

CMP: Rs 580

Rating: HOLD

Target: Rs 627

(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)	721
52w H/L (Rs)	814 / 503
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

(As on Sept, 2019)	%
Promoters	19.8
Public & Others	80.2

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
M&M	7.5	-7.0	-26.9
SENSEX	10.8	6.2	14.0

Source: ACE Equity, Arihant Research

M&M v/s SENSEX



Source: ACE Equity, Arihant Research

Padmaja Ambekar

Research Analyst

Tel: +91 22 42254834

padmaja.ambekar@arihantcapital.com

Result Highlights

M&M + MVML reported weak operating performance as net sales stood at Rs. 109.3bn (-14.5% YoY / -14.6% QoQ) in line with our estimate of Rs.109.8bn. Gross margins expanded by 158bps to 34% driven by commodity cost benefits and cost rationalization measures by the company. EBITDA was at Rs.15.4bn (-16.7% YoY / -14.1% QoQ) with margin of 14.1% (-36.9bps YoY / +8.4 QoQ) higher than our estimate of 13.2%. The company posted lower than expected other income and lower tax rate (22.9% vs our estimate of 25%) led to PAT of Rs13.5bn (-17.5% YoY / +51.8% QoQ) vs our estimate of Rs.14.3bn. The total volumes (auto + tractors) de-grew by -16.3% YoY to 1.9L units led by subdued demand. The blended realisation has seen an increase of 2.1% YoY to Rs 5.75L per unit on account of better product mix and price hike taken during the quarter. On the concall, the management has given weak industry outlook due to slowdown in the economy, tight credit conditions, repo rate reduction not passed through and deferment of buying decision. However, H2 is expected to be better than H1, but will be lower on a YoY basis.

Concall highlights

- The management expects UV segment to grow positive in H2FY20 due to new launches while PV segment's de-growth to slow down to ~5% from 23% in H1FY20. CV segment will continue to see same level of de-growth as H1FY20 and tractor segment is expected to dip ~7-8% YoY for the year. In H2, the management expects negative growth for passenger cars. Hence % of UV in PV to go up in FY20.
- M&M has seen improvement in market share in automotive as well as in tractors. The company's market share in SCV segment is +50% and in LCV it is 9.5%.
- BSVI: The company will become 60:40 favoring petrol cars below 1.5 engine vs 40:60 earlier.
- M&M will launch 3 new products (code name is WS01, W601, Z101) starting Q4FY20 to next 5-6 quarters. Also EV portfolio coming up in Q4FY20, named electric KUV. Better and higher versions will be launched (named C100) in Q2-Q3 FY21. Additionally, S201 electric SUV is expected in FY22.
- Automotive segment inventory level has been the lowest with 5000-6000 vehicles as Oct19 sales were good. The tractor segment inventory is at normal level and expected to reduce it by 1000-1500 vehicles in next 2-3 months.
- Discounts during the festive season were between Rs.3000-4000 per vehicle on QoQ basis and Rs. 1059 per vehicle on YoY basis in automotive segment.
- The Electric Vehicle segment is expected to see continued growth momentum going ahead. In October, the company sold 2000EVs out of which E-Alpha – 1300, Treo – 600, E-Verito 150 vehicles were sold.
- Ssangyong business: This business has been impacted due to economy slowdown in Korea, Egypt, & Iran markets coupled with global slowdown in autos, sudden shift to petrol in Korean market.
- Jawa motorcycles: 103 dealerships have been opened across 53 cities. By October, complete deliveries of the online bookings were made and production ramp up is on track.

Outlook and valuation

We believe, the demand outlook for near term will continue to remain weak led by slowdown in automotive and tractor segment coupled with increasing cost pressures due to BS VI transition. However, we expect M&M would be able to pick up volume because of new product portfolio in pipeline over next two years. At CMP of Rs 580, stock is trading at core PE of 10.6x FY21. We maintain our HOLD rating and value it with SOTP valuation for a target price of Rs 627 with an upside of 8%

Quarterly result summary (MM+MVML)

Rs Mn	Q2FY20	Q2FY19	Q1FY20	YoY %	QoQ %
Net Sales	109,350	127,902	128,055	-14.5%	-14.6%
Cost of material consumed	72,208	86,478	86,971	-16.5%	-17.0%
Staff Cost	8,131	8,355	8,679	-2.7%	-6.3%
Other expenses	13,603	14,576	14,469	-6.7%	-6.0%
Total expenses	93,942	109,408	110,119	-14.1%	-14.7%
EBITDA	15,408	18,493	17,936	-16.7%	-14.1%
Depreciation	5,721	4,986	5,839	14.7%	-2.0%
EBIT	9,687	13,508	12,097	-28.3%	-19.9%
Interest	331	379	302	-12.8%	9.7%
Other Income	8,225	8,478	1,919	-3.0%	328.6%
PBT	17,581	21,606	13,714	-18.6%	28.2%
Tax	4,034	5,194	4,787	-22.3%	-15.7%
PAT	13,548	16,412	8,927	-17.5%	51.8%
Extraordinary	-	1,375	13,671		
Reported PAT	13,548	17,788	22,597	-23.8%	-40.0%
EPS	11.4	13.8	7.5	-17.5%	51.8%
Margins	Q2FY20	Q2FY19	Q1FY20	YoY %	QoQ %
Gross margins	34.0%	32.4%	32.1%	157.85	188.32
EBITDA	14.1%	14.5%	14.0%	-36.89	8.40
PAT	12.4%	12.8%	7.0%	-44.29	541.80
Tax Rate	22.9%	24.0%	34.9%	-109.45	-1196.29
Tractor Segment	Q2FY20	Q2FY19	Q1FY20	YoY %	QoQ %
Total Tractors Volume	71,820	77,985	86,350	-7.9%	-16.8%
Total Automotive Volume	119,570	150,545	131,689	-20.6%	-9.2%
Total Volume (Auto + Farm)	191,390	228,530	218,039	-16.3%	-12.2%
Aveg Relizations (Auto)	576,466	561,038	606,414	2.7%	-4.9%
Aveg Relizations (FES)	505,635	516,519	507,489	-2.1%	-0.4%
Blended realisation	575,349	563,576	591,218	2.1%	-2.7%

Source: Company, Arianth Capital Markets

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M&M: SOTP Valuation

Subsidiaries	Valuation Basis	CMP as on 08.11.19 (Rs)	M&M stake	% Stake	Mcap (Rs Mn)	Value/share
Tech Mahindra Limited		771	251,548,691	26.1	193,944	163
Mahindra & Mahindra Financial Services		329	316,207,660	51.4	104,032	87
Mahindra Holidays & Resorts		232	89,890,615	67.6	20,810	17
Mahindra Lifespace Developers		381	26,439,850	51.5	10,067	8
Mahindra CIE Automotive Limited.	CMP	150	21,417,617	11.4	3,203	3
Ssangyong Motor Company (CMP 2,370 KRW x 16.25 SKW/INR)		146	111,855,108	74.7	16,311	14
CIE Automotive SA (CMP €23.1 x 78.6 Euro/INR)		1,813	9,590,706	7.4	17,385	15
Mahindra EPC Irrigation		97	15,144,433	54.6	1,463	1
Swaraj Engines		1,104	4,039,206	34.8	4,459	4
<i>Subsidiaries (Rs mn)</i>					371,673	312
Sub Valuations Post Discount (30%)			30%		260,171	219
Core auto valued business @ 12x	Core FY21EPS	34				408
Value/Share						627
<i>Source: Company, Arianth Capital Markets</i>					CMP	580
					Upside	8%

P&L (Rs mn)	FY18	FY19	FY20E	FY21E	B/Sheet (Rs mn)	FY18	FY19	FY20E	FY21E
Net sales	475,774	528,482	507,969	528,056	Equity capital	5,950	5,958	5,958	5,958
YoY (%)	15.0	11.1	(3.9)	4.0	Reserves	298,924	343,979	376,359	409,640
Raw material cost	316,280	359,977	342,879	356,438	Net worth	304,874	349,937	382,317	415,598
Employee Cost	31,773	32,830	35,785	37,200	Total Loans	32,142	26,803	26,803	24,803
Admin Expenses	57,286	60,375	58,416	60,726	Def Tax Liability	4,557	7,896	7,897	7,897
Total expenses	405,339	453,182	437,081	454,364	Total Liabilities	341,573	384,636	417,017	448,298
EBIDTA	70,434	75,301	70,889	73,692	Gross Block	209,617	245,023	285,023	315,023
(%)	14.8%	14.2%	14.0%	14.0%	Less: Acc. depreciation	79,547	96,238	121,290	150,016
Depreciation	16,254	20,030	25,052	28,727	Net block	130,070	148,785	163,734	165,007
EBIT	54,181	55,271	45,837	44,965	Investments	229,349	206,262	247,798	280,057
Interest	1,882	1,467	1,334	1,284	Inventories	33,271	47,631	41,333	42,968
Other income	9,517	16,303	17,279	19,819	Debtors	30,984	38,119	32,009	33,275
PBT	61,816	70,106	61,782	63,500	Cash	29,242	38,329	40,927	42,920
(-) Tax	19,920	15,867	19,894	20,447	Loans and advances	45,013	38,119	27,938	24,555
Tax/ PBT	32.2	22.6	32.2	32.2	Other Current assets	20,764	23,864	26,250	28,875
PAT	41,896	54,239	41,888	43,053	Current assets	159,274	186,062	168,458	172,592
YoY (%)	24.1	29.5	(22.8)	2.8	Current liabilities	148,982	140,319	147,446	153,218
PAT(%)	8.8%	10.3%	8.2%	8.2%	Provisions	28,138	16,154	15,527	16,140
Extraordinary	4336	227	0	0	Net current assets	(17,846)	29,589	5,485	3,234
Reported Profit	46,232	54,466	41,888	43,053	Total Assets	341,573	384,636	417,017	448,298

Key Ratios	FY18	FY19	FY20E	FY21E	Cash Flow	FY18	FY19	FY20E	FY21E
EPS	35.2	45.5	35.2	36.1	Net profit	46,232	54,012	41,888	43,053
P/E (Standalone)	16.5	12.7	16.5	16.1	Depreciation	16,254	20,030	25,052	28,727
EV/EBDITA (x)	6.6	6.3	6.1	5.3	Deferred tax	0	0	0	0
Book value	256	294	321	349	Change in W/C	55,741	(38,347)	26,703	4,245
P/B (x)	2.3	2.0	1.8	1.7	Operating cash flow	118,227	35,695	93,643	76,024
Subsidiary Valuation	219	219	219	219	Capex	(23,091)	(35,406)	(40,000)	(30,000)
EPS (Core EPS)	34.1	38.8	33.4	34.0	Investments	(61,847)	23,087	(41,536)	(32,259)
P/E (Core)	10.6	9.3	10.8	10.6	Investing cash flow	(84,938)	(12,319)	(81,536)	(62,259)
EV/EBITDA (Core)	5.6	5.1	5.4	5.1	Free Cash Flow	95,136	288	53,643	46,024
ROCE	13.4%	15.3%	10.8%	10.2%	Dividend	(10,494)	(11,817)	(9,508)	(9,772)
ROE	14.5%	16.6%	11.4%	10.8%	Equity	(4,025)	2,868	0	0
Days					Debt	(6,860)	(5,339)	0	(2,000)
Inventory	38	41	44	44	Financing cash flow	(21,379)	(14,288)	(9,508)	(11,772)
Debtor	23	24	23	23	Net change in cash	11,909	9,087	2,599	1,993
Creditor	65	68	76	77	Opening cash	17,333	29,242	38,329	40,927
					Closing cash	29,242	38,329	40,927	42,920

Source: Arihant Capital Markets

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
 Building No. 10, 1st 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

BUY

ACCUMULATE

HOLD

NEUTRAL

REDUCE

SELL

Absolute Return

>20%

12% to 20%

5% to 12%

-5% to 5%

-5% to -12%

<-12%

**Research Analyst
Registration No.**

INH000002764

Contact

SMS: 'Arihant' to
56677

Websitewww.arihantcapital.com**Email Id**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