

Mahindra & Mahindra Ltd.

Performance Update

Y/E March (₹ cr)	1QFY19	1QFY18	% yoy	4QFY18	% qoq
Net sales	13,520	12,376	9.2	13,308	1.6
EBITDA	1,872	1,247	50.1	1,754	6.7
EBITDA margin (%)	13.8	10.1	377	13.2	66
Adjusted PAT	1,221	749	62.9	1,059	15.3

Source: Company, Angel Research

For 1QFY2019, M&M posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~9% yoy. On the bottom-line front, M&M reported growth of ~63% yoy to ₹1,221cr on the back of strong top-line growth and operating margin improvement.

Top-line driven by strong volume growth: The company's top-line grew by ~9% yoy to ₹13,520cr on the back of strong growth in farm equipment segment. Farm Equipment segment grew by ~41% yoy during the quarter, whereas automotive segment reported a growth of ~6% yoy. Moreover, positive rural sentiments and government push for infra & construction projects are the other key deliverables which also boosted the company's growth. However, other segment de-grew by ~3%.

Profitability driven by strong revenue growth and lower interest: On the operating front, the company's margin strengthened by 377bps to 13.8%. Moreover, M&M reported ~63% yoy rise in its net profit to ₹1,221cr on the back of strong top-line growth.

Outlook and Valuation: We expect M&M to report net revenue CAGR of ~13% to ~₹62,235cr over FY2018-20E mainly due to healthy growth in automobile segment like Utility Vehicles (on the back of new launches and facelift of some models) and strong growth in Tractors segment driven by strong brand recall and improvement in rural sentiment. Further, on the bottom-line front, we expect CAGR of ~18% to ₹5,600cr over the same period on the back of margin improvement. **Thus, we recommend BUY on the stock with target price of ₹1,050.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	44,054	48,686	54,939	62,235
% chg	7.8	10.5	12.8	13.3
Adj. Net profit	3,220	4,046	4,740	5,600
% chg	0.4	25.7	17.1	18.2
EBITDA margin (%)	10.2	12.8	12.8	12.8
EPS (₹)	27.1	34.0	39.8	47.1
P/E (x)	34.4	27.3	23.3	19.8
P/BV (x)	4.3	3.8	3.4	3.0
RoE (%)	12.5	14.0	14.6	15.2
RoCE (%)	10.5	15.0	15.4	15.8
EV/Sales (x)	2.1	1.9	1.7	1.4
EV/EBITDA (x)	20.8	14.9	13.0	11.1

Source: Company, Angel Research Note

BUY

CMP	₹926
Target Price	₹1,050
Investment Period	12 months

Stock Info	
Sector	Automobile
Market Cap (₹ cr)	1,15,014
Net Debt (₹ cr)	2,900
Beta	0.8
52 Week High / Low	945/612
Avg. Daily Volume	55,843
Face Value (₹)	5
BSE Sensex	37,685
Nifty	11,388
Reuters Code	MAHM.BO
Bloomberg Code	MM.IN

Shareholding Pattern (%)			
Promoters			21.7
MF / Banks / Indian			9.8
FII / NRIs / OCBs			33.9
Indian Public/Others			34.6
Abs.(%)			
	3m	1yr	3yr
Sensex	7.1	16.8	33.2
M&M	9.2	31.6	33.8

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2018 Performance

Y/E March (₹ cr)	1QFY19	1QFY18	% yoy	4QFY18	% qoq	FY2018	FY2017	% chg
Net Sales	13,520	12,376	9.2	13,308	1.6	49445.0	47383.7	4.4
Consumption of RM	9556.6	8,457.39	13.0	9236.4	3.5	34894.1	35411.4	(1.5)
(% of Sales)	70.7	68.3		69.4		70.6	74.7	
Staff Costs	752	707	6.4	706	6.4	2840.9	2714.4	4.7
(% of Sales)	5.6	5.7		5.3		5.7	5.7	
Other Expenses	1,340	1,965	(31.8)	1,611	(16.8)	5486.0	4743.3	15.7
(% of Sales)	9.9	15.9		12.1		11.1	10.0	
Total Expenditure	11,648	11,129	4.7	11,554	0.8	43,221	42,869	0.8
Operating Profit	1,872	1,247	50.1	1,754	6.7	6,224	4,515	37.9
OPM	13.8	10.1		13.2		12.6	9.5	
Interest	33	32	3.2	33	(0.8)	112.2	159.6	(29.7)
Depreciation	393	348	13.1	399	(1.6)	1479.4	1526.4	(3.1)
Other Income	265	205		171		1036.4	1345.5	
PBT (excl. Ext Items)	1,711	1,072	59.6	1,493	14.6	5,669	4,174	35.8
Ext (Income)/Expense	20.9			47.9		434	548	
PBT (incl. Ext Items)	1,732	1,072	61.5	1,541	12.4	6,102	4,723	29.2
(% of Sales)	12.8	8.7		11.6		12.3	10.0	
Provision for Taxation	511	323		482		1746.4	1079.2	61.8
(% of PBT)	29.5	30.1		31.3		29	23	
Reported PAT	1,221	749	62.9	1,059	15.3	4,356	3,643	19.6
PATM	9.0	6.1		8.0		8.8	7.7	

Source: Company, Angel Research

Outlook and Valuation

We expect M&M to report net revenue CAGR of ~13% to ~₹62,235cr over FY2018-20E mainly due to healthy growth in automobile segment like Utility Vehicles (on the back of new launches and facelift of some models) and strong growth in Tractors segment driven by strong brand recall and improvement in rural sentiment. Further, on the bottom-line front, we expect CAGR of ~18% to ₹5,600cr over the same period on the back of margin improvement. **Thus, we recommend BUY on the stock with target price of ₹1,050.**

Downside risks to our estimates

- Strong launches from competitors like Maruti Suzuki, Hyundai Motors and Ford can grab the market share from M&M
- Poor monsoons can impact the overall earnings growth (47% EBIT contribution from tractors segment)
- Lower growth and profitability of subsidiary companies can limit upside growth

Company Background

Mahindra & Mahindra Ltd (M&M) is an India-based company. The company operates in nine segments: automotive segment comprises sales of automobiles, spare parts and related services; farm equipment segment comprises sales of tractors, spare parts and related services; information technology (IT) services comprises services rendered for IT and telecom; financial services comprises services relating to financing, leasing and hire purchase of automobiles and tractors; steel trading and processing; infrastructure comprising operating of commercial complexes, project management and development; hospitality segment comprises sale of timeshare; Systech segment comprises automotive components and other related products and services, and others segment comprise s logistics, aftermarket, two wheelers and investment.

Profit & Loss Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	44,054	48,686	54,939	62,235
% chg	7.8	10.5	12.8	13.3
Total Expenditure	39,539	42,462	47,906	54,269
Raw Material	32,082	34,135	38,732	43,875
Personnel	2,714	2,841	3,516	3,983
Others Expenses	4,742	5,486	5,659	6,410
EBITDA	4,515	6,224	7,032	7,966
% chg	(2.3)	37.9	13.0	13.3
(% of Net Sales)	10.2	12.8	12.8	12.8
Depreciation & Amortisation	1,526	1,479	1,578	1,674
EBIT	2,988	4,745	5,454	6,292
% chg	(15.9)	58.8	15.0	15.4
(% of Net Sales)	6.8	9.7	9.9	10.1
Interest & other Charges	160	112	116	122
Other Income	1,894	1,470	1,300	1,300
(% of PBT)	40.1	24.1	19.6	17.4
Share in profit of Associates	-	-	-	-
Recurring PBT	4,723	6,102	6,638	7,470
% chg	10.2	29.2	8.8	12.5
Tax	1,079	1,746	1,899	1,870
(% of PBT)	22.9	28.6	28.6	25.0
PAT (reported)	3,643	4,356	4,740	5,600
Extraordinary Items	423	310	-	-
ADJ. PAT	3,220	4,046	4,740	5,600
% chg	0.4	25.7	17.1	18.2
(% of Net Sales)	7.3	8.3	8.6	9.0
Basic EPS (Rs)	27.1	34.0	39.8	47.1
Fully Diluted EPS (₹)	27.1	34.0	39.8	47.1
% chg	0.4	25.7	17.1	18.2

Balance Sheet

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	297	297	297	297
Reserves & Surplus	25,373	28,529	32,226	36,594
Shareholders Funds	25,670	28,826	32,523	36,891
Total Loans	2,816	2,900	2,900	2,900
Deferred Tax Liability	1,637	1,637	1,637	1,637
Total Liabilities	30,122	33,363	37,060	41,428
APPLICATION OF FUNDS				
Gross Block	14,938	15,938	16,938	17,938
Less: Acc. Depreciation	7,303	8,782	10,360	12,034
Net Block	7,635	7,155	6,577	5,903
Capital Work-in-Progress	2,038	2,038	2,038	2,038
Investments	17,902	17,902	17,902	17,902
Current Assets	11,764	15,401	20,265	26,472
Inventories	2,716	3,201	3,913	4,604
Sundry Debtors	2,918	3,468	4,365	5,115
Cash	1,687	2,891	4,296	7,107
Loans & Advances	1,528	2,191	3,296	4,356
Other Assets	2,914	3,650	4,395	5,290
Current liabilities	10,158	9,766	10,356	11,520
Net Current Assets	1,605	5,635	9,910	14,952
Deferred Tax Asset	942	942	942	942
Mis. Exp. not written off	-	-	-	-
Total Assets	30,122	33,363	37,060	41,428

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	4639	6102	6638	7470
Depreciation	1327	1479	1578	1674
Change in Working Capital	(31)	(2825)	(2870)	(2231)
Interest / Dividend (Net)	(834)	0	0	0
Direct taxes paid	0	(1746)	(1899)	(1870)
Others	(138)	0	0	0
Cash Flow from Operations	4964	3010	3447	5043
(Inc.)/ Dec. in Fixed Assets	(2060)	(1000)	(1000)	(1000)
(Inc.)/ Dec. in Investments	(1160)	0	0	0
Cash Flow from Investing	(3221)	(1000)	(1000)	(1000)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	0	84	0	0
Dividend Paid (Incl. Tax)	(839)	(890)	(1043)	(1232)
Interest / Dividend (Net)	(59)	0	0	0
Cash Flow from Financing	(898)	(806)	(1043)	(1232)
Inc./(Dec.) in Cash	845	1204	1404	2811
Opening Cash balances	842	1687	2891	4296
Closing Cash balances	1687	2891	4296	7107

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	34.4	27.3	23.3	19.8
P/CEPS	21.4	19.0	17.5	15.2
P/BV	4.3	3.8	3.4	3.0
Dividend yield (%)	0.6	0.8	0.9	1.1
EV/Sales	2.1	1.9	1.7	1.4
EV/EBITDA	20.8	14.9	13.0	11.1
EV / Total Assets	3.1	2.8	2.4	2.1
Per Share Data (₹)				
EPS (Basic)	27.1	34.0	39.8	47.1
EPS (fully diluted)	27.1	34.0	39.8	47.1
Cash EPS	43.4	49.0	53.1	61.1
DPS	6.0	7.5	8.8	10.4
Book Value	215.7	242.2	273.3	310.0
Returns (%)				
ROCE	10.5	15.0	15.4	15.8
Angel ROIC (Pre-tax)	33.6	43.4	41.2	42.6
ROE	12.5	14.0	14.6	15.2
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.9	3.1	3.2	3.5
Inventory / Sales (days)	22	24	26	27
Receivables (days)	24	26	29	30
Payables (days)	53	49	45	44
Working capital cycle (ex-cash) (days)	(7)	1	10	13

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3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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