

## Robust Growth!

1<sup>st</sup> June, 2017

CMP: Rs1416  
Target Price: Rs 1,527  
**Recommendation: HOLD**

### Stock Info

BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	31,145
NSE Nifty	9,621

### Market Info

Market Capital	Rs 87,970cr
Equity Capital	Rs 296cr
6MAvg Trading Volume	1,555,665
52 Wk High / low	Rs 1,508 /1,141
Face Value	Rs 5

### Q4FY17 Revenue:

**Standalone:** Gross Revenues and Other Income stood at Rs. 12,320 crore. 1,30,778 vehicles sold in domestic market, flat on a YOY basis. 46,583 tractors sold in the domestic market, a YoY growth of 13.3%. Total exports was 10831 numbers (7269 vehicles & 3562 tractors).

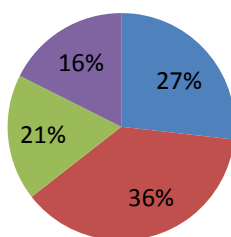
### Q4FY17 Profitability:

**Standalone:** Profit before tax before Exceptional items stood at Rs.860 crore, a YOY increase of 8.5%. Profit after tax after Exceptional items stood at Rs. 725 crore, a YOY increase of 24.2%.

The Auto industry was quick to recover from the impact of demonetization. Most segments of the industry showed resilience after a dip in Q3 FY2017. However, the continued lag in the LCV<2T, 3 wheelers and 2 wheelers is an indication of a slower recovery in rural parts of the country. In Q4 FY2017 the tractor industry posted partial recovery post demonetization, registering a growth of 13%. Tractor demand picked up in March owing to the festive demand and the positive momentum created by good crop production in the rabi season. Expectation of good monsoons, higher rural incomes and, a government thrust in agricultural and rural sectors is likely to push tractor demand up in Q1 FY2018 by driving positive sentiment in the larger rural economy.

### Shareholding Pattern , Dec 16

■ Promotor ■ FII ■ DII ■ Others



### Outlook:

Company looks very attractive with the robust volume growth of 22.8% YoY and revenue growth of 27% YoY in FES segment. With expectation of favourable monsoon this segment is expected to out perform. Mahindra now has the highest market share of 42% in Farm Equipment Segment with 1.8% increase this quarter. Mahindra YuVo is been a BlockBuster success and with Mahindra Jivo a new product for the Horticulture farming is receiving good response. It is the only product for horticulture farming with no close competition. Mahindra is expected to expand its production in next few years.

Mahindra also has a 50% market share in SCV (Small Commercial Vehicles).

Auto segments volumes have gone up marginally by 2.5%. However with the pickup in volumes from Kuv100, Tuv 300, Xuv500 and 40% repeat orders from Blazo series, We expect this segment to perform much better in coming quarters.

Mahindra's Electric Vehicles sales have increased 16%. Electric Vehicles are the Future, the Govt has a target of achieving all Electric vehicle on road by 2030, with Mahindra being the first to commercialise in this segment. Current sales are 100 Units per month, Company is expecting to increase the production to 5000 units in 2-3 years.

Two Wheeler segment reported a decrease in Revenue of 21%YoY however the loss has decreased from Rs 865cr to Rs 692cr. Company expect this segment to start making profits 1-2 years down the line.

Mahindra has reported the highest ever exports volume of 37241 Units with tractor exports growing 26% YoY. They are facing headwinds in China, Europe, Russia but the management expects the demand to stabilise from Q2FY18.



Source: Company data Ace Equity, Arihant Research



**Financial outlook:** Even after facing headwinds in FY17 such as BSIII to BSVI, Odd Even , Note Ban company has been able to maintain the OPM at 13.2 % in FY17 which is same as FY16.

- Loss from the two wheeler segment is been half from the previous year.
- Farm equipment segment revenue is up 27% and PAT increased to 32% YoY.
- Auto motive segment revenue has gone up 7% but PAT has decreased 6%.
- Financial services revenue has increased 8% but PAT has declined 40% YoY .
- Real estate revenues are up 26% but PAT has declined 31% YoY.
- Companies Gross debt to equity ratio is at 0.15 which has gawn down from 0.17 yoy and the Net Debt is Zero.

### Going Forward:

- M&M plans to launch another new platform for tractor and a range of Swaraj branded tractors that will help boost tractor volumes further.
- The higher volume growth is margin accretive as the tractor segment fetches nearly double the operating profit (EBIT) compared to auto segment.
- Additionally, volumes in the auto segment — where it generates income from selling vehicles such as Scorpio, Bolero, and XUV500 — are not expected to go down any further.
- The downward trend may reverse with refreshes for KUV100, Scorpio and XUV 500 lined up in FY18.
- Also, volume boost due to lower prices of larger cars are expected to come down 5-7 per cent after GST implementation.
- In the listed space, M&M is likely to be a key beneficiary of reduction in the tax as GST rates are lower than current rates.
- Besides, it will launch its premium MPV in the second half of FY18 which is expected to compete with Toyota Innova.
- The GST on passenger vehicles for FY18 is expected to be 7.5 per cent versus 1.3 per cent in the previous year.
- New Focus area will be Enhancing UV portfolio and completing the full range of commercial vehicle (2t to 49t) with new launches, getting ready for BSVI Emission norms, Crash and Safety norms which are in FY18 by the government.

**Key Factors:** With management looking optimistic to make a turnaround in the Auto segment and a good monsoon will be the key boost for M&M in tractor segment.

On the consolidated part ,The Two Wheeler segment has pick up hoping to breakeven in 1-2 years, with highest ever exports , and other subsidiary such as Mahindra life space, Mahindra holidays, M&M Financial, Tech Mahindra are all slowly growing up, we expect M&M perform much better in FY18 compared to FY17.

**Valuation:** We value M&M based on SoTP valuations and we have a “Accumulate” rating on the stock: We value the core business at Rs 1302 per share, based on 18 (x) FY19E PE(x) based on EPS of Rs 85. We have valued total investments (listed and unlisted) at Rs 225 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,527 per share.

**Financial Snpashot:**

Profit and loss for the year ended,					
Standalone P&L (in Rs Crore)	Q4FY17	Q4FY16	yoy %	Q3FY17	qoq %
<b>Total Income from Operations</b>	<b>11741</b>	<b>10801</b>	<b>8.7%</b>	<b>11010</b>	<b>6.6%</b>
Total RM Cost	8217	7966	3.1%	7959	3.2%
Contribution	3524	2835		3052	
Gross margin%	30.0	26.2		27.7	
Total Expenditure	10495	9752	7.6%	9711	8.1%
<b>Op EBITDA</b>	<b>1247</b>	<b>1049</b>	<b>18.8%</b>	<b>1299</b>	<b>-4.1%</b>
Op EBITDA margin %	10.6	9.7		11.8	
Interest Expense	45	38	16.7%	38	16.7%
PBT before Excp Items	860	792	8.5%	1032	-16.7%
Excp Items (Net)	94	6		364	
<b>PBT</b>	<b>953</b>	<b>798</b>	<b>19.4%</b>	<b>1396</b>	<b>-31.7%</b>
Provision for Taxation	228	215	6.3%	284	-19.7%
<b>Net Profit</b>	<b>725</b>	<b>584</b>	<b>24.2%</b>	<b>1112</b>	<b>-34.8%</b>
Effective Tax rate	23.9	26.9		20.3	
Basic EPS	12.25	9.86	24.2%	18.78	-34.8%

Source: Company data Ace Equity, Aриhant Research



Profit and Loss Account, Year Ending March				Balance Sheet, Year Ending March			
Particulars, in Rs crore	FY17	FY18E	FY19E	Particulars, in Rs crore	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>45,128</b>	<b>50,968</b>	<b>58,759</b>	<b>Liabilities + Equity</b>			
YoY%	12	13	15	(a) Share capital	296	296	296
Other Operating Income	1,342	612	705	(b) Reserves and surplus	25,792	30,020	35,159
<b>Income from Operations</b>	<b>46,470</b>	<b>51,580</b>	<b>59,464</b>	<b>Shareholders' funds</b>	<b>26,088</b>	<b>30,316</b>	<b>35,455</b>
Materials Consumed	20,913	25,484	29,379	Non-current liab & Prov	3,354	3,367	3,439
Total Expenditure	40,359	44,616	51,436	Current liabilities	9,920	9,836	10,510
<b>Operating EBITDA</b>	<b>6,112</b>	<b>6,963</b>	<b>8,028</b>	<b>Total - Equity and liabilities</b>	<b>39,362</b>	<b>43,519</b>	<b>49,404</b>
Operating EBITDA margin %	13.2	13.5	13.5				
Depreciation	1,327	1,529	1,763	<b>Assets</b>			
Operating EBIT	4,785	5,434	6,265	Non-current assets			
Interest	146	152	86	Fixed assets	13,073	15,226	19,283
PBT before Excp Items	4639	5283	6178	Long Term Inv	11,200	12,320	13,552
Exceptional item	548	50	50	Loans + Adv + Others	3,781	3,873	3,975
PBT	5187	6364	7418	Other non-current assets	73	92	115
<b>Tax Expense</b>	<b>1232</b>	<b>1598</b>	<b>1862</b>	Current assets			
Reported Net Profit	3956	4766	5555	Cash & bank balance	1,505	1,730	1,535
YoY%	70	20	17	Other Current Assets	9,731	10,280	10,945
Effective Tax Rate	24	25	25	Sub-total - Current assets	11,234	12,009	12,479
Reported EPS	67	81	94	<b>Total - Assets</b>	<b>39,362</b>	<b>43,519</b>	<b>49,404</b>
Cash Flow Statement, Year Ending March				Ratio Analysis			
Particulars, in Rs crore	FY17	FY18E	FY19E		FY17	FY18E	FY19E
Operating Activities				<b>Profitability</b>			
<b>PBT before Excp Items</b>	<b>4,639</b>	<b>6,693</b>	<b>7,869</b>	<b>Operating EBITDA%</b>	<b>13.2</b>	<b>13.5</b>	<b>13.5</b>
Add Depr	1,327	1,150	1,261	Operating EBIT%	10.3	10.5	10.5
Others	(399)	(667)	(1,015)	PAT%	8.5	9.2	9.3
Total	5,568	7,176	8,115				
Cash Taxes	(1,205)	(1,571)	(1,835)	Du Pont ROE breakup			
Changes in Working Cap	1,181	340	64	PAT / Sales	8.8	9.4	9.5
<b>Cash Flow from Operations</b>	<b>5,544</b>	<b>5,945</b>	<b>6,345</b>	Sales / Avg Total Assets	1.1	1.2	1.2
				Avg Total Assets / Avg Eqty	1.5	1.4	1.4
Investing Activities				<b>ROE</b>	<b>15.2</b>	<b>15.7</b>	<b>15.7</b>
Change in investments	(1,502)	(1,530)	(1,703)				
Capex	(1,875)	(1,251)	(1,609)	Other Ratios			
<b>Cash Flow from Investing</b>	<b>(3,376)</b>	<b>(2,781)</b>	<b>(3,313)</b>	<b>Current Ratio</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>
				Long Term Debt / Equity	0.0	0.0	0.0
Financing Activities				<b>EPS</b>	<b>67</b>	<b>81</b>	<b>94</b>
<b>Dividends + Taxes paid</b>	<b>(805)</b>	<b>(805)</b>	<b>(805)</b>	DPS	13	13	13
Change in Non Curr Liab	(3,222)	(2,923)	(3,020)	Dividend %	260	260	260
<b>Cash Flow from Financing</b>	<b>(2,417)</b>	<b>(2,118)</b>	<b>(2,216)</b>	<b>Dividend Payout ratio</b>	<b>23</b>	<b>14</b>	<b>12</b>
Opening Cash	844	594	776	<b>P/E</b>	<b>21.4</b>	<b>17.6</b>	<b>15.1</b>
Changes during year	(250)	1,046	816	BVPS	440.7	512.2	599.0
<b>Closing Cash</b>	<b>594</b>	<b>776</b>	<b>581</b>	P/BV	3.2	2.8	2.4



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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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