

Increasing competition in UV segment

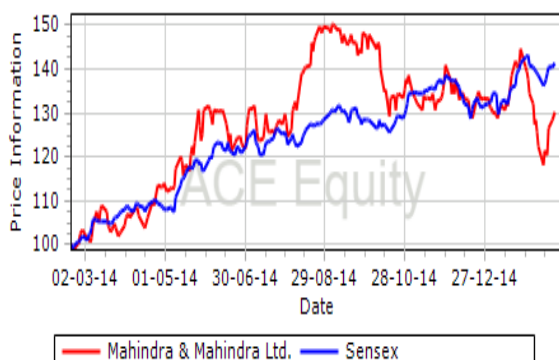
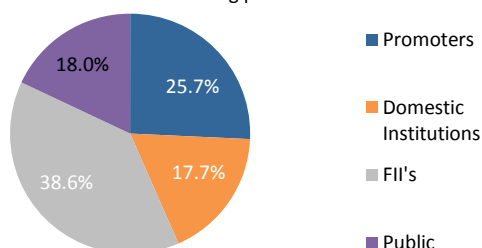
19th Feb, 2015

CMP: Rs 1,226
Target Price: Rs 1,319
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	29,320
NSE Nifty	8,869

Market Info	
Market Capital	Rs 72,379cr
Equity Capital	Rs 295cr
Avg Trading Volume	12,18,890
52 Wk High / low	Rs 1,421 /924
Face Value	Rs 5

M&M Shareholding pattern: Dec 14



> Q3FY15 Net Revenue: Net Revenue at Rs 9,583 crores, de-growth of 9.2% on YoY basis. In Q3FY15 Utility Vehicle (UV) volumes declined by 11.4% YoY, whereas UV industry has de-growth of 6.1%. Thus in UV segment M&M market share declined from 38.9% to 37.6%. Tractor sales for M&M declined by whopping 23.9%, which is in line with the industry which de-grew by 21.8%. Exports in Automotive segment were down by 22.8% to 6,562 units. However, in Farm equipment segment exports were up by 50.4% to 3,385 units. M&M plans to launch three new platforms (two compact UVs and one SCV), three major refreshes and three new variants in FY16, M&M would be launching a new tractor Dhruv by the end of CY16 and another new model in CY17. In Swaraj division, it plans to launch two new tractors in next 12 months in 50HP+ segment. Cost of acquiring new customer has increased in last 2-3 years and will remain at higher levels due to increased competition. Going ahead we believe automotive segment will continue to face strong headwinds. M&M is facing stiff completion from Compact SUV's which is eating the market of traditional UV segment as Compact SUV's give the comfort and affordability of cars.

> Q3FY15 Operating EBITDA: Operating EBITDA margin for Farm equipment segment was down to 14.2% vs. 17.6% on yoy basis. Margins for automotive segment declined to 6.9% vs. 9.5% on yoy basis. M&M has not increased prices in UV segment. However, it has increased prices of tractors marginally by ~ 1%.

> Q3FY15 PAT: PAT was at Rs 942 crores vs. 934 crores on yoy basis largely due to exceptional income of Rs 299 crs on account of excess of the fair value over the cost of the company's holdings in MSEL.

> OUTLOOK FOR NEXT 2 YEARS: M&M will be launching 9 new products/ variants over next 24 months. Of these, 6 will be in Automotive segment and 3 in Farm equipment segment. Management continues to sound positive on growth prospects of tractor industry. However, in FY15 tractor sales could be affected by erratic monsoon and would grow by less than 5% (earlier guidance was 5%). Growing competition in UV segment, once dominated by M&M, is the major concern. Looking at the current scheme of things we are **cautiously optimistic** about the company.

> FINANCIALS & ESTIMATES:

We estimate M&M's Revenue growth at a 2 year CAGR of 12.4% and earnings growth at a 2 year CAGR of 10.3%. We estimate M&M's EBITDA margins to average close to ~12.3% in FY15 as well as FY16.

VALUATIONS:

We value M&M based on SoTP valuations and we have a "HOLD" rating on this stock: We value the core business at Rs 930 per share, based on 12.0x FY16E PE(x) based on EPS of Rs 77.5. We value total investments (listed and unlisted) at Rs 389 per share, with a holding company discount of 30%. **Our SoTP value for stock comes at Rs 1,319 per share.**

Y/E March, (in Rs crore)	FY13	FY14	FY15E	FY16E
Net Sales	39,903	39,963	43,427	50,496
yoy%	27.1%	0.2%	8.7%	16.3%
Operating EBITDA	4,709	4,721	5,434	6,301
Operating EBITDA margin %	11.6%	11.7%	12.3%	12.3%
PAT	3,353	3,758	3,905	4,576
yoy%	16.5%	12.1%	3.9%	17.2%
EPS	56.8	63.7	66.2	77.5

Source: Company data, Arihant Research



Q3FY15 Performance:					
Standalone P&L (in Rs Crore)	Q3FY15	Q3 FY14	yoy %	Q2 FY15	qoq %
Total Income from Operations	9583	10556	-9.2%	9544	18.2%
Total RM Cost	6880	7607	-9.6%	6838	19.2%
Contribution	2703	2949		2706	
Gross margin%	28.2	27.9		28.3	
Total Expenditure	8589	9173	-6.4%	8535	17.4%
Op EBITDA	994	1382	-28.1%	1009	20.7%
Op EBITDA margin %	10.4	13.1		10.6	
Other Income	84	95	-10.9%	485	-73.8%
Interest Expense	43	63	-31.4%	49	1.7%
PBT before Excp Items	801	1219	-34.3%	1197	-2.2%
Excp Items (Net)	299	0		0	
PBT	1100	1219	-9.7%	1197	-2.2%
Provision for Taxation	158	285	-44.5%	250	10.9%
Net Profit	942	934	0.9%	947	-5.6%
Effective Tax rate	14.4%	21.10%		21.10%	
Basic EPS	15.95	15.82	0.8%	16.03	-5.6%
Segment Margins	Q3FY15	Q3 FY14		Q2 FY15	
Automotive	6.9%	9.5%		6.5%	
Farm Equipment	14.2%	17.6%		15.4%	
Other segments	19.8%	13.7%		40.2%	

Source: Company data, Arihant Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	39,903	39,963	43,427	50,496
YoY%	27.1	0.2	8.7	16.3
Other Operating Income	538	545	629	732
Income from Operations	40,441	40,509	44,056	51,228
Materials Consumed	30,425	29,432	31,901	37,095
Total Expenditure	35,732	35,787	38,622	44,926
Operating EBITDA	4,709	4,721	5,434	6,301
Operating EBITDA margin %	11.6	11.7	12.3	12.3
Depreciation	711	863	830	927
Operating EBIT	3,998	3,858	4,604	5,375
Other Income	549	718	788	883
Interest	191	259	263	242
PBT before Excp Items	4,356	4,317	5,130	6,015
Exceptional item	91	53	-	-
PBT	4,447	4,369	5,130	6,015
Tax Expense	1,094	611	1,224	1,439
Reported Net Profit	3,353	3,758	3,905	4,576
YoY%	16.5	12.1	3.9	17.2
Effective Tax Rate	24.6	14.0	23.9	23.9
Reported EPS	56.8	63.7	66.2	77.5

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	295	295	295	295
(b) Reserves and surplus	14,364	16,496	20,165	23,879
Shareholders' funds	14,659	16,791	20,460	24,174
Non-current liab & Prov	4,644	5,731	4,662	4,201
Current liabilities	8,150	8,767	9,161	9,968
Total - Equity and liabilities	27,454	31,289	34,283	38,344
Assets				
Non-current assets				
Fixed assets	5,821	7,105	9,377	11,450
Long Term Inv	10,572	9,788	13,572	14,122
Loans + Adv + Others	2,087	3,018	3,524	4,098
Other non-current assets	30	88	61	68
Current assets				
Cash	1,164	1,706	2,040	2,411
Other Current Assets	7,779.5	9,583.4	5,708.1	6,194.1
Sub-total - Current assets	8,943	11,289	7,749	8,605
Total - Assets	27,454	31,289	34,283	38,344

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	4,356	4,317	5,130	6,015
Add Depr	711	863	830	927
Others	(204)	(346)	119	148
Total	4,863	4,834	6,079	7,090
Cash Taxes	(873)	(894)	(1,224)	(1,439)
Changes in Working Cap	156	(213)	(297)	(408)
Cash Flow from Operations	4,146	3,728	4,558	5,242
Investing Activities				
Change in investments	(1,507)	(729)	(489)	(550)
Capex	(1,389)	(1,678)	(2,626)	(3,000)
Cash Flow from Investing	(2,896)	(2,407)	(3,115)	(3,550)
Financing Activities				
Dividends + Taxes paid	(867)	(894)	(1,042)	(1,112)
Change in Non Curr Liab	(354.9)	114.6	(65.8)	(210.1)
Cash Flow from Financing	(1,222)	(779)	(1,108)	(1,322)
Opening Cash	1,136.1	1,164.0	1,705.6	2,040.4
Changes during year	27.9	541.7	334.8	370.2
Closing Cash	1,164	1,706	2,040	2,411

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	11.6	11.7	12.3	12.3
Operating EBIT%	9.9	9.5	10.5	10.5
PAT%	8.3	9.3	8.9	8.9
ROAE%	25.1	23.9	21.0	20.5
Du Pont ROAE breakup				
PAT / Sales	8.3	9.3	8.9	8.9
Sales / Avg Total Assets	1.5	1.4	1.3	1.4
Avg Total Assets / Avg Eqty	1.9	1.9	1.8	1.6
ROE	22.9	22.4	19.1	18.9
Other Ratios				
Current Ratio	1.1	1.3	0.8	0.9
Long Term Debt / Equity	0.22	0.22	0.14	0.09
EPS	56.8	63.7	66.2	77.5
DPS	13.0	14.0	15.6	16.6
Dividend %	260.0	280.0	312.0	332.8
Dividend Payout ratio	26.9	26.2	25.4	23.0
P/E	21.6	19.3	18.5	15.8
BVPS	248.3	284.4	346.6	409.5
P/BV	4.9	4.3	3.5	3.0

Source: Company data, Arihant Research



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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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