</b>	<b>10,346</b>	<b>8,956</b>	<b>12,655</b>	<b>13,277</b>	<b>14,551</b>
<b>Net Current Assets</b>	<b>848</b>	<b>2,523</b>	<b>1,260</b>	<b>1,288</b>	<b>3,500</b>	<b>3,820</b>	<b>4,538</b>	<b>5,029</b>
<b>Total Assets</b>	<b>27,454</b>	<b>31,289</b>	<b>32,945</b>	<b>36,412</b>	<b>39,338</b>	<b>47,417</b>	<b>50,826</b>	<b>56,545</b>

### 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	55,263	61,079
Change (%)	27.0	0.2	(3.9)	5.0	7.1	11.2	13.5	10.5
Other Income	549	718	849	850	1,342	1,036	1,095	1,264
<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>7,493</b>	<b>8,644</b>
Change (%)	25.1	0.3	(11.6)	10.7	3.2	30.5	20.4	15.4
Margin (%)	11.6	11.7	10.7	11.3	10.9	12.8	13.6	14.2
Depr & Amor.	711	863	975	1,068	1,327	1,479	1,516	1,675
<b>EBIT</b>	<b>3,998</b>	<b>3,858</b>	<b>3,199</b>	<b>3,552</b>	<b>3,442</b>	<b>4,745</b>	<b>5,977</b>	<b>6,968</b>
Int. & other fin. Cost	191	259	214	186	146	112	107	102
Other Income	549	718	849	850	1,342	1,036	1,095	1,264
<b>EBT</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>6,965</b>	<b>8,131</b>
Exp Item	91	53	336	69	548	434	21	-
Tax	1,094	611	848	1,080	1,232	1,746	2,113	2,480
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	3,353	3,758	3,321	3,205	3,956	4,356	4,873	5,651
<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>4,873</b>	<b>5,651</b>
Change (%)	16.5	12.1	(11.6)	(3.5)	23.4	10.1	11.9	16.0
Margin(%)	8.3	9.3	8.5	7.8	9.0	8.9	8.8	9.3

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	23%	22%	17%	15%	15%	14%	15%	15%
ROCE	19%	18%	15%	14%	14%	13%	14%	14%
Asset Turnover	1.5	1.3	1.2	1.1	1.1	1.0	1.1	1.1
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	56	68
P/E	4.5	5.7	10.4	10.8	10.0	14.9	15.2	13.1
Price / Book Value	1.0	1.3	1.8	1.6	1.5	2.1	2.2	1.9
EV/EBITDA	3.5	4.7	8.3	7.3	8.6	10.5	10.0	8.6
FCF per Share	2,756	2,050	1,197	3,319	1,911	4,358	3,286	5,036

### 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	6,965	8,131
(inc)/Dec in Working Capital	156	(213)	(370)	1,439	(31)	1,780	(582)	209
Non Cash Op Exp	315	259	388	651	210	754	1,516	1,675
Int Paid (+)	191	259	214	155	146	112	107	102
Tax Paid	(873)	(894)	(847)	(928)	(992)	(1,289)	(2,113)	(2,480)
others	-	-	-	-	-	-	-	-
<b>CF from Op. Activities</b>	<b>4,146</b>	<b>3,728</b>	<b>3,219</b>	<b>5,479</b>	<b>3,971</b>	<b>7,027</b>	<b>5,824</b>	<b>7,638</b>
(inc)/Dec in FA & CWIP	(1,436)	(1,704)	(2,035)	(2,172)	(2,202)	(2,683)	(2,500)	(2,500)
Free Cashflow	2,710	2,023	1,185	3,306	1,769	4,344	3,324	5,138
(Pur)/Sale of Inv	(109)	(265)	(85)	(509)	(1,096)	(160)	(589)	(504)
others	(1,352)	(438)	(303)	(865)	100	(2,267)	(974)	(3,130)
<b>CF from Inv. Activities</b>	<b>(2,896)</b>	<b>(2,407)</b>	<b>(2,423)</b>	<b>(3,546)</b>	<b>(3,199)</b>	<b>(5,110)</b>	<b>(4,063)</b>	<b>(6,134)</b>
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)	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>(1,222)</b>	<b>(824)</b>	<b>(1,585)</b>	<b>(2,007)</b>	<b>(1,056)</b>	<b>(1,033)</b>	<b>(2,103)</b>	<b>(1,307)</b>
Inc(Dec) in Cash	28	497	(788)	(75)	(284)	883	(342)	196
<b>Add: Opening Balance</b>	<b>1,136</b>	<b>1,209</b>	<b>1,706</b>	<b>917</b>	<b>821</b>	<b>535</b>	<b>1,418</b>	<b>1,076</b>
Closing Balance	1,164	1,706	917	842	537	1,418	1,076	1,272

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