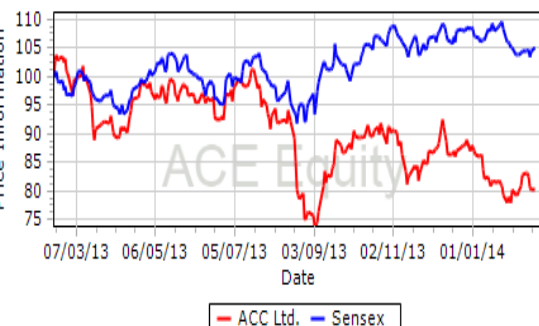
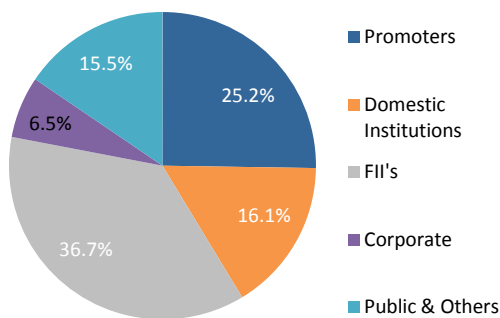


CMP: Rs 928  
 Target Price: Rs 1029  
**Recommendation: Hold**

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	20464
NSE Nifty	6073

Market Info	
Market Capital	Rs 57339cr
Equity Capital	Rs 295.1 cr
Avg Trading Volume	13,71,000
52 Wk High / low	Rs 1026 / 742
Face Value	Rs 5

M&M Shareholding pattern: Dec 13



M&M's 3QFY14 reported EBITDA margins at 13.1% came higher than street estimates. Margins were higher due to rationalisation across cost elements even though gross margins dipped qoq due to higher raw material cost.

**> Q3FY14 Net Revenue:** Q3 Net Revenue at Rs 10556 crores, a 2.0% yoy decline for the quarter, led by the Automotive sector (12.3% de-growth), while farm sector Revenue grew by 20.4% yoy. Automotive segment volumes were down yoy by 12%, while farm equipment segment reported healthy volume growth of 21%. Overall vehicle volumes declined 1.9% yoy to 206372 units. Farm division's realisations declined 1.6% qoq, while that of automotive's rose 1.7% qoq. On blended basis realisations dropped 0.4% yoy to Rs 504182 per unit.

**> Q3FY14 Operating EBITDA:** Q3 Op EBITDA margin at 13.1%, due to lower operating cost that came as a result of cost rationalisations. Tractor division reported fifth consecutive quarter qoq of margin gain with margins at 17.6%. Automotive margins too improved for second consecutive quarter to 9.47%.

**> Q3FY14 PAT:** Q3 PAT at Rs 934 crores (a 11.7% yoy growth). PAT margins dropped qoq to 9.0% on higher effective tax rate of 23.4%.

**> OUTLOOK FOR NEXT 2 YEARS:** M&M's tractor volumes growth has averaged ~29% in 9MFY14. Management continues to sound positive on growth prospects of tractor industry with the same is expected to grow by 18-20% in FY14 (*against earlier guidance of >15%*) and by 8-10% in FY15. Inventory levels continue to remain at normalised levels. Company will be investing Rs 7500cr over next three years on product development and new launches.

**> FINANCIALS & ESTIMATES:**

We estimate M&M's Revenue growth at a 2 year CAGR of 8.5% and "core earnings" growth at a 2 year CAGR of 13%. On the back of strong performance from tractor division, we estimate M&M's EBITDA margins to average close to ~13% in FY14 & 15. We have revised our estimates upward for FY14E and FY15E on the back of continued good show from farm division and automotive division where company is able to hold margins in a weak microeconomic environment. Accordingly we have increased volume estimates for automotive division for FY14E and FY15E by 4% and 1.5% respectively. Tractor division's volume estimates by 9% each for FY14E and FY15E. At the same time we have lowered our realisations estimates by 5% each in FY14 and FY15E.

Y/E March, (in Rs cr)	FY12	FY13	FY14E	FY15E
Net Sales	31,392.0	39,903.1	41,746.3	46,042.1
yoy%	36.2%	27.1%	4.6%	10.3%
Operating EBITDA	3,764.4	4,709.3	5,421.4	6,230.4
Operating EBITDA	11.8%	11.6%	12.8%	13.4%
PAT	2,878.9	3,352.8	3,855.6	4,205.6
yoy%	8.1%	16.5%	15.0%	9.1%
DEPS	46.9	54.6	62.8	68.5
Core DEPS	46.8	57.1	66.4	72.2
P/DEPS (x)	19.8	17.0	14.8	13.6

**3QFY14 Performance:**

Standalone P&L (in Rs Crore)	Q3FY14	Q3 FY13	yoy %	Q2 FY14	qoq %
Total Income from Operations	10555.7	10774.3	-2.0%	8929.6	18.2%
Total RM Cost	7607.0	8179.1	-7.0%	6382.5	19.2%
Gross margin%	26.9	23.1		27.6%	
Total Expenditure	9368.2	9742.0	-3.8%	7981.6	17.4%
Op EBITDA	1382.3	1211.3	14.1%	1144.9	20.7%
Op EBITDA margin %	13.1	11.2		12.8%	
Other Income	94.6	74.2	27.5%	360.6	-73.8%
Interest Expense	63.3	46.6	35.9%	62.3	1.7%
PBT before Excp Items	1218.8	1059.9	15.0%	1246.3	-2.2%
Excp Items (Net)					
PBT	1218.8	1059.9	15.0%	1246.3	-2.2%
Provision for Taxation	284.7	223.8	27.2%	256.8	10.9%
Net Profit	934.1	836.2	11.7%	989.5	-5.6%
Effective Tax rate	23.4%	21.1%		20.6%	
Basic EPS	15.8	14.2	11.7%	16.8	-5.6%

Segment Margins	3QFY14	3QFY13	Q2FY14
Automotive	9.5%	8.5%	9.4%
Farm Equipment	17.6%	15.5%	17.0%
Other segments	13.7%	8.5%	10.1%

**VALUATION:**

**We value M&M based on SoTP valuations and we have a "Hold" rating on this stock:** We value the core business at Rs 753 per share, based on 11.0x FY15E PE(x) based on DEPS of Rs 68.5. We value total investments (listed and unlisted) at Rs 276 per share, with a holding company discount of 30%. **Our SoTP value for stock comes at Rs 1029 per share.**



**Profit and Loss Account, Year Ending March**

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
Net Sales	31,392.0	39,903.1	41,746.3	46,042.1
YoY%	36.2%	27.1%	4.6%	10.3%
Other Operating Income	455.2	538.0	557.2	585.1
Income from Operations	31,847.2	40,441.2	42,303.6	46,627.2
Materials Consumed	23,499.8	30,415.2	30,740.7	33,922.4
Employee Costs	1,701.8	1,866.5	2,136.4	2,360.8
Other Expenses	2,881.3	3,450.2	4,005.1	4,113.6
Total Expenditure	28,082.8	35,731.9	36,882.2	40,396.9
Operating EBITDA	3,764.4	4,709.3	5,421.4	6,230.4
Op EBITDA margin %	11.82%	11.64%	12.82%	13.36%
Depreciation	576.1	710.8	783.5	963.6
Operating EBIT	3,188.3	3,998.5	4,637.9	5,266.7
Operating EBIT margin%	10.0%	9.9%	11.0%	11.3%
Other Income	472.1	549.2	742.6	814.0
Interest Cost	162.8	191.2	239.6	239.6
PBT before Excp Items	3,497.6	4,356.5	5,140.9	5,841.1
Exceptional Items	108.3	90.6	0.0	0.0
PBT	3,605.9	4,447.1	5,140.9	5,841.1
Tax	727.0	1,094.3	1,285.2	1,635.5
PAT	2,878.9	3,352.8	3,855.6	4,205.6
YoY%	8.1%	16.5%	15.0%	9.1%
DEPS	46.9	54.6	62.8	68.5
Core DEPS	46.8	57.1	66.4	72.2

**Balance Sheet, Year Ending March**

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
<b>EQUITY AND LIABILITIES</b>				
Share Capital	294.5	295.2	295.2	295.2
Reserves and Surplus ...	11876.6	14363.8	17186.1	20225.1
Total Shareholders' Funds	12171.1	14658.9	17481.3	20520.2
<b>NON CURRENT LIABILITIES :</b>				
Long Term Borrowings	3173.8	3172.4	3172.4	3172.4
Other Long Liab & Prov	1206.9	1471.8	1471.8	1471.8
Total Non Current Liab	4380.7	4644.3	4644.3	4644.3
<b>CURRENT LIABILITIES :</b>				
Short Term Borrowings	0.4	54.6	54.6	54.6
Other Current Liab & Prov	7359.8	8095.8	9258.9	10079.5
Total	7360.2	8150.4	9313.5	10134.2
Total Equity and Liab	23912.0	27453.6	31439.1	35298.7
<b>ASSETS</b>				
<b>NON CURRENT ASSETS :</b>				
Fixed Assets	5080.8	5821.3	6698.8	7330.5
Non Current Investments...	9273.6	10571.5	11273.6	12273.6
Other Non Cur Asst & Loans	1567.0	2117.3	2117.3	2117.3
Total: Non Current Assets	15921.3	18510.2	20089.7	21721.3
<b>CURRENT ASSETS :</b>				
Current Investments	1036.9	1262.0	1762.0	2762.0
Cash & Cash Equivalents	1188.4	1781.4	2575.4	3212.7
Other Cur Asst, L&A	5765.4	5900.1	7012.1	7602.7
Total Current Assets	7990.7	8943.4	11349.4	13577.4
Total Assets	23912.0	27453.6	31439.1	35298.7

**Cash Flow Statement (Restated), Year Ending March**

Particulars, in Rs crore	FY12	FY13E	FY14E	FY15E
<b>Operating Activities</b>				
PBT	3,605.9	4,422.9	5,140.9	5,841.1
Add back NCC	576.1	710.8	783.5	963.6
Add Exceptional Items	108.3	90.6	0.0	0.0
less Other Income	(472.1)	(524.9)	(742.6)	(814.0)
Add back: Finance cost	162.8	194.0	239.6	239.6
Adjustments in Working Cap	(484.3)	541.7	(12.3)	96.7
Less Taxes	(743.2)	(1,105.7)	(1,285.2)	(1,635.5)
Other Adj	-18.48	0	0	0
<b>CFO</b>	2,735.0	4,329.3	4,123.9	4,691.5
<b>Investing Activities</b>				
Capex: Tangible + Intang	(1,340.4)	(1,549.3)	(1,563.1)	(1,595.3)
Total Investments:	(1,064.3)	(1,225.1)	(1,500.0)	(2,000.0)
Change in Long term Adv	0.0	(604.2)	0.0	0.0
Treasury Income	472.1	524.9	742.6	814.0
Other adj	(3.9)	0	0	0
<b>CFI</b>	(1,936.5)	(2,853.6)	(2,320.5)	(2,781.3)
<b>Financing Activities</b>				
Change in Long Term Debt	644.2	(1.4)	0.0	0.0
Dividend Paid + Tax	(800.8)	(868.6)	(891.2)	(1,033.3)
Change in Long Term Liab	0.0	218.3	0.0	0.0
Interest Cost paid	(149.6)	(194.0)	(239.6)	(239.6)
<b>CFF</b>	(306.2)	(845.7)	(1,130.7)	(1,272.9)
<b>Summary</b>				
Opening Cash & Equiv	696.0	1,188.4	1,781.4	2,575.4
Change during the year	492.3	630.1	672.6	637.3
Closing Cash	1,188.4	1,818.5	2,454.0	3,212.7

**Ratio Analysis**

	FY12	FY13E	FY14E	FY15E
<b>Profitability</b>				
Operating EBITDA%	11.8%	11.6%	12.8%	13.4%
Operating EBIT%	10.0%	9.9%	11.0%	11.3%
Core EBITDA%	10.5%	10.5%	11.7%	12.3%
Core EBIT%	8.7%	8.7%	9.8%	10.2%
PAT%	9.2%	8.4%	9.2%	9.1%
ROAE%	25.6%	25.0%	24.0%	22.1%
<b>Du Pont ROAE breakup</b>				
PAT / Sales	0.09	0.08	0.09	0.09
Sales / Avg Total Assets	1.44	1.55	1.42	1.38
Avg Total Asset /Avg Equity	1.93	1.91	1.83	1.76
ROAE	0.26	0.25	0.24	0.22
<b>Other Ratios</b>				
Current Ratio	1.09	1.10	1.22	1.34
Long Term Debt / Equity	0.26	0.22	0.18	0.15
Diluted EPS	46.9	54.6	62.8	68.5
Dividend per share	12.5	13.0	15.5	17.5
Dividend %	250%	260%	310%	350%
Dividend Payout ratio	26%	23%	24%	25%
P/ Diluted Earnings	19.8	17.0	14.8	13.6
BVPS (diluted)	198.2	238.7	284.7	334.2
P/BV	4.7	3.9	3.3	2.8
<b>Cash Flow metrics</b>				
Cash & Equiv per share	68.7	79.7	104.9	131.5
FCFF	449.6	1888.4	1861.8	2275.9
FCFE	974.4	1335.0	1682.1	2096.2



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**Stock Rating**

	Absolute Return
Buy	> 20%
Accumulate	12-20%
Hold	5-12%
Neutral	0-5%
Reduce	< 0%

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