

CMP: Rs 661

Rating: HOLD

Target: Rs 707

(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

| | |
|----------------------------|----------|
| (As on March, 2019) | % |
| Promoters | 21.5 |
| Public & Others | 73.8 |

Source: NSE, Arihant Research

| | | | |
|------------------------------|-----------|-----------|------------|
| Stock Performance (%) | 3m | 6m | 12m |
| M&M | 3.7 | -10.4 | -21.1 |
| SENSEX | 10.8 | 11.3 | 13.0 |

Source: ACE Equity, Arihant Research

M&M v/s SENSEX



Source: ACE Equity, Arihant Research

Result Highlights

In Q4, M&M (MM) reported mix set of results as net sales stood at Rs 138bn (+4.7% YoY / +7.1% QoQ) led by 4% YoY increase in realizations owing to strong show by new model launches (*Marazzo, XUV300, Alturas G4*) and further supported by robust bookings for Jawa motorcycles. Gross margins at 31.7% (-210bps YoY/+90bps QoQ) which were impacted by high material costs (+8% YoY). EBITDA stood at Rs 18.6bn (-6.4% YoY; +9.7% QoQ). The EBITDA margins were robust at 13.5% (-160bps YoY/+30bps QoQ) owing to lower staff costs (-11.3% YoY). The Automotive volumes were at 175k (+6% YoY) led by strong response for XUV300. The tractor volumes stood at 61k (-13.8% YoY) which impacted the overall profitability. On the concall, management highlighted the that automotive demand is likely to undergo disruption in FY20 led by crash test norms to be implemented in Sep' 19 and BS VI emission norms in FY21E.

For FY19, net sales stood at Rs 528bn (+11% YoY) led by 2.4% YoY increase in realizations. Automotive volumes were up 11% YoY to 608k while the tractor volumes stood at 330k (+4% YoY). The automotive demand weakened in H2FY19 owing to axle load norms and weak festive demand. Whereas the tractor demand was severely impacted by weak agri output and delay in rabi crop sowing. The EBITDA was at Rs 75.3bn (+6.9% YoY) while the EBITDA margin stood at 14.2% (+60bps YoY). Adjusted PAT stood at Rs 54.2bn (+29.5% YoY).

Concall highlights

- The management indicated that the **tractor demand outlook** remains soft and is likely to grow at 5% in FY20E while the medium term growth at 8-10% led by increase in mechanized farming vs conventional farming
- The management is confident of faster growth in **automotive segment** than SIAM's growth projections of 3-5%.
- The **diesel petrol mix** for M&M stood at 70:30 and M&M aims to increase the petrol mix over the medium term whereas 30% of bookings in XUV300 were in petrol variant
- The **tractor inventory** levels stood at 4-5 weeks (vs industry levels of 7 weeks)
- The bookings from **Jawa** motorcycle remain extremely robust
- Regarding the **Ford alliance**, the management highlighted that the company has signed an agreement to develop C-SUV platform on M&M platform which will aid profitability for M&M. The company commenced supplies of petrol engine to Ford and Ssangyong.
- The company will phase out the lower end models like *old Bolero, Thar, Jeeto minivan, Verito D* and *Imperio* post the **crash test** and **BS VI norms**.
- **Margin outlook:** The margins remained soft owing to inability to pass on the higher commodity prices due to weak sentiments led by the liquidity crisis
- The company plans to incur a capex of Rs 180bn over next 3 years to aid capacity expansion, on BS VI transition, and new product development including EVs.
- **EV outlook:** The company sold ~10k vehicles in FY19 led by strong sales in e-rickshaw (lead acid battery operated).

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, stock is trading at 10.8x FY21 Core PE. We ascribe a HOLD rating to the stock and value it with an SOTP valuation for a target price of Rs 707 with an upside of 7%.

Quarterly result summary (MM+MVML)

| Rs Mn | Q4FY19 | Q4FY18 | YoY | Q3FY19 | QoQ | FY19 | FY18 | YoY |
|-----------------------------------|----------------|----------------|-------------|----------------|-------------|----------------|----------------|------------|
| Net Sales | 138,079 | 131,888 | 5% | 128,925 | 7% | 528,482 | 475,774 | 11% |
| Raw material cost | 94,286 | 87,247 | 8% | 89,178 | 6% | 359,977 | 316,280 | 14% |
| Staff Cost | 7,568 | 7,882 | -4% | 8,528 | -11% | 32,830 | 31,630 | 4% |
| Other expenditure | 17,547 | 16,808 | 4% | 14,191 | 24% | 60,375 | 57,429 | 5% |
| Total Expenditure | 119,401 | 111,938 | 7% | 111,897 | 7% | 453,182 | 405,339 | 12% |
| EBITDA | 18,678 | 19,950 | -6% | 17,029 | 10% | 75,301 | 70,434 | 7% |
| Depreciation | 5,696 | 4,390 | 30% | 5,054 | 13% | 20,030 | 16,254 | 23% |
| EBIT | 12,982 | 15,560 | -17% | 11,975 | 8% | 55,271 | 54,181 | 2% |
| Interest | 304 | 499 | -39% | 353 | -14% | 1,467 | 1,882 | -22% |
| Other Income | 2,473 | 1,659 | 49% | 3,423 | -28% | 16,303 | 9,517 | 71% |
| PBT | 15,151 | 16,720 | -9% | 15,045 | 1% | 70,106 | 61,816 | 13% |
| Tax | 4,411 | 5,650 | -22% | 285 | 1446% | 15,867 | 19,920 | -20% |
| Adjusted PAT | 10,740 | 11,070 | -3% | 14,760 | -27% | 54,239 | 41,896 | 29% |
| Extraordinary | (1,047) | 479 | -319% | (800) | 31% | (227) | 4,336 | -105% |
| Reported PAT | 9,692 | 11,549 | -16% | 13,960 | -31% | 54,012 | 46,232 | 17% |
| Equity | 2,962 | 2,962 | | 5,947 | | 5,947 | 5,947 | |
| EPS | 18.1 | 18.7 | -3% | 12.4 | 46% | 45.6 | 35.2 | 29% |
| Margins | Q4FY19 | Q4FY18 | YoY | Q3FY19 | QoQ | FY19 | FY18 | YoY |
| Gross margins | 31.7% | 33.8% | (213) | 30.8% | 89 | 31.9% | 33.5% | (164) |
| EBITDA | 13.5% | 15.1% | (160) | 13.2% | 32 | 14.2% | 14.8% | (56) |
| PAT | 7.8% | 8.4% | (62) | 11.4% | (367) | 10.3% | 8.8% | 146 |
| Tax Rate | 29.1% | 33.8% | (468) | 1.9% | 2,722 | 22.6% | 32.2% | (959) |
| Segmental | Q4FY19 | Q4FY18 | YoY | Q3FY19 | QoQ | FY19 | FY18 | YoY |
| Automotive | 102,217 | 91,049 | 12% | 79,148 | 29% | 346,152 | 305,677 | 13% |
| Farm Equipment | 32,059 | 37,161 | -14% | 46,338 | -31% | 168,747 | 158,041 | 7% |
| Others | 4,696 | 5,543 | -15% | 4,448 | 6% | 17,251 | 15,793 | 9% |
| Total | 138,972 | 133,752 | 4% | 129,934 | 7% | 532,149 | 479,511 | 11% |
| Less : Intersegmental | 894 | 1,864 | -52% | 1,009 | -11% | 3,667 | 3,738 | -2% |
| Net Sales | 138,079 | 131,888 | 5% | 128,925 | 7% | 528,482 | 475,774 | 11% |
| Segment Results | | | | | | | | |
| Automotive | 9,002 | 9,713 | -7% | 6,053 | 49% | 27,823 | 28,291 | -2% |
| Farm Equipment | 5,187 | 7,234 | -28% | 8,386 | -38% | 32,651 | 31,454 | 4% |
| Others | 76 | 237 | -68% | (101) | -175% | 508 | 629 | -19% |
| Total | 14,407 | 17,183 | -16% | 14,339 | 0% | 60,982 | 60,374 | 1% |
| Finance Cost | 304 | 499 | -39% | 435 | -30% | 1,467 | (1,882) | -178% |
| Other un-allocable expenditure | - | (514) | -100% | (3,403) | -100% | (10,365) | 7,660 | -235% |
| Segment profit | 14,103 | 17,199 | -18% | 17,307 | -19% | 69,879 | 54,596 | 28% |
| Capital Employed | | | | | | | | |
| Automotive | 93,366 | 81,043 | 15% | 93,751 | 0% | 93,366 | 81,664 | 14% |
| Farm Equipment | 45,483 | 29,361 | 55% | 32,025 | 42% | 45,483 | 29,361 | 55% |
| Others | 5,144 | 5,352 | -4% | 4,562 | 13% | 5,144 | 4,909 | 5% |
| Unrealised profit | - | (1) | -100% | (0) | -100% | - | - | - |
| Total | 143,993 | 115,755 | 24% | 130,338 | 10% | 143,993 | 115,934 | 24% |
| Tractor Volume (Domestic) | 57,499 | 66,885 | -14% | 87,981 | -35% | 316,742 | 302,026 | 5% |
| Tractor Volume (Export) | 3,379 | 3,750 | -10% | 2,748 | 23% | 13,634 | 15,449 | -12% |
| Total Tractors Volume | 60,878 | 70,635 | -14% | 90,729 | -33% | 330,376 | 317,475 | 4% |
| Automotive(Domestic) | 164,427 | 156,558 | 5% | 133,604 | 23% | 570,001 | 520,389 | 10% |
| Automotive (Export) | 10,252 | 8,694 | 18% | 9,668 | 6% | 38,596 | 28,227 | 37% |
| Total Automotive Volume | 174,679 | 165,252 | 6% | 143,272 | 22% | 608,597 | 548,616 | 11% |
| Total Volume (Auto + Farm) | 235,557 | 235,887 | 0% | 234,001 | 1% | 938,973 | 866,091 | 8% |
| Realizations | Q4FY19 | Q4FY18 | YoY | Q3FY19 | QoQ | FY19 | FY18 | YoY |
| Avg realizations (Automotive) | 585,172 | 550,968 | 6% | 552,428 | 6% | 568,770 | 557,179 | 2% |
| Avg realizations (FES) | 526,607 | 526,095 | 0% | 510,732 | 3% | 510,771 | 497,805 | 3% |
| Blended realizations | 589,973 | 567,016 | 4% | 555,269 | 6% | 566,735 | 553,650 | 2% |

Source: Company, Arianth Capital Markets

continued...

M&M: SOTP Valuation

| Subsidiaries | valuation Basis | CMP Rs) | M&M stake | % | Mcap (Rs Mn) | Value/share |
|---|---------------------|-----------|-------------|------|----------------|-------------|
| Tech Mahindra Limited | CMP | 741 | 256,248,704 | 26.0 | 189,983 | 160 |
| Mahindra & Mahindra Financial Services | | 423 | 316,207,660 | 51.2 | 133,867 | 112 |
| Mahindra Holidays & Resorts | | 222 | 89,890,615 | 67.3 | 19,960 | 17 |
| Mahindra Lifespace Developers | | 421 | 26,439,850 | 51.5 | 11,131 | 9 |
| Mahindra CIE Automotive Limited. | | 247 | 43,344,512 | 11.4 | 10,695 | 9 |
| Ssangyong Motor Company | | 239 | 111,855,108 | 74.6 | 26,765 | 22 |
| CIE Automotive SA (CMP €23.3 x 78 Euro/INR) | | 1,823 | 9,590,706 | 7.4 | 17,481 | 15 |
| Mahindra EPC Irrigation | | 114 | 15,144,433 | 54.6 | 1,725 | 1 |
| Swaraj Engines | | 1,410 | 4,039,206 | 33.3 | 5,695 | 5 |
| <i>Subsidiaries (Rs mn)</i> | | | | | | 417,302 |
| Sub Valuations Post Discount (35%) | | | 30% | | 292,111 | 245 |
| Core auto valued business @ 12x | Core FY21EPS | 38 | | | | 462 |
| Value/Share | | | | | | 707 |
| | | | | | CMP | 661 |
| | | | | | Upside | 7.0% |

Source: Company, Arianth Capital Markets

continued...

| P&L (Rs mn) | FY18 | FY19 | FY20E | FY21E |
|-------------------|---------------|---------------|---------------|---------------|
| Net sales | 475,774 | 528,482 | 555,327 | 577,066 |
| YoY (%) | 15.0 | 11.1 | 5.1 | 3.9 |
| Raw material cost | 316,280 | 359,977 | 374,846 | 392,405 |
| Employee Cost | 31,773 | 32,830 | 35,785 | 37,186 |
| Admin Expenses | 57,286 | 60,375 | 63,863 | 66,363 |
| Total expenses | 405,339 | 453,182 | 474,493 | 495,953 |
| EBIDTA | 70,434 | 75,301 | 80,834 | 81,113 |
| EBITDA margin | 14.8% | 14.2% | 14.6% | 14.1% |
| Depreciation | 16,254 | 20,030 | 25,052 | 28,727 |
| EBIT | 54,181 | 55,271 | 55,782 | 52,386 |
| Interest | 1,882 | 1,467 | 1,334 | 1,284 |
| Other income | 9,517 | 16,303 | 17,279 | 19,762 |
| PBT | 61,816 | 70,106 | 71,727 | 70,864 |
| (-) Tax | 19,920 | 15,867 | 23,096 | 22,818 |
| Tax/ PBT | 32.2 | 22.6 | 32.2 | 32.2 |
| PAT | 41,896 | 54,239 | 48,631 | 48,046 |
| YoY (%) | 24.1 | 29.5 | (10.3) | (1.2) |
| PAT(%) | 8.8% | 10.3% | 8.8% | 8.3% |
| Extraordinary | 4336 | 227 | 0 | 0 |
| Reported Profit | 46,232 | 54,466 | 48,631 | 48,046 |

| B/Sheet (Rs mn) | FY18 | FY19 | FY20E | FY21E |
|--------------------------|----------------|----------------|----------------|----------------|
| Equity capital | 5,950 | 5,958 | 5,958 | 5,958 |
| Reserves | 298,924 | 343,979 | 381,571 | 418,712 |
| Net worth | 304,874 | 349,937 | 387,529 | 424,670 |
| Total Loans | 32,142 | 26,803 | 26,803 | 24,803 |
| Def Tax Liability | 4,557 | 7,896 | 7,897 | 7,897 |
| Total Liabilities | 341,573 | 384,636 | 422,229 | 457,369 |
| Gross Block | 209,617 | 245,023 | 285,023 | 315,023 |
| Less: Acc dep. | 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 | 45,187 | 47,304 |
| Debtors | 30,984 | 38,119 | 34,993 | 36,363 |
| Cash | 29,242 | 38,329 | 40,921 | 41,190 |
| Loans and advances | 45,013 | 38,119 | 27,766 | 29,430 |
| Other Current assets | 20,764 | 23,864 | 26,250 | 28,875 |
| Current assets | 159,274 | 186,062 | 175,117 | 183,162 |
| Current liabilities | 148,982 | 140,319 | 147,446 | 153,218 |
| Provisions | 28,138 | 16,154 | 16,974 | 17,639 |
| Net current assets | (17,846) | 29,589 | 10,697 | 12,305 |
| Total Assets | 341,573 | 384,636 | 422,229 | 457,369 |

| Key Ratios | FY18 | FY19 | FY20E | FY21E |
|------------------|-------|-------|-------|-------|
| EPS | 35.2 | 45.5 | 40.8 | 40.3 |
| P/E (Standalone) | 18.8 | 14.5 | 16.2 | 16.4 |
| EV/EBDITA (x) | 8.0 | 7.6 | 6.5 | 6.1 |
| Book value | 256 | 294 | 325 | 356 |
| P/B (x) | 2.6 | 2.3 | 2.0 | 1.9 |
| Subsi. valuation | 245 | 245 | 245 | 245 |
| EPS (Core EPS) | 34.1 | 38.8 | 39.4 | 38.5 |
| P/E (Core) | 12.2 | 10.7 | 10.5 | 10.8 |
| EV/EBITDA (Core) | 6.5 | 6.0 | 5.5 | 5.5 |
| ROCE | 13.4% | 15.3% | 12.4% | 11.2% |
| ROE | 14.5% | 16.6% | 13.2% | 11.8% |
| Days | | | | |
| Inventory | 38 | 48 | 44 | 44 |
| Debtor | 23 | 24 | 23 | 23 |
| Creditor | 65 | 68 | 70 | 71 |

| Cash flow (Rs mn) | FY18 | FY19 | FY20E | FY21E |
|---------------------|----------|----------|----------|----------|
| Net profit | 46,232 | 54,012 | 48,631 | 48,046 |
| Depreciation | 16,254 | 20,030 | 25,052 | 28,727 |
| Deferred tax | - | - | - | - |
| Change in W/C | 55,741 | (38,347) | 21,484 | (1,339) |
| Operating cash flow | 118,227 | 35,695 | 95,166 | 75,433 |
| Capex | (23,091) | (35,406) | (40,000) | (30,000) |
| Investments | (61,847) | 23,087 | (41,536) | (32,259) |
| Investing cash flow | (84,938) | (12,319) | (81,536) | (62,259) |
| Free Cash Flow | 95,136 | 288 | 55,166 | 45,433 |
| Dividend | (10,494) | (11,817) | (11,039) | (10,906) |
| Equity | (4,025) | 2,868 | 0 | 0 |
| Debt | (6,860) | (5,339) | 0 | (2,000) |
| Financing cash flow | (21,379) | (14,288) | (11,039) | (12,906) |
| Net change in cash | 11,909 | 9,087 | 2,592 | 269 |
| Opening cash | 17,333 | 29,242 | 38,329 | 40,920 |
| Closing cash | 29,242 | 38,329 | 40,920 | 41,189 |

Source: Arianth Capital Markets

continued...

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Stock Rating Scale

| | Absolute Return |
|------------|------------------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | <-5% |

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