

**CMP: Rs 540**

**Rating: HOLD**

**Target: Rs 590**

(NR-Not Rated)

**Stock Info**

INDEX	
BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.NS
Sector	Automobiles
Face Value (Rs)	5
Equity Capital (Rs mn)	5958
Mkt Cap (Rs bn)	826
52w H/L (Rs)	992 / 598
Avg Weekly Vol (BSE+NSE)	193,355

**Shareholding Pattern**

<b>(As on March, 2019)</b>	<b>%</b>
Promoters	21.5
Public & Others	73.8

Source: NSE, Arihant Research

<b>Stock Performance (%)</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
M&M	-13.5	-21.0	-41.8
SENSEX	-1.2	2.4	-1.5

Source: ACE Equity, Arihant Research

**M&M v/s SENSEX**



Source: ACE Equity, Arihant Research

**Result Highlights**

In Q1, M&M (MM) reported mix operating performance in challenging environment as net sales stood at Rs 128bn (-4.1% YoY / -7.3% QoQ) vs our est of Rs 123bn. Sales were led by 5.9% YoY increase in realizations owing to strong show by new model launches (*Marazzo, XUV300, Alturas G4*). Gross margins at 32.1% (-51bps YoY/+40bps QoQ) which were supported by soft commodity costs (-3.4% YoY) and improved PV mix. EBITDA stood at Rs 17.9bn (-15% YoY; -4% QoQ). EBITDA margins of 13.5% vs our est of 13.2% (-180bps YoY/+48bps QoQ) owing to higher staff costs (+3.6% YoY) and other expenses (+2.9% YoY). The Automotive volumes were at 132k (-6% YoY). Adj PAT was Rs 8.9bn (-27.6% YoY / -16.9% YoY) on account of higher tax rate which was 34.9% (vs 32.7% in Q1FY19). Volumes were supported by the upbeat response for new model launches. The tractor volumes stood at 86k (-14.3% YoY) which continued to drag the overall profitability. On the concall, the management showed confidence of flattish volume outlook for tractors which we believe is an uphill task under current scenario.

**Concall highlights**

- The management has refrained from projecting any **outlook** owing to uncertainties in the macro environment. However, it expects demand to improve in 2HFY20 on account of pre-buying ahead of the BS VI norms. The management expects flattish volumes for FY20 in tractors on account of 6-8% of volume growth for the remaining period of FY20.
- The **inventory levels** are overall under control however are marginally higher (2 to 3 days).
- **New product launches** (3 UVs launched in FY19) have offset the volume declines for M&M to some extent and has led to market share gains in the UV segment.
- M&M will be ready with **BS VI** model launches ahead of the timeline (1.2ltr, 1.5ltr and 2ltr gasoline engines). The management further highlighted that the mid-segment UV would be more inclined towards petrol with 50:50 mix vs the current mix of 75:25.
- M&M plans a **capex** of Rs 180bn (incl Rs 60bn investments) over next three years. The major capex shall be incurred towards new product development, R&D and including BS-VI technology.

**Outlook and valuation**

The near term demand outlook remains challenging owing to 1) down-cycle in tractor industry, 2) Weak automotive volume coupled with high competitive intensity and 3) Increasing BS VI related cost pressures. However, we believe that the new model launches have been robust including the *Jawa* motorcycle which will aid some volume respite for MM over the medium term. At CMP of Rs 540, stock is trading at core PE of 10.4x FY21 Core PE. We ascribe a HOLD rating to the stock and value it with an SOTP valuation for a target price of Rs 590 (vs Rs 707 earlier) with an upside of 9.6%.

**Key Risks:**

- 1) Pre-buying ahead of the BS VI norms does not happen
- 2) Unfavorable distribution of monsoons.
- 3) Sharp increase in competitive intensity
- 4) Increase in input costs led by BS VI.
- 5) Persistent slowdown in the global automotive/tractor market.

## Quarterly result summary (MM+MVML)

Rs Mn	Q1FY20	Q1FY19	Q4FY19	YoY %	QoQ %
Net Sales	128,055	133,577	138,079	-4.1%	-7.3%
Cost of material consumed	86,971	90,036	94,286	-3.4%	-7.8%
Staff Cost	8,679	8,380	7,568	3.6%	14.7%
Other expenses	14,469	14,061	17,547	2.9%	-17.5%
Total expenses	110,119	112,476	119,401	-2.1%	-7.8%
EBITDA	17,936	21,101	18,678	-15.0%	-4.0%
Depreciation	5,839	4,295	5,696	36.0%	2.5%
EBIT	12,097	16,806	12,982	-28.0%	-6.8%
Interest	302	431	304	-30.0%	-0.7%
Other Income	1,919	1,930	2,473	-0.6%	-22.4%
PBT	13,714	18,305	15,151	-25.1%	-9.5%
Tax	4,787	5,978	4,411	-19.9%	8.5%
PAT	8,927	12,327	10,740	-27.6%	-16.9%
Extraordinary	13,671	245	(1,047)		
Reported PAT	22,597	12,572	9,692	79.7%	133.1%
EPS	7.5	10.4	9.0	-27.6%	-16.9%
<b>Margins</b>	<b>Q1FY20</b>	<b>Q1FY19</b>	<b>Q4FY19</b>	<b>YoY %</b>	<b>QoQ %</b>
Gross margins	32.1%	32.6%	31.7%	-51	37
EBITDA	14.0%	15.8%	13.5%	-179	48
PAT	7.0%	9.2%	7.8%	-226	-81
Tax Rate	34.9%	32.7%	29.1%	225	579
<b>Tractor Segment</b>	<b>Q1FY20</b>	<b>Q1FY19</b>	<b>Q4FY19</b>	<b>YoY %</b>	<b>QoQ %</b>
Total Tractors Volume	86,350	100,784	60,878	-14.3%	41.8%
<b>Total Automotive Volume</b>	131,689	140,101	174,679	-6.0%	-24.6%
<b>Total Volume (Auto + Farm)</b>	218,039	240,885	235,557	-9.5%	-7.4%
Aveg Relizations (Auto)	606,414	573,341	585,172	5.8%	3.6%
Aveg Relizations (FES)	507,489	496,793	526,607	2.2%	-3.6%
<b>Blended realisation</b>	591,218	558,147	589,973	5.9%	0.2%

Source: Company, Arianth Capital Markets

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**M&M: SOTP Valuation**

Subsidiaries	Valuation Basis	CMP Rs)	M&M stake	%	Mcap (Rs Mn)	Value/share
Tech Mahindra Limited		676	251,548,691	26.1	173,224	143
Mahindra & Mahindra Financial Services		298	316,207,660	51.2	94,230	79
Mahindra Holidays & Resorts		211	89,890,615	67.3	18,967	16
Mahindra Lifespace Developers		381	26,439,850	51.5	10,074	8
Mahindra CIE Automotive Limited.	CMP	176	43,344,512	11.4	7,629	6
Ssangyong Motor Company		175	111,855,108	74.6	19,575	16
CIE Automotive SA (CMP €20.8 x 79.2 Euro/INR)		1,650	9,590,706	7.4	15,823	13
Mahindra EPC Irrigation		98	15,144,433	54.6	1,477	1
Swaraj Engines		1,080	4,216,792	33.3	4,362	4
<i>Subsidiaries (Rs mn)</i>					<i>345,359</i>	<i>288</i>
<b>Sub Valuations Post Discount (30%)</b>			<b>30%</b>		<b>241,751</b>	<b>201</b>
<b>Core auto valued business @ 12x</b>	<b>Core FY21EPS</b>	<b>32</b>				<b>389</b>
<b>Value/Share</b>						<b>590</b>
					<b>CMP</b>	<b>540</b>
					<b>Upside</b>	<b>9.3%</b>

Source: Company, Arianth Capital Markets

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P&L (Rs mn)	FY18	FY19	FY20E	FY21E
Net sales	475,774	528,482	507,969	528,056
YoY (%)	15.0	11.1	(3.9)	4.0
Raw material cost	316,280	359,977	342,879	359,078
Employee Cost	31,773	32,830	35,785	37,200
Admin Expenses	57,286	60,375	58,416	60,726
Total expenses	405,339	453,182	437,081	457,005
<b>EBIDTA</b>	<b>70,434</b>	<b>75,301</b>	<b>70,889</b>	<b>71,052</b>
(%)	14.8%	14.2%	14.0%	13.5%
Depreciation	16,254	20,030	25,052	28,727
EBIT	54,181	55,271	45,837	42,325
Interest	1,882	1,467	1,334	1,284
Other income	9,517	16,303	17,279	19,762
PBT	61,816	70,106	61,782	60,803
(-) Tax	19,920	15,867	19,894	19,579
Tax/ PBT	32.2	22.6	32.2	32.2
<b>PAT</b>	<b>41,896</b>	<b>54,239</b>	<b>41,888</b>	<b>41,224</b>
YoY (%)	24.1	29.5	(22.8)	(1.6)
PAT(%)	8.8%	10.3%	8.2%	7.8%
Extraordinary	4336	227	0	0
Reported Profit	46,232	54,466	41,888	41,224

Key Ratios	FY18	FY19	FY20E	FY21E
EPS	35.2	45.5	35.2	34.6
P/E (Standalone)	15.3	11.9	15.4	15.6
EV/EBDITA (x)	5.9	5.7	5.4	4.9
Book value	256	294	321	348
P/B (x)	2.1	1.8	1.7	1.6
Subsidiary Valuation	203	203	203	203
EPS (Core EPS)	34.1	38.8	33.4	32.4
P/E (Core)	9.9	8.7	10.1	10.4
EV/EBITDA (Core)	5.2	4.7	5.0	5.0
ROCE	13.4%	15.3%	10.8%	9.8%
ROE	14.5%	16.6%	11.4%	10.4%
<b>Days</b>				
Inventory	38	41	44	44
Debtor	23	24	23	23
Creditor	65	68	76	77

B/Sheet (Rs mn)	FY18	FY19	FY20E	FY21E
Equity capital	5,950	5,958	5,958	5,958
Reserves	298,924	343,979	376,359	408,226
Net worth	304,874	349,937	382,317	414,184
Total Loans	32,142	26,803	26,803	24,803
Def Tax Liability	4,557	7,896	7,897	7,897
<b>Total Liabilities</b>	<b>341,573</b>	<b>384,636</b>	<b>417,017</b>	<b>446,884</b>
Gross Block	209,617	245,023	285,023	315,023
Less: Acc. depreciation	79,547	96,238	121,290	150,016
Net block	130,070	148,785	163,734	165,007
Investments	229,349	206,262	247,798	280,057
Inventories	33,271	47,631	41,333	43,286
Debtors	30,984	38,119	32,009	33,275
Cash	29,242	38,329	40,921	41,190
Loans and advances	45,013	38,119	27,938	24,555
Other Current assets	20,764	23,864	26,257	28,874
Current assets	159,274	186,062	168,458	171,179
Current liabilities	148,982	140,319	147,446	153,218
Provisions	28,138	16,154	15,527	16,140
Net current assets	(17,846)	29,589	5,486	1,820
<b>Total Assets</b>	<b>341,573</b>	<b>384,636</b>	<b>417,017</b>	<b>446,884</b>

Cash Flow	FY18	FY19	FY20E	FY21E
Net profit	46,232	54,012	41,888	41,224
Depreciation	16,254	20,030	25,052	28,727
Deferred tax	0	0	0	0
Change in W/C	55,741	(38,347)	26,702	3,926
Operating cash flow	118,227	35,695	93,642	73,877
Capex	(23,091)	(35,406)	(40,000)	(30,000)
Investments	(61,847)	23,087	(41,536)	(32,257)
Investing cash flow	(84,938)	(12,319)	(81,536)	(62,257)
Free Cash Flow	95,136	288	53,642	43,877
Dividend	(10,494)	(11,817)	(9,508)	(9,357)
Equity	(4,025)	2,868	0	0
Debt	(6,860)	(5,339)	0	(2,000)
Financing cash flow	(21,379)	(14,288)	(9,508)	(11,357)
Net change in cash	11,909	9,087	2,597	263
Opening cash	17,333	29,242	38,329	40,926
Closing cash	29,242	38,329	40,926	41,190

Source: Arianth Capital Markets

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park ,  
Building No. 10, 1<sup>st</sup> Floor,  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E).  
Mumbai – 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

**Registered Office**

Arihant House  
E-5 RatlamKothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

**Stock Rating Scale****Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Research****Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

[www.arihantcapital.com](http://www.arihantcapital.com)[research@arihantcapital.com](mailto:research@arihantcapital.com)

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**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880