

Steady Performance!

14th November, 2016

CMP: Rs 1,243
Target Price: Rs 1,309
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	26,818
NSE Nifty	8,296

Market Info	
Market Capital	Rs 77,130cr
Equity Capital	Rs 296cr
Avg Trading Volume	10,91,360
52 Wk High / low	Rs 1,508 /1,092
Face Value	Rs 5

> **Q2FY17 Revenue:**

Net Revenue came at Rs 11,166 Crores, a growth of 15% on YoY basis. The gross revenue & other income of the combined entity for the quarter ended 30th September 2016 was Rs 11,364 cr as against Rs 9,834 cr in the corresponding quarter of previous year, a growth of 15.5%.

The combined entity has continued its leadership position in both utility vehicle segment & the domestic tractor market. Company has sold 1.14 lakhs units in Q2FY17. The company continued its leadership position in utility vehicles segment market share of 31.6%. Company has sold 57,863 tractors in domestic market, a YoY growth of 36.9% and it has continued leadership position with an increased market share of 43.3%. Company has exported 11,385 vehicles and 3,796 tractors.

> **Q2FY17 Profitability:**

Operating EBITDA margin for Farm equipment segment was up by 17.8% vs. 16.1% on YoY basis. Margins for automotive segment steady at 9.6% on YoY basis. Overall EBITDA margins for the quarter stood at 10.9% vs. 10.3% YoY. PAT was at Rs 1163 crores vs. Rs 915 Crores, growth of 27.1% on YoY basis.

> **Outlook:**

India's macroeconomic story is slowly but surely taking shape although data on Industrial production and slow trade growth continued to act as ceiling to India's growth. The seventh pay commission and the OROP scheme award has put money in the pockets of government employees and pensioners which will further help demand. After two years of sub-par rainfall, this year's monsoon has been abundant and well spread which will help revive farm income and push up private consumption. The lagged effects of interest rate cuts by RBI along with the increased transmission of lower interest rates will also be supportive of consumption.

Demonetization effect:

The demonetization effort of Government of India is a very good move from long term point of view. However, In short term there could be liquidity related demand pressures. The company believes that even if the demand during Q3 is impacted, the same could get compensated in Q4.

> **FINANCIALS & ESTIMATES:**

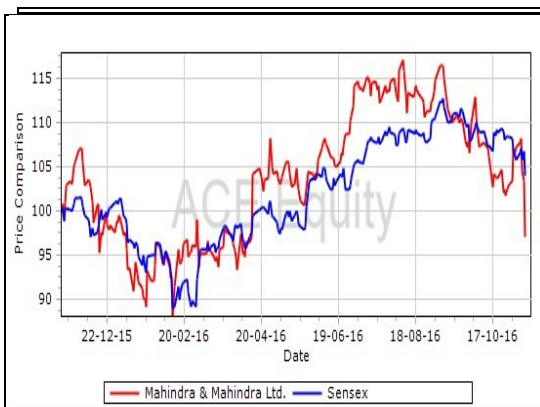
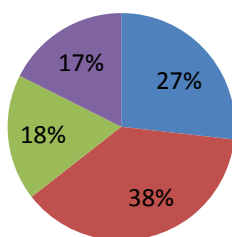
We estimate M&M's Revenue growth at 15% and EBITDA margins to average close to 11.0% for FY18E.

> **Valuation:**

We value M&M based on SoTP valuations and we have a "HOLD" rating on the stock: We value the core business at Rs950 per share, based on 13 (x) FY18E PE(x) based on EPS of Rs 73. We have valued total investments (listed and unlisted) at Rs 359 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,309 per share.

Shareholding Pattern , Sep 16

■ Promotor ■ FII ■ DII ■ Others





Financial Snpashot:

Y/E March, (in Rs crore)	FY15	FY16	FY17E	FY18E
Net Sales	38,392	40,397	46,219	53,442
yoy%	-3.9%	5.2%	14.4%	15.6%
Operating EBIDTA	4,173	4,570	5,285	5,949
Operating EBITDA margin %	10.7%	11.2%	11.3%	11.0%
PAT	3,321	3,167	3,619	4,328
yoy%	-11.6%	-4.6%	14.3%	19.6%
EPS	56.2	53.5	61.1	73.1

Profit and Loss for the year ended,					
Particulars	Q2FY17	Q1FY17	QoQ%	Q2FY16	YoY%
Revenue from sale of goods and services	11166	11800	-5%	9711	15%
Other operating income	197	143		124	
Total Revenue from operations	11364	11943	-4.9%	9834	15.5%
Manufacturing expenses	9010	9581	-6.0%	7791	15.6%
Gross Profit	2353	2361	-0.4%	2043	15.2%
Gross Profit Margin (%)	20.7%	19.8%		20.8%	
EBITDA	1233	1286	-4.1%	1008	22.3%
EBITDA Margin (%)	10.9%	10.8%		10.3%	
Depreciation and Amortization expenses	334	312		239	
PBIT	899	974		769	
Other income	708	217	226.3%	484	46.2%
Interest expenses	26	24		43	
PBT	1581	1257	25.7%	1211	30.6%
Provision for taxation	418	302		295	
Net Profit	1163	955	21.8%	915	27.1%
other comprehensive income	0.4	3.7		12	
Total comprehensive income	1164	959	21.4%	928	25.4%
Effective tax rate	26%	24%		24%	
EPS	19.6	16.1	21.7%	15.5	26.8%
Segment Margins					
Automotive segment	9.6%	7.8%		9.6%	
Farm equipment segment	17.8%	18.8%		16.1%	
other segments	6.3%	8.8%		35.7%	

Source: Company data Ace Equity, Arihant Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Net Sales	38,392	40,397	46,219	53,442
YoY%	(3.9)	5.2	14.4	15.6
Other Operating Income	554	488	555	641
Income from Operations	38,945	40,885	46,774	54,083
Materials Consumed	20,272	19,373	23,110	26,721
Total Expenditure	34,772	36,315	41,489	48,134
Operating EBITDA	4,173	4,570	5,285	5,949
Operating EBITDA margin %	10.7	11.2	11.3	11.0
Depreciation	975	1,109	1,203	1,150
Operating EBIT	3,199	3,462	4,082	4,799
Other Income	849	855	935	1,082
Interest	214	155	234	152
PBT before Excp Items	3,833	4,161	4,783	5,729
Exceptional item	336	69	50	50
PBT	4,169	4,230	4,833	5,779
Tax Expense	848	1,062	1,214	1,452
Reported Net Profit	3,321	3,167	3,619	4,328
YoY%	(11.6)	(4.6)	14.3	19.6
Effective Tax Rate	20.3	25.1	25.1	25.1
Reported EPS	56.2	53.5	61.1	73.1

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Operating Activities				
PBT before Excp Items	3,833	4,161	4,783	5,729
Add Depr	975	1,109	1,203	1,150
Others	(372)	(303)	(399)	(667)
Total	4,436	4,967	5,588	6,212
Cash Taxes	(847)	(928)	(1,187)	(1,425)
Changes in Working Cap	(370)	1,439	1,181	340
Cash Flow from Operations	3,219	5,479	5,582	5,127
Investing Activities				
Change in investments	(389)	(1,374)	(1,502)	(1,530)
Capex	(2,035)	(2,172)	(1,875)	(1,251)
Cash Flow from Investing	(2,423)	(3,546)	(3,376)	(2,781)
Financing Activities				
Dividends + Taxes paid	(961)	(846)	(805)	(805)
Change in Non Curr Liab	(2,546)	(2,853)	(3,222)	(2,923)
Cash Flow from Financing	(1,585)	(2,007)	(2,417)	(2,118)
Opening Cash	1,706	917	843	631
Changes during year	(788)	(75)	(212)	228
Closing Cash	917	843	631	859

Source: Company data, Arihant Research

(*Closing cash excludes other bank balance.)

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Liabilities + Equity				
(a) Share capital	296	296	296	296
(b) Reserves and surplus	18,959	21,411	24,113	27,524
Shareholders' funds	19,255	21,707	24,409	27,820
Non-current liab & Prov	4,716	4,012	3,391	3,367
Current liabilities	8,974	10,694	9,920	9,836
Total - Equity and liabilities	32,945	36,413	37,720	41,022
Assets				
Non-current assets				
Fixed assets	8,108	9,518	11,393	12,644
Long Term Inv	11,373	11,145	11,200	12,320
Loans + Adv + Others	3,232	4,057	3,781	3,873
Other non-current assets	103	59	73	92
Current assets				
Cash & bank balance	2,065	2,297	1,542	1,813
Other Current Assets	8,063.4	9,336	9,731	10,280
Sub-total - Current assets	10,128	11,634	11,273	12,093
Total - Assets	32,945	36,413	37,720	41,022

Ratio Analysis				
	FY15	FY16	FY17 E	FY18E
Profitability				
Operating EBITDA%	10.7	11.2	11.3	11.0
Operating EBIT%	8.2	8.5	8.7	8.9
PAT%	8.5	7.7	7.7	8.0
Du Pont ROE breakup				
PAT / Sales	8.7	7.8	7.8	8.1
Sales / Avg Total Assets	1.2	1.1	1.2	1.3
Avg Total Assets / Avg Eqty	1.7	1.7	1.5	1.5
ROE	17.2	14.6	14.8	15.6
Other Ratios				
Current Ratio	1.1	1.1	1.1	1.2
Long Term Debt / Equity	0.1	0.1	0.0	0.0
EPS	56.2	53.5	61.1	73.1
DPS	12.0	12.0	13.0	13.0
Dividend %	240.0	240.0	260.0	260.0
Dividend Payout ratio	25.5	26.6	25.3	15.9
P/E	21.1	26.7	23.4	20.0
BVPS	325.6	366.7	412.4	470.0
P/BV	2.6	3.9	3.5	3.1



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Stock Rating

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

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