

MAHINDRA & MAHINDRA LIMITED

Result Update

CMP	1221
Target Price	1600
Previous Target Price	
Upside	31%
Change from Previous	-

Market Data

BSE Code	500520
NSE Symbol	M&M
52wk Range H/L	1509/1092
Mkt Capital (Rs Cr)	75,845
Av. Volume	90339
Nifty	8,191

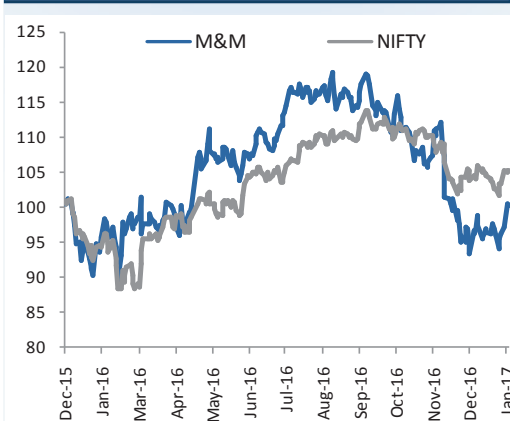
Stock Performance

	1Month	1Year	YTD
Absolute	3.9	-12.7	-1.9
Rel.to Nifty	3.3	-6.4	-7.0

Share Holding Pattern-%

	2QFY17	1QFY17	4QFY16
Promoter	26.8	26.8	26.9
Public	73.2	73.2	73.1
Others	--	--	--
Total	100.0	100.0	100.0

Company Vs NIFTY



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M&M posted strong volume growth in the Farm Equipment segment with a growth of 22% YoY during the 3QFY17. Good Monsoon and recovery in the rural areas helped the company to garner strong growth in this quarter. M&M commands 43% market share in the tractor segment putting Mahindra and Swaraj brands together. Management expects rural demand to remain robust on good monsoon. Growing competitiveness in the utility vehicle segment is a concern for Mahindra because earlier launches by Maruti & Hyundai have taken the large share from the market leader. The market share has reduced to 29% from 35% in the UV segment. We assume that M&M will further respond to the changing dynamics in the utility vehicle segment going ahead. Recovery in the Ssangyong is a good sign for UV segment. Going forward, the management has guided for 15-20% growth in the UV segment, 20% growth for tractor industry and single digit for the commercial vehicle space in FY17.

2QFY17 Result Highlights

M&M have reported 14% YoY growth in net revenue in 2QFY17 due to 12% growth in Automotive and 36% growth in Farm Equipment segment.

EBITDA Margin improved by 70 bps YoY to 11.6% due to higher sales of tractors during the quarter.

PAT Margin was increased by 230 bps YoY to 11% because of higher other income which came in the form of special dividend received from Tech M, Mahindra holidays and Swaraj Engines.

Outlook

Management believes that the demonetization issue may have short term negative impact on Farm Equipment segment. They expect this concern will last for next 4 months but sticks with previous growth guidance of 20% for tractor industry in FY17. We believe that the tractor industry may not see much slow-down because the monsoon was good during the year and almost 90% of the tractors are financed. New launches in 2HFY18 in Tractor and SUV segments will make the Mahindra's presence further stronger in the domestic market. Ssangyong have also seen recovery on nine month basis and it may post positive results in the current fiscal after three consecutive years of losses. Considering the strong volume growth and recovery in the non-performing business we recommend 'BUY' with a target price of Rs.1600.

Rs. In crore

Financials	2QFY17	1QFY17	2QFY16	QoQ	YoY
Sales	10609	11041	9276	-4%	14%
EBITDA	1233	1286	1008	-4%	22%
Net Profit	1163	955	915	22%	27%
EBIDTA%	11.6%	11.6%	10.9%		
PAT %	11.0%	8.7%	9.9%		

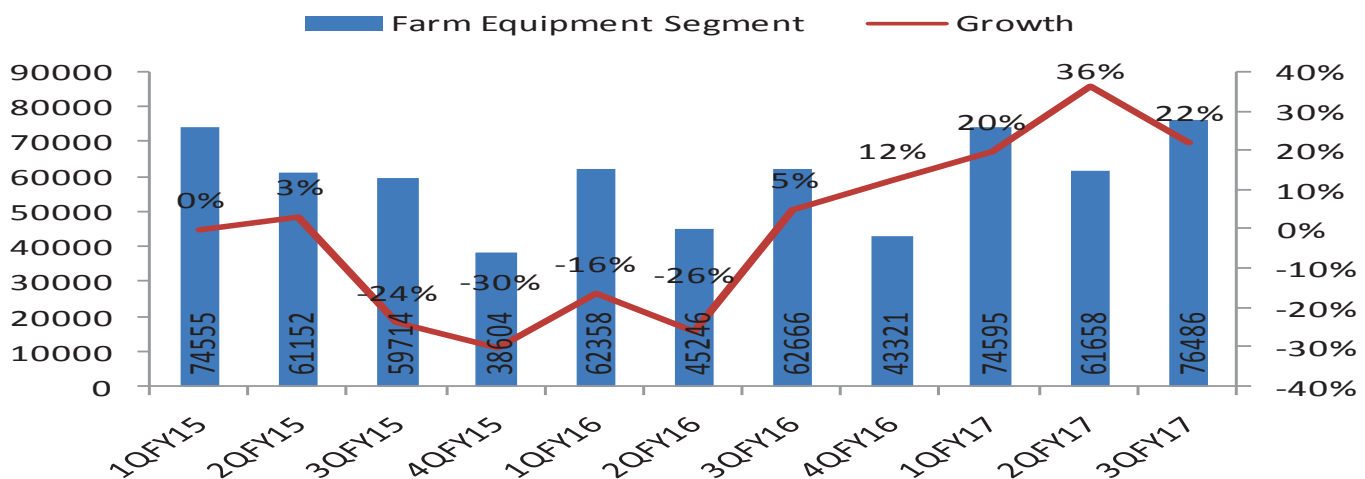
Investment Arguments

- ◆ 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.
- ◆ The company is strengthening its presence in neighbouring markets of Sri Lanka and Bangladesh.
- ◆ Ssangyong have also seen recovery on nine month basis and it may post positive results in the current fiscal after three consecutive years of losses. It 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.

Management Highlights

- ◆ There will be short term negative impact of demonetization on the farm equipment segment and the management expects that this concern may last for next 4 months.
- ◆ Rural economy looks positive for Q3 & Q4 on good monsoon. 20% industry volume growth in Tractor segment for FY17.
- ◆ 80-85 percent UVs and 90% Tractors are financed through Banks & NBFCs.
- ◆ 15-20 percent growth in UV segment in next 6 months.
- ◆ CV segment will end up high single digit for the rest of the year.
- ◆ There will not be significant price change in the truck segment due to GST.
- ◆ Other income was higher due to special dividend received from Tech M, Mahindra holidays and Swaraj Engines,
- ◆ The company will be launching 2 new vehicles in UV segment in Q2FY18.
- ◆ 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.

Sustainable growth in Farm Equipment Segment



Financials Snap Shot

	INCOME STATEMENT			
	FY13	FY14	FY15	FY16
Net Revenue	68,693	74,001	71,949	78,016
Other Income	389	505	525	541
Total Revenue	69,082	74,506	72,474	78,557
COGS	41,892	44,893	42,850	45,340
GPM	39%	39%	40%	42%
Other Expenses	11,132	12,342	13,444	15,036
EBITDA	9,116	10,120	8,793	9,647
EBITDA Margin (%)	13%	14%	12%	12%
Depreciation	2,080	2,170	2,124	2,582
EBIT	7,036	7,951	6,669	7,066
Interest	2,297	2,954	3,157	3,373
PBT	5,128	5,502	4,038	4,234
Tax	1,935	1,496	1,720	1,864
Tax Rate (%)	38%	27%	43%	44%
Reported PAT	4,099	4,667	3,137	3,211
Dividend Paid	934	1,009	872	872
No. of Shares	61	62	62	62

	RATIOS			
	FY13	FY14	FY15	FY16
EPS	67	76	51	52
Book Value	325	378	416	461
DPS	15.2	16.4	14.0	14.0
Payout (incl. Div. Tax.)	23%	22%	28%	27%
Valuation(x)				
P/E	4.0	6.3	12.8	23.4
Price / Book Value	0.8	1.3	1.6	2.6
Dividend Yield (%)	5.63%	3.43%	2.16%	1.16%
Profitability Ratios				
RoE	21%	20%	12%	11%
RoCE	18%	16%	14%	13%
Turnover Ratios				
Asset Turnover (x)	0.9	0.8	0.8	-
Debtors (No. of Days)	27.5	28.2	27.8	30.0
Inventory (No. of Days)	73.3	67.9	72.0	85.6
Creditors (No. of Days)	63.3	58.2	57.6	63.8
Net Debt/Equity (x)	1.0	1.1	0.9	0.9

	BALANCE SHEET			
	FY13	FY14	FY15	FY16
Share Capital	295	295	296	296
Reserves	19,666	23,012	25,561	28,323
Net Worth	19,961	23,307	25,856	28,620
Long term Debt	19,860	25,492	22,327	25,096
Short term Debt	3,368	2,781	7,177	8,251
Deferred Tax	894	1,202	1,287	1,552
Total Capital Employed	39,821	48,799	48,183	53,716
Net Fixed Assets	17,941	19,228	21,315	24,186
Capital WIP	1,120	1,244	1,273	806
Debtors	5,177	5,725	5,476	6,419
Cash & Bank Balances	4,937	6,523	4,912	4,906
Trade payables	11,911	11,800	11,355	13,628
Total Provisions	4,286	5,089	5,654	5,901
Net Current Assets	11,462	14,817	13,195	14,739
Total Assets	76,470	88,270	94,844	108,223

	CASH FLOW STATEMENT			
	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	5,128	5,502	4,038	4,234
Depreciation	2,085	2,175	2,128	2,612
Direct Taxes Paid	(1,781)	(1,275)	(1,701)	(2,044)
OP before WC changes	7,663	8,086	6,454	7,252
CF from Op. Activity	(922)	(244)	1,055	971
	(45,661)	(66,102)	(80,047)	(88,000)
Capex	(3,291)	(3,665)	(4,759)	(4,334)
CF from Inv. Activity	(2,788)	(4,490)	(4,444)	(5,238)
Repayment of Long Term	(54,392)	(53,265)	(45,084)	(94,098)
Interest Paid	(638)	(583)	(489)	(541)
Divd Paid (incl Tax)	(997)	(1,094)	(1,200)	(1,068)
CF from Fin. Activity	4,508	5,577	1,669	3,971
Inc/(Dec) in Cash	799	844	(1,720)	(296)
Add: Opening Balance	3,139	3,823	4,633	3,000
Closing Balance	3,823	4,633	2,720	2,792