

Strong Performance

13<sup>th</sup> November 2017

CMP: Rs1422  
Target Price: Rs 1749  
**Recommendation: BUY**

**Stock Info**

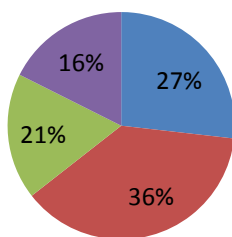
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	33,314
NSE Nifty	10,321

**Market Info**

Market Capital	Rs 88,521 cr
Equity Capital	Rs 296cr
6M Avg Trading Volume	1,175,422
52 Wk High / low	Rs 1,458 /1,141
Face Value	Rs 5

**Shareholding Pattern , Sep 17**

■ Promotor ■ FII ■ DII ■ Others



**Q2FY18 Revenue:**

**Standalone:**

Net Revenues stood at Rs. 12,182 crore an increase of 14 % YoY. 1,29,752 vehicles were sold in domestic market, YoY growth of 11.8%. 76,928 tractors were sold in the domestic market, YoY growth of 33%. Total exports were 11757 units (Both Vehicles and tractors).

**Q2FY18 Profitability:**

**Standalone:**

Profit before tax before Exceptional items stood at Rs.1905 crore, YoY increase of 32%.

Profit after tax after exceptional items stood at Rs. 1331 crore, YoY increase of 24%.

**EBITDA & EBITDA Margins:**

M&M's Operating EBITDA increased by 45% YoY (39% Increase QoQ).EBITDA margins stood at 14%vs 11% YoY.

**There were 2 significant changes in Q2FY18 that are relevant for current financials:**

- As the final approval for merger of 2-wheeler business was received in October 2017, the financials of the current quarter include the financials of 2-wheeler business; also, the financials of previous quarters have been restated, wherever required. Accordingly, Q2FY18 financials include Rs 37 Crs in topline, loss of Rs.21cr at PBT level and loss of Rs 12cr at PAT level, attributable to 2-wheeler business.
- Tractor became taxable under GST regime. Accordingly, Q2F17 financials have been re-stated assuming GST was applicable at that time, strictly to make both figures comparable.

**Auto Highlights:**

- Auto Sector reported highest ever segment profit (Rs. 837 crs) & ROS margin (10.78%) in any quarter (on comparable basis including MTBD).
- Exports were lower by 32%, mainly due to challenging economic environment in neighbouring markets .
- Power brands (XUV500, Scorpio, Bolero) continued to perform well. Scorpio recorded highest ever sales in September; Bolero volume returned to its peak run rate of about 8000 nos./ month.
- New products (KUV100 & TUV300) are gaining traction.
- The launch schedule of new products (U321 & S201) and all refreshes is on track.
- By 2020, all models will have petrol variant. M&M is currently working on 3 models of gasoline engine - 1.2L, 1.5L and 2L.

**FES Highlights:**

- Segment Result at Rs. 841 Crs is higher by 38.1% Vs Q2FY17 (Rs 609 Crs). This is highest ever segment profit & ROS margin (21.64%) reported by FES in any quarter.
- Export volumes at 3,983 in Q2FY18 were higher by 4% over previous year, highest ever Q2 exports.
- Tractor Industry is expected to end the year with 12-14% growth for FY18.
- After a build-up of Inventory in September due to festive season, M&M has destocked inventory significantly in October.
- During the quarter, the company took a price increase of 1.7%.

**Electric Vehicles:**

- Mahindra Electric will invest (Rs.600cr) in technology development and component manufacturing while, M&M will invest in vehicle development and manufacturing.
- Mahindra Electric will invest in following areas of technology development, either on its own or through joint venture:
  - ✓ Battery (cells will be imported)
  - ✓ Power electronics
  - ✓ Transmission
  - ✓ Motor
- M&M has plans to expand manufacturing capacity to 5000 vehicles per month. The products will include the entire range from 3-wheelers to buses, to be gradually introduced within next few years

**Concall Highlights:**

- Tractor industry momentum to continue, with growth of 12- 14% (earlier 10-12%) in FY18.
- Price increase of 1.5% and 1.7% was taken in Automotive and Tractor segments in Q2FY18.
- Focus to continue on new model launches (new/variants) in UV space.
- U321 MPV and S201 Compact UV to be launched over next one year.
- By 2020, all PV models will have petrol variants.
- Company is working on 3 models of gasoline engines with capacity of 1,200cc, 1,500cc and 2,000cc.

**Outlook:**

We expect strong sales on back of expected demand revival from rural India, Government's strong focus on rural economy and favourable monsoon helping agri industry and rural UV sales. Though present product pipe line is lean, company plans strong product pipeline over FY18 & FY19. Economic revival with new launches would help company clock double digit growth in FY18 & FY19.

**Valuation:**

We value M&M based on SoTP valuations and we have a **"BUY"** rating on the stock. We value the core business at Rs 1323 per share, based on 16 (x) FY19E PE(x) based on EPS of Rs 82.7. We have valued total investments (listed and unlisted) at Rs 426 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,749 per share.

**Financial Snapshot:**

Y/E March, (in Rs crore)	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>43,785</b>	<b>47,816</b>	<b>53,611</b>
yoy%	8.4%	9.2%	12.1%
<b>Operating EBIDTA</b>	<b>4,769</b>	<b>6,878</b>	<b>8,166</b>
<b>Operating EBITDA margin %</b>	<b>10.6%</b>	<b>14.1%</b>	<b>15.0%</b>
<b>PAT</b>	<b>3,956</b>	<b>4,271</b>	<b>4,908</b>
yoy%	24.9%	8.0%	14.9%
<b>EPS</b>	<b>66.6</b>	<b>71.9</b>	<b>82.7</b>

**Profit and loss for the year ended**

Standalone P&L (in Rs Crore)	Q2FY18	Q1FY18	Q2FY17	YoY%	QoQ%
<b>Total Income from Operations</b>	<b>12182</b>	<b>11614</b>	<b>10686</b>	<b>14%</b>	<b>5%</b>
Total RM Cost	8409	8455	7671	10%	-1%
<b>Contribution</b>	<b>3773</b>	<b>3159</b>	<b>3015</b>	<b>25%</b>	<b>19%</b>
Gross margin%	31	27	28	10%	14%
<b>Total Expenditure</b>	<b>10453</b>	<b>10368</b>	<b>9497</b>	<b>10%</b>	<b>1%</b>
Op EBITDA	1729	1247	1189	45%	39%
<b>Op EBITDA margin %</b>	<b>14%</b>	<b>11%</b>	<b>11%</b>	<b>28%</b>	<b>32%</b>
Interest Expense	23	32	34	-34%	-28%
<b>PBT before Excp Items</b>	<b>1905</b>	<b>1073</b>	<b>1438</b>	<b>32%</b>	<b>78%</b>
Excp Items (Net)			0		
<b>PBT</b>	<b>1905</b>	<b>1073</b>	<b>1438</b>	<b>32%</b>	<b>78%</b>
Provision for Taxation	574	323	371	55%	78%
<b>Net Profit</b>	<b>1331</b>	<b>750</b>	<b>1068</b>	<b>25%</b>	<b>78%</b>
Effective Tax rate	30.1%	30.1%	26%	17%	0.1%
<b>Basic EPS</b>	<b>22</b>	<b>13</b>	<b>18</b>	<b>24%</b>	<b>78%</b>

Source: Company data Ace Equity, Arihant Research

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

Particulars, in Rs crore	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>43,785</b>	<b>47,816</b>	<b>53,611</b>
<b>YoY%</b>	<b>8</b>	<b>9</b>	<b>12</b>
Other Operating Income	1,342	861	965
<b>Income from Operations</b>	<b>45,128</b>	<b>48,677</b>	<b>54,576</b>
Materials Consumed	20,913	22,952	25,733
<b>Total Expenditure</b>	<b>40,359</b>	<b>41,799</b>	<b>46,410</b>
<b>Operating EBITDA</b>	<b>4,769</b>	<b>6,878</b>	<b>8,166</b>
<b>Operating EBITDA margin %</b>	<b>10.6</b>	<b>14.1</b>	<b>15.0</b>
Depreciation	1,327	1,434	1,608
<b>Operating EBIT</b>	<b>3,442</b>	<b>5,443</b>	<b>6,558</b>
<b>Other Income</b>	<b>1,342</b>	<b>730</b>	<b>546</b>
Interest	146	122	142
<b>PBT before Excp Items</b>	<b>4,639</b>	<b>6,052</b>	<b>6,961</b>
Exceptional item	548	50	50
<b>PBT</b>	<b>5,187</b>	<b>6,102</b>	<b>7,011</b>
<b>Tax Expense</b>	<b>1,232</b>	<b>1,831</b>	<b>2,103</b>
<b>Reported Net Profit</b>	<b>3,956</b>	<b>4,271</b>	<b>4,908</b>
<b>YoY%</b>	<b>25</b>	<b>8</b>	<b>15</b>
<b>Effective Tax Rate</b>	<b>24</b>	<b>30</b>	<b>30</b>
Reported EPS	67	72	82.7

**Cash Flow Statement, Year Ending March**

Particulars, in Rs crore	FY17	FY18E	FY19E
<b>Operating Activities</b>			
<b>PBT before Excp Items</b>	<b>4,639</b>	<b>6,052</b>	<b>6,961</b>
Add Depr	1,327	1,434	1,608
<b>Others</b>	<b>(971)</b>	<b>(935)</b>	<b>(1,321)</b>
Total	4,995	6,551	7,249
<b>Cash Taxes</b>	<b>(992)</b>	<b>(1,831)</b>	<b>(2,103)</b>
Changes in Working Cap	(31)	755	69
<b>Cash Flow from Operations</b>	<b>3,971</b>	<b>5,475</b>	<b>5,215</b>
<b>Investing Activities</b>			
Change in investments	(997)	466	486
<b>Capex</b>	<b>(2,202)</b>	<b>(4,071)</b>	<b>(4,609)</b>
<b>Cash Flow from Investing</b>	<b>(3,199)</b>	<b>(3,605)</b>	<b>(4,123)</b>
<b>Financing Activities</b>			
<b>Dividends + Taxes paid</b>	<b>(839)</b>	<b>(805)</b>	<b>(805)</b>
Change in Non Curr Liab	(1,895)	(2,626)	(1,743)
<b>Cash Flow from Financing</b>	<b>(1,056)</b>	<b>(1,821)</b>	<b>(938)</b>
Opening Cash	843	538	587
<b>Changes during year</b>	<b>(284)</b>	<b>49</b>	<b>153</b>
<b>Closing Cash</b>	<b>538</b>	<b>587</b>	<b>740</b>

(\*Closing cash excludes other bank balance)

**Balance Sheet, Year Ending March**

Particulars, in Rs crore	FY17	FY18E	FY19E
<b>Liabilities + Equity</b>			
<b>(a) Share capital</b>	<b>297</b>	<b>297</b>	<b>297</b>
(b) Reserves and surplus	25,669	29,308	33,646
<b>Shareholders' funds</b>	<b>25,966</b>	<b>29,605</b>	<b>33,942</b>
Non-current liab & Prov	5,619	6,240	7,911
<b>Current liabilities</b>	<b>9,459</b>	<b>10,893</b>	<b>11,247</b>
<b>Total - Equity and liabilities</b>	<b>41,043</b>	<b>46,739</b>	<b>53,101</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Fixed assets	11,380	14,416	17,489
<b>Long Term Inv</b>	<b>14,925</b>	<b>16,418</b>	<b>18,060</b>
Loans + Adv + Others	34	37	41
<b>Other non-current assets</b>	<b>2,250</b>	<b>2,813</b>	<b>3,516</b>
<b>Current assets</b>			
<b>Cash &amp; bank balance</b>	<b>1,687</b>	<b>1,641</b>	<b>1,794</b>
Other Current Assets	10,769	11,415	12,200
<b>Sub-total - Current assets</b>	<b>12,454</b>	<b>13,054</b>	<b>13,994</b>
<b>Total - Assets</b>	<b>41,043</b>	<b>46,739</b>	<b>53,101</b>

**Ratio Analysis**

	FY17	FY18E	FY19E
<b>Profitability</b>			
<b>Operating EBITDA%</b>	<b>10.6</b>	<b>14</b>	<b>15</b>
Operating EBIT%	7.6	11.2	12.0
<b>PAT%</b>	<b>8.8</b>	<b>8.8</b>	<b>9.0</b>
<b>Du Pont ROE breakup</b>			
PAT / Sales	9.0	8.9	9.2
Sales / Avg Total Assets	1.1	1.0	1.0
Avg Total Assets / Avg Eqty	1.6	1.6	1.6
<b>ROE</b>	<b>15.2</b>	<b>14.4</b>	<b>14.5</b>
<b>Other Ratios</b>			
<b>Current Ratio</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>
Long Term Debt / Equity	0.1	0.1	0.1
<b>EPS</b>	<b>67</b>	<b>72</b>	<b>83</b>
DPS	13	13	13
Dividend %	260	260	260
<b>Dividend Payout ratio</b>	<b>23</b>	<b>15</b>	<b>13</b>
<b>P/E</b>	<b>21.3</b>	<b>19.7</b>	<b>17.2</b>
BVPS	437.4	498.6	571.7
P/BV	2.8	2.6	2.5

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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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