

MAHINDRA & MAHINDRA LIMITED

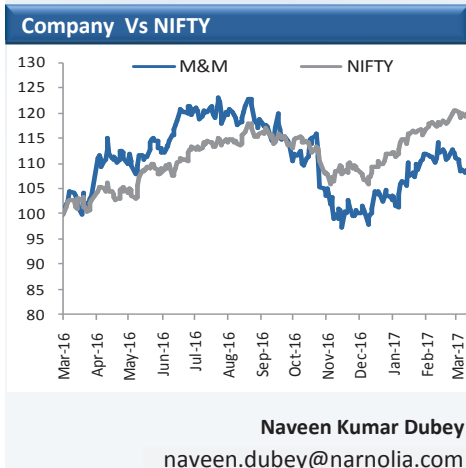
29-Mar-17

Result Update	
CMP	1276
Target Price	1600
Previous Target Price	
Upside	25%
Change from Previous	-

Market Data	
BSE Code	500520
NSE Symbol	M&M
52wk Range H/L	1509/1142
Mkt Capital (Rs Cr)	79,292
Av. Volume	114489
Nifty	9,101

Stock Performance			
	1Month	1Year	YTD
Absolute	-2.3	8.8	2.2
Rel.to Nifty	-4.8	-4.5	-15.7

Share Holding Pattern-%			
	3QFY17	2QFY17	1QFY17
Promoter	26.8	26.8	26.8
Public	73.2	73.2	73.2
Others	--	--	--
Total	100.0	100.0	100.0



M&M, the leader in the Farm Equipment business, has geared itself to become a full-line farm machinery player under the global strategy. To exploit the growth opportunities in segments like harvesters, tillage, haying & plant and fertilizers, its product mix is set to see a substantial shift in the next 2 years. The geographical mix of M&M's farm machinery products stood at around 30 percent in FY16 which rose to 37 percent in the FY17 YTD and the company aims to take it to 50 per cent by FY19. Launch of new vehicles by the competitors in the fast growing UV segment led to decrease in the market share of M&M. The company will launch a multi-utility vehicle code named 'U321' before the end of next financial year preceded by a sports utility vehicle code named 'S201' in the second half of the year. On Korean subsidiary, M&M has capital expenditure plan of more than USD700 million for the next three-four years to bring out one new product every year and this could lead further expansion in margins of the company going ahead. The Company has built adequate manufacturing capacity for the immediate future and is planning to invest in additional capacity in preparation for the mid to long term.

3QFY17 Result Highlights

M&M have reported 4% QoQ growth in net revenue in 3QFY17 due to 24% volume growth in Farm Equipment. Auto volumes degrew by 4% QoQ. Farm & Auto segment realization declined by 1%QoQ.

EBITDA Margin improved by 20 bps YoY to 11.8% due to higher sales of tractors during the quarter.

PAT Margin was increased by 250 bps YoY to 10%. Exceptional item of Rs.364 crore during the quarter.

Outlook

The management expects 15-20 percent volume growth for the tractor industry in FY18. New launches in 2HFY18 in Tractor and SUV segments will make the M&M presence further stronger in the domestic market. Expansion in the Ssangyong could lead to better margins going ahead. The stock is currently trading at 2.5x P/B of FY17. We expect that RoE to maintain over 11%. Based on SOTP valuation method we have valued the standalone business at Rs. 1112 per share and subsidiaries at Rs. 487 per share. Hence, we recommend "HOLD" on the stock with target price of Rs. 1600.

	Rs. In crore				
Financials	3QFY17	2QFY17	3QFY16	QoQ	YoY
Sales	11010	10609	11004	4%	0%
EBITDA	1299	1233	1280	5%	2%
Net Profit	1112	1163	834	-4%	33%
EBITDA%	11.8%	11.6%	11.6%		
PAT %	10.1%	11.0%	7.6%		

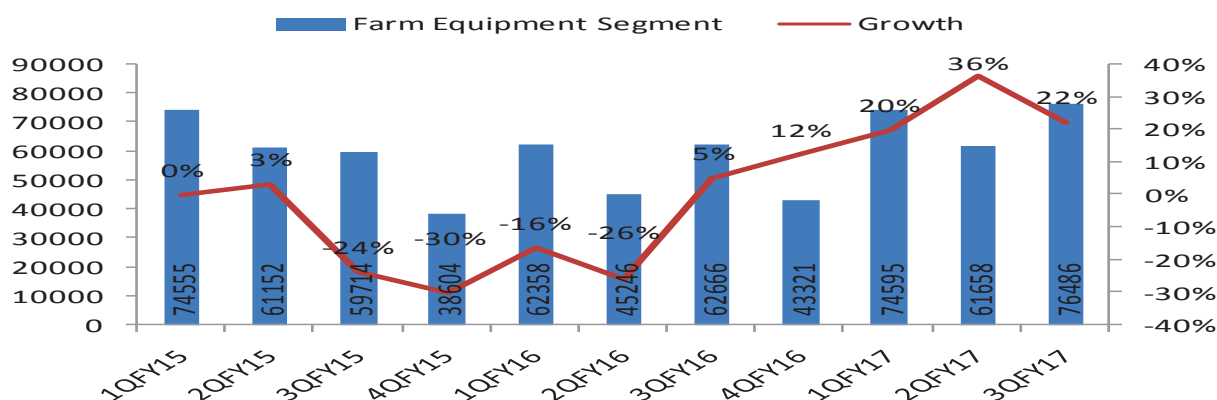
Investment Arguments

- ♦ Monsoon has played a significant role in shaping the rural demand in favour of M&M, because about 90% of the tractors and more than 40% of the utility vehicles have been sold in rural areas by the company. So M&M remains the big beneficiary of improving rural demand in long run.
- ♦ Recently launched "Yuvo" brand tractors have made the Farm Equipment segment portfolio stronger and M&M is all set to take advantage of growing demand of 41-50 HP tractors. This category contributes more than 45% of total tractor sales.
- ♦ The Company has built adequate manufacturing capacity for the immediate future and is planning to invest in additional capacity in preparation for the mid to long term.
- ♦ Ssangyong can be a new growth driver for M&M in utility vehicles segment and this could lead further expansion in margins of the company going ahead.
- ♦ M&M is going full-throttle on a global strategy to transform itself into a full-line farm machinery player. This should see the contribution of non-tractor farm equipment to the product mix increasing 5-fold from 4 percent in December 2015 to 20 percent by FY19.

Management Highlights

- ♦ 16-17% industry volume growth in Tractor segment for FY17. 15-20% growth in FY18.
- ♦ EBITDA Margin may stay in FY17 at the similar level of FY16.
- ♦ Effective Tax rate is 21-22% for FY17.
- ♦ As per management there will not be significant price change in the truck segment due to GST.
- ♦ Capex of around Rs.2500 crore every year.
- ♦ Inventory level for Tractor is 60 days and for Auto 50 days.
- ♦ The company will launch a multi-utility vehicle codenamed U321 before the end of next financial year preceded by a sports utility vehicle codenamed S201 in the second half of the year.
- ♦ Ssangyong has a capital expenditure plan of more than \$700 million for the next three-four years to bring out one new product every year.
- ♦ Mahindra and the Ssangyong version of the SUV will drive the Korean brand's ambitious entry into the North American market by 2020.
- ♦ M&M aims to get 50 percent of its farm equipment revenues from international markets.

Sustainable growth in Farm Equipment Segment



Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY14	FY15	FY16	FY17		FY14	FY15	FY16	FY17
Net Revenue	74,001	71,949	78,016	82,412	EPS	76	51	52	55
Other Income	505	525	541	541	Book Value	378	416	461	502
Total Revenue	74,506	72,474	78,557	82,953	DPS	16.4	14.0	14.0	14.0
COGS	44,893	42,850	45,340	48,211	Payout (incl. Div. Tax.)	22%	28%	27%	25%
GPM	61%	60%	58%	59%	Valuation(x)				
Other Expenses	12,342	13,444	15,036	15,246	P/E	6.3	12.8	23.4	23.2
EBITDA	10,120	8,793	9,647	10,714	Price / Book Value	1.3	1.6	2.6	2.5
EBITDA Margin (%)	14%	12%	12%	13%	Dividend Yield (%)	3.43%	2.16%	1.16%	1.10%
Depreciation	2,170	2,124	2,582	2,555	Profitability Ratios				
EBIT	7,951	6,669	7,066	8,159	RoE	20%	12%	11%	11%
Interest	2,954	3,157	3,373	3,812	RoCE	16%	14%	13%	14%
PBT	5,502	4,038	4,234	4,888	Turnover Ratios				
Tax	1,496	1,720	1,864	1,466	Asset Turnover (x)	0.8	0.8	0.7	0.7
Tax Rate (%)	27%	43%	44%	30%	Debtors (No. of Days)	28.2	27.8	30.0	30.0
Reported PAT	4,667	3,137	3,211	3,421	Inventory (No. of Days)	67.9	72.0	85.6	60.0
Dividend Paid	1,009	872	872	872	Creditors (No. of Days)	58.2	57.6	63.8	63.8
No. of Shares	62	62	62	62	Net Debt/Equity (x)	1.1	0.9	0.9	0.8

BALANCE SHEET					CASH FLOW STATEMENT				
	FY14	FY15	FY16	FY17		FY14	FY15	FY16	FY17
Share Capital	295	296	296	296	OP/(Loss) before Tax	5,502	4,038	4,234	4,888
Reserves	23,012	25,561	28,323	30,873	Depreciation	2,175	2,128	2,612	2,555
Net Worth	23,307	25,856	28,620	31,169	Direct Taxes Paid	(1,275)	(1,701)	(2,044)	(1,466)
Long term Debt	25,492	22,327	25,096	25,598	OP before WC changes	8,086	6,454	7,252	10,134
Short term Debt	2,781	7,177	8,251	8,663	CF from Op. Activity	(244)	1,055	971	6,924
Deferred Tax	1,202	1,287	1,552	1,552		(66,102)	(80,047)	(88,000)	(172)
Total Capital Employed	48,799	48,183	53,716	56,767	Capex	(3,665)	(4,759)	(4,334)	(3,660)
Net Fixed Assets	19,228	21,315	24,186	25,291	CF from Inv. Activity	(4,490)	(4,444)	(5,238)	(4,706)
Capital WIP	1,244	1,273	806	806	Repayment of Long Tern	(53,265)	(45,084)	(94,098)	-
Debtors	5,725	5,476	6,419	6,781	Interest Paid	(583)	(489)	(541)	(3,812)
Cash & Bank Balances	6,523	4,912	4,906	3,346	Divd Paid (incl Tax)	(1,094)	(1,200)	(1,068)	(872)
Trade payables	11,800	11,355	13,628	14,396	CF from Fin. Activity	5,577	1,669	3,971	(3,770)
Total Provisions	5,089	5,654	5,901	6,127	Inc/(Dec) in Cash	844	(1,720)	(296)	(1,552)
Net Current Assets	14,817	13,195	14,739	15,986	Add: Opening Balance	3,823	4,633	3,000	4,906
Total Assets	88,270	94,844	1,08,223	1,13,724	Closing Balance	4,633	2,720	2,792	3,019