

Mahindra & Mahindra Ltd.

Nifty	11,450
Sensex	37,888

Key Stock Data

CMP	928
Market Cap (₹ bn)	1104.3
52W High/Low	945/613
Bloomberg	MM IN

Shareholding Pattern June 2018

Promoters	21.66%
Institutions	55.23%
Non-Institutions & Others	18.26%

Key Result Highlights – Q1FY19

M&M reported its Q1FY19 results. Following are the key highlights.

Q1FY19 Result Highlights

- Overall volumes grew by 18.9% YoY (Auto grew by 19.6% YoY & Tractors grew by 18.0% YoY).
- Overall realizations grew by 3.0% YoY (Automotive division realization grew 2.6% YoY and Tractor division realization grew 5.2% YoY.)
- Net Sales grew by 22.8% YoY to ₹133.5bn.
- EBITDA margins expanded on a YoY basis by 261bps to 15.8%.
- PAT (before exceptional items) grew by 64.0% YoY to ₹12.3bn.

Tractor Division

The domestic tractor volumes grew by 18.8% and exports grew by 0.4% in Q1FY19. Its domestic market share stood at 43.7% in Q1FY19 (improvement of 80bps over FY18 market share of 42.9%). As per the management, the growth in Q1FY19 was robust on account of normal monsoon, good rabi crop output and about 15% growth in MSP for Kharif crops. The overall rural demand scenario appears quite robust. M&M would be launching Novo 65 and Intelligent Tractor in FY19, both the tractors would be in a niche segment and hence cannibalization would not take place. During the quarter, M&M took price hike of 1.2-1.3% in tractors to pass on material cost inflation. The management expects the tractor industry to grow at 12-14% and the domestic tractor industry to grow at 12% in FY19. M&M sold 1,162 tractors under Trakstar brand between Apr-Jun 2018.

Auto Division

During Q1FY19, M&M's domestic auto division reported 16.2% YoY growth while exports grew by 100.2% over the same period. The management re-iterated that there will be 3 new launches in FY19, with one of them being Marazzo (U321). The new launches in Q1FY19 (TUV300 and XUV500) have been received well in the market. The company has taken a price hike of 1.5% during the quarter. M&M registered a stellar growth on the exports front with all key markets of South Asia, MSA, Rest of Africa and Rest of World growing at 93%, 66%, 175% and 125% respectively. M&M sold 3,164 MHCV's in Q1FY19 (market share of 5.7%) as compared to 1,416 MHCV's in Q1FY18 (market share of 5.2%). While the CV industry volumes were impacted in July due to revised axle load norms, the management expects August to be better than July and demand to stabilize from September onwards. OEM's would be required to redesign brakes, axle, steering, chassis and tires to develop vehicles with higher load capacity which would require considerable time. The management expects that incorporating these changes will be challenging as OEM's are focusing on adhering to the BS-VI deadline. However, the management has indicated that the launch of ICV's- Furio range is on track and will not be impacted by this regulatory change.

Valuations and Recommendation

Based on its core earnings, the stock at ₹928 is trading at a PE multiple of 13.7x FY20E and an EV/EBITDA of 6.8x FY20E, excluding its subsidiary value of ₹351 per share. We have increased our earnings estimate by 5%/4% for FY19E and FY20E respectively on account of better commentary from the management with respect to tractors for FY19 and new launches in the UV space which would boost sales in H2FY19 and FY20. We have assigned FY20E PER of 17x to its core earnings and have valued the listed subsidiaries at 25% discount to the market price. **We maintain our ACCUMULATE recommendation on the stock with SOTP-based target price of ₹1065 per share.**

	(₹ mn)		
YEAR	FY18	FY19E	FY20E
Revenue	475,774	548,570	611,450
EBITDA	70,434	82,921	92,767
OPM(%)	14.8%	15.1%	15.2%
PAT	41,896	49,853	55,210
EPS (₹)	32.1	38.3	42.1
P/E(x)*	18.0	15.1	13.7

*Based on core earnings

Source: Company, Way2Wealth Inst. Equity

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Quarterly Results(M&M + MVML)

	(₹ mn)				
	Q1FY19	Q1FY18	YOY%	Q4FY18	QOQ%
Sales	133,577	108,775	22.8%	131,888	1.3%
Material Consumed	90,036	73,784	22.0%	87,247	3.2%
Staff Cost	8,380	7,943	5.5%	7,882	6.3%
Other expenditure	14,061	12,707	10.7%	16,808	-16.3%
Total Expenditure	112,476	94,434	19.1%	111,938	0.5%
EBITDA	21,101	14,341	47.1%	19,950	5.8%
Depreciation	4,295	3,820	12.4%	4,390	-2.2%
EBIT	16,806	10,522	59.7%	15,560	8.0%
Interest	431	509	-15.3%	499	-13.6%
Other Income	1,930	1,283	50.4%	1,659	16.3%
PBT	18,305	11,296	62.0%	16,720	9.5%
Tax	5,978	3,778	58.2%	5,650	5.8%
PAT	12,327	7,518	64.0%	11,070	11.4%
Exceptional items	245	-	NA	479	-48.8%
Reported Profit	12,572	7,518	67.2%	11,549	8.9%

Margins	Q1FY19	Q1FY18	YOY (BPS)	Q4FY18	QOQ (BPS)
Gross margins	32.6%	32.2%	43	33.8%	(125)
EBITDA	15.8%	13.2%	261	15.1%	67
PAT	9.2%	6.9%	232	8.4%	83
Tax Rate	32.7%	33.4%	(79)	33.8%	(113)

Segmental	Q1FY19	Q1FY18	YOY%	Q4FY18	QOQ%
Automotive sales (₹Mn)	80,326	65,515	22.6%	91,049	-11.8%
Farm Equipment sales (₹Mn)	50,069	40,316	24.2%	37,161	34.7%
Others	4,055	3,945	2.8%	5,543	-26.8%
Total	134,449	109,776	22.5%	133,752	0.5%
Less : Intersegmental	873	1,000	-12.7%	1,864	-53.2%
Total sales (₹Mn)	133,577	108,775	22.8%	131,888	1.3%
Total Tractors Volume	99,897	84,625	18.0%	70,635	41.4%
Total Automotive Volume	139,844	116,969	19.6%	165,162	-15.3%
Total Volume (Auto + Farm)	239,741	201,594	18.9%	235,797	1.7%
Avg. Realization (Automotive segment)	574,394	560,107	2.6%	551,268	4.2%
Avg. Realization (Farm Equipment segment)	501,204	476,405	5.2%	526,095	-4.7%
Total Realization	560,811	544,538	3.0%	567,233	-1.1%

Source: Company, Way2Wealth Inst. Equity

Financials

(₹ mn)

Income Stmt.	FY16	FY17	FY18	FY19E	FY20E
Net sales	3,88,879	4,13,779	4,75,774	5,48,570	6,11,450
YoY (%)	5.2	6.4	15.0	15.3	11.5
Raw material cost	2,65,013	2,80,192	3,16,280	3,64,673	4,06,474
Employee Cost	25,720	29,920	31,773	34,375	37,363
Admin Expenses	45,683	49,625	57,286	66,600	74,846
Total expenses	3,36,416	3,59,737	4,05,339	4,65,649	5,18,683
EBIDTA	52,463	54,042	70,434	82,921	92,767
(%)	13.5%	13.1%	14.8%	15.1%	15.2%
Depreciation	12,047	16,745	16,254	18,244	20,900
EBIT	40,416	37,297	54,181	64,677	71,867
Interest	2,653	2,426	1,882	1,590	1,400
Other income	7,845	12,064	9,517	10,469	10,992
PBT	45,608	46,935	61,816	73,556	81,459
(-) Tax	12,230	13,181	19,920	23,703	26,250
Tax/ PBT (%)	26.8	28.1	32.2	32.2	32.2
PAT	33,378	33,754	41,896	49,853	55,210
YoY (%)	8.1	1.1	24.1	19.0	10.7
PAT(%)	8.6%	8.2%	8.8%	9.1%	9.0%
Extraordinary	60	5485	4336	0	0
Reported Profit	33,438	39,239	46,232	49,853	55,210

Key Ratios	FY16	FY17	FY18	FY19E	FY20E
EPS (Standalone)	56	57	35	42	46
Book value	390	450	256	289	324
P/E (Standalone)			26.3	22.1	20.0
EV/EBDITA (x)			13.0	10.7	9.3
P/B (x)			3.6	3.2	2.9
EPS (Core)			32.1	38.3	42.1
Subsidiary Valuation			351	351	351
P/E (Core)			18.0	15.1	13.7
EV/EBITDA (Core)			9.3	7.7	6.8
ROCE	14.0%	12.5%	13.3%	14.2%	14.2%
ROE	15.5%	13.5%	14.6%	15.4%	15.1%
Dividend/Share	12	13	7	8	8
Dividend Yield			0.7%	0.9%	0.9%
Gross Asset Turnover	2.7	2.5	2.4	2.5	2.4
Avg Net WC Days	-2	2	1	-4	1
Net W/C (% of sales)	-1.3%	2.3%	-1.7%	-0.8%	1.5%
Revenue/Day	1,065	1,134	1,303	1,503	1,675
Other Income (%PBT)	17%	26%	15%	14%	13%

Balance Sheet	FY16	FY17	FY18	FY19E	FY20E
Equity capital	2,963	2,968	5,950	5,950	5,950
Reserves	2,28,145	2,64,244	2,98,924	3,37,517	3,79,610
Net worth	2,31,108	2,67,212	3,04,874	3,43,466	3,85,559
Total Loans	31,615	43,196	35,919	30,919	27,919
Def Tax Liability	6,243	1,764	4,557	4,557	4,557
Total Liabilities	2,68,966	3,12,172	3,45,350	3,78,942	4,18,035
Gross Block	1,55,201	1,81,053	2,09,617	2,34,617	2,64,617
Less: Acc. depreciation	46,549	63,294	79,547	97,791	1,18,691
Net block	1,08,653	1,17,760	1,30,070	1,36,826	1,45,925
Investments	1,41,666	1,67,502	1,93,999	2,03,999	2,15,999
Inventories	33,262	32,285	33,271	36,364	44,987
Debtors	23,493	28,758	30,984	34,441	38,389
Cash	23,610	17,333	29,242	42,349	47,201
Loans and advances	50,011	56,981	75,728	90,057	1,03,437
Current assets	1,30,376	1,35,357	1,69,224	2,03,211	2,34,014
Current liabilities	1,00,690	91,145	1,28,554	1,42,738	1,52,985
Provisions	11,038	17,301	19,390	22,356	24,919
Net current assets	18,648	26,911	21,281	38,117	56,111
Total Assets	2,68,966	3,12,172	3,45,350	3,78,942	4,18,035

Cash Flow	FY16	FY17	FY18	FY19E	FY20E
Net profit	33,438	39,239	46,232	49,853	55,210
Deferred tax	10,762	-4,479	2,792	0	0
Depreciation	12,047	16,745	16,254	18,244	20,900
Change in W/C	5,478	-14,540	17,539	-3,729	-13,141
Operating cash flow	61,724	36,965	82,817	64,368	62,969
Capex	-19,893	-25,852	-28,564	-25,000	-30,000
Investments	-35,906	-25,836	-26,497	-10,000	-12,000
Investing cash flow	-55,799	-51,688	-55,061	-35,000	-42,000
Free Cash Flow	41,832	11,113	54,253	39,368	32,969
Dividend	-8,354	-9,055	-10,443	-11,261	-13,117
Equity	7,255	5,920	1,873	0	0
Debt	-2,270	11,581	-7,277	-5,000	-3,000
Financing cash flow	-3,369	8,446	-15,847	-16,261	-16,117
Net change in cash	2,556	-6,277	11,909	13,108	4,852
Opening cash	21,053	23,610	17,333	29,242	42,349
Closing cash	23,610	17,333	29,242	42,349	47,201

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Disclosure of Interest Statement in Mahindra & Mahindra Ltd. as on August 9, 2018

Name of the Security	Mahindra & Mahindra Ltd.
Name of the analyst	Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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