

Mahindra & Mahindra Ltd.

Performance Update

Y/E March (₹ cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq
Net sales	12,923	13,520	(4.4)	14,035	(7.9)
EBITDA	1,623	1,872	(13.3)	1,541	5.3
EBITDA margin (%)	12.6	13.8	(129bp)	11.0	158bp
Reported PAT	2,314	1,221	89.5	849	172.6
Adjusted PAT	1,158	1,206	(4.0)	922	25.6

Source: Company, Angel Research

For 1QFY2020, M&M registered revenue decline of ~4% yoy to ₹12,923cr. Operating margin declined by 129bps. On the bottom-line front, M&M reported PAT growth of ~90% yoy to ₹2,314cr on the back of one time exceptional gain of ₹1,367cr.

Top-line de-grew ~4%: M&M's top-line de-grew by ~4% yoy to ₹12,923cr mainly due to lower volumes (down ~6% yoy) and realization improvement (up ~1.7% yoy). Farm equipment segment de-grew by ~12% yoy during the quarter, whereas automotive segment reported a de-growth of ~1% yoy. The management expects the worst of the tractor industry decline to be over and estimates 6-8% growth for the rest of the year. The outlook for the full year is flat yoy. For automotive segment, management has not given any guidance owing to future uncertainty of industry.

One time exceptional gain boosted the overall profitability: On the operating front, the company's margins contracted by 129bps yoy to 12.6% due to lower volume growth and new launch expenses. However, M&M reported ~90% yoy rise in net profit to ₹2,314cr on the back of one time exceptional gain of ₹1,367cr (adjusted PAT grew by ~4% to ₹1,158cr)

Outlook and Valuation: Over the last few quarters, the company's volume growth has remained subdued mainly due to overall slowdown in economy, which has affected the buying sentiment. However, we believe that any revival in auto industry would benefit M&M on the back of its recent new launches and facelift of some models, diversified portfolio, strong brand & distribution network. Considering the above factors, **we maintain our Buy recommendation on M&M.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	48,686	53,614	54,213	57,752
% chg	10.5	10.1	1.1	6.5
Adj. Net profit	4,046	4,819	4,167	4,627
% chg	25.7	19.1	(13.5)	11.1
EBITDA margin (%)	12.8	12.3	11.7	12.0
EPS (₹)	34.0	40.5	35.0	38.9
P/E (x)	16.2	13.6	15.7	14.1
P/BV (x)	2.2	1.9	1.7	1.6
RoE (%)	13.4	14.1	11.1	11.3
RoCE (%)	14.3	12.9	10.4	10.6
EV/Sales (x)	0.9	0.8	0.9	0.8
EV/EBITDA (x)	7.2	6.4	7.3	6.4

Source: Company, Angel Research Note

BUY

CMP	₹550
Target Price	₹724
Investment Period	12 months

Stock Info

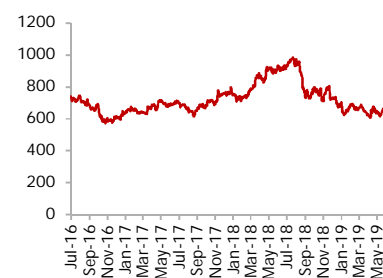
Sector	Automobile
Market Cap (₹ cr)	67,070
Net Debt (₹ cr)	5,700
Beta	0.8
52 Week High / Low	992/515
Avg. Daily Volume	4,67,547
Face Value (₹)	5
BSE Sensex	37,327
Nifty	11,034
Reuters Code	MAHM.BO
Bloomberg Code	MM.IN

Shareholding Pattern (%)

Promoters	19.9
MF / Banks / Indian	10.2
FII / NRIs / OCBs	34.5
Indian Public/Others	35.5

Abs.(%)	3m	1yr	3yr
Sensex	(4.1)	(2.6)	30.3
M&M	(18.5)	(44.0)	(30.7)

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2020 Performance

Y/E March (₹ cr)	1QFY20	1QFY19	% yoy	4QFY19	% qoq	FY2019	FY2018	% chg
Net Sales	12,923	13,520	(4.4)	14,035	(7.9)	53,614	48,686	10.1
Consumption of RM	9159	9557	(4.2)	10037	(8.7)	38256	34135	12.1
(% of Sales)	70.9	70.7		71.5		71.4	70.1	
Staff Costs	784	752	4.3	709	10.5	2980.2	2840.9	4.9
(% of Sales)	6.1	5.6		5.1		5.6	5.8	
Other Expenses	1,357	1,340	1.2	1,748	(22.4)	5767.5	5486.0	5.1
(% of Sales)	10.5	9.9		12.5		10.8	11.3	
Total Expenditure	11,300	11,648	(3.0)	12,494	(9.6)	47,004	42,462	10.7
Operating Profit	1,623	1,872	(13.3)	1,541	5.3	6,610	6,224	6.2
OPM	12.6	13.8		11.0		12.3	12.8	
Interest	27	33	(17.1)	28	(3.5)	113.4	112.2	1.1
Depreciation	545	393	38.8	533	2.4	1860.4	1479.4	25.8
Other Income	1,686	286		237		1689.0	1470.0	
PBT (excl. Ext Items)	2,736	1,732	58.0	1,217	124.8	6,325	6,102	3.6
Ext (Income)/Expense								
PBT (incl. Ext Items)	2,736	1,732	58.0	1,217	124.8	6,325	6,102	3.6
(% of Sales)	21.2	12.8		8.7		11.8	12.5	
Provision for Taxation	423	511		368		1,529	1746	(12.4)
(% of PBT)	15.4	29.5		30.3		24	29	
Reported PAT	2,314	1,221	89.5	849	172.6	4,796	4,356	10.1
PATM	17.9	9.0		6.0		8.9	8.9	
Minority Interest After NP								
Extra-ordinary Items	1,156	15		(73)		-22.6	309.5	
Reported PAT	1,158	1,206	(4.0)	922	25.6	4,819	4,046	19.1

Source: Company, Angel Research

Outlook and Valuation: Over the last few quarters, the company's volume growth has remained subdued mainly due to overall slowdown in economy, which has affected the buying sentiment. However, we believe that any revival in auto industry would benefit M&M on the back of its recent new launches and facelift of some models, diversified portfolio, strong brand & distribution network. Considering the above factors, **we maintain our Buy recommendation on M&M with Target Price of ₹724.**

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 monsoon 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 i.e. 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 comprises logistics, aftermarket, two wheelers and investment.

Standalone Profit & Loss Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Total operating income	48,686	53,614	54,213	57,752
% chg	10.5	10.1	1.1	6.5
Total Expenditure	42,462	47,004	47,870	50,822
Raw Material	34,135	38,256	38,817	41,466
Personnel	2,841	2,980	3,144	3,465
Others Expenses	5,486	5,767	5,909	5,891
EBITDA	6,224	6,610	6,343	6,930
% chg	37.9	6.2	(4.0)	9.3
(% of Net Sales)	12.8	12.3	11.7	12.0
Depreciation& Amortisation	1,479	1,860	2,180	2,305
EBIT	4,745	4,749	4,163	4,626
% chg	58.8	0.1	(12.3)	11.1
(% of Net Sales)	9.7	8.9	7.7	8.0
Interest & other Charges	112	113	103	108
Other Income	1,470	1,689	3,167	2,000
(% of PBT)	24.1	26.7	43.8	30.7
Share in profit of Associates	-	-	-	-
Recurring PBT	6,102	6,325	7,227	6,518
% chg	29.2	3.6	14.3	(9.8)
Tax	1,746	1,529	1,905	1,890
(% of PBT)	28.6	24.2	26.4	29.0
PAT (reported)	4,356	4,796	5,323	4,627
Extraordinary Items	310	(23)	1,156	-
ADJ. PAT	4,046	4,819	4,167	4,627
% chg	25.7	19.1	(13.5)	11.1
(% of Net Sales)	8.3	9.0	7.7	8.0
Basic EPS (Rs)	34.0	40.5	35.0	38.9
Fully Diluted EPS (`)	34.0	40.5	35.0	38.9
% chg	25.7	19.1	(13.5)	11.1

Standalone Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	595	596	596	596
Reserves & Surplus	29,699	33,613	36,864	40,473
Shareholders Funds	30,294	34,209	37,459	41,069
Total Loans	2,958	2,571	2,571	2,571
Deferred Tax Liability	1,767	2,141	2,141	2,141
Total Liabilities	35,019	38,922	42,172	45,781
APPLICATION OF FUNDS				
Gross Block	16,878	20,518	17,938	18,938
Less: Acc. Depreciation	9,019	10,437	12,616	14,921
Net Block	7,859	10,082	5,321	4,017
Capital Work-in-Progress	3,129	2,420	2,420	2,420
Investments	20,583	22,016	17,902	17,902
Current Assets	15,846	18,179	20,920	25,586
Inventories	2,702	3,839	3,862	4,114
Sundry Debtors	3,173	3,946	4,010	4,272
Cash	2,894	3,732	3,832	5,649
Loans & Advances	3,769	3,570	3,795	4,620
Other Assets	3,309	3,092	5,421	6,930
Current liabilities	13,887	15,282	9,437	9,189
Net Current Assets	1,958	2,897	11,483	16,397
Deferred Tax Asset	1,489	1,507	1,507	1,507
Mis. Exp. not written off	-	-	-	-
Total Assets	35,019	38,922	42,172	45,781

Standalone Cashflow Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	5669	6355	7227	6518
Depreciation	1479	1860	2180	2305
Change in Working Capital	1780	(506)	(8485)	(3097)
Interest / Dividend (Net)	112	113	0	0
Direct taxes paid	(1289)	(1434)	(1905)	(1890)
Others	(725)	(1465)	0	0
Cash Flow from Operations	7027	4924	(983)	3835
(Inc.)/ Dec. in Fixed Assets	(2669)	(3032)	(1000)	(1000)
(Inc.)/ Dec. in Investments	(2441)	483	0	0
Cash Flow from Investing	(5110)	(2549)	(1000)	(1000)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	0	0	0	0
Dividend Paid (Incl. Tax)	(923)	(1012)	(917)	(1018)
Interest / Dividend (Net)	212	3951	0	0
Cash Flow from Financing	(711)	2939	(917)	(1018)
Inc./(Dec.) in Cash	1207	5314	(2900)	1817
Opening Cash balances	1687	1418	6732	3832
Closing Cash balances	2894	6732	3832	5649

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	16.2	13.6	15.7	14.1
P/CEPS	11.2	9.8	8.7	9.4
P/BV	2.2	1.9	1.7	1.6
Dividend yield (%)	1.4	1.6	1.4	1.6
EV/Sales	0.9	0.8	0.9	0.8
EV/EBITDA	7.2	6.4	7.3	6.4
EV / Total Assets	1.3	1.1	1.2	1.1
Per Share Data (₹)				
EPS (Basic)	34.0	40.5	35.0	38.9
EPS (fully diluted)	34.0	40.5	35.0	38.9
Cash EPS	49.0	55.9	63.1	58.3
DPS	7.5	8.9	7.7	8.6
Book Value	254.6	287.5	314.8	345.1
Returns (%)				
ROCE	14.3	12.9	10.4	10.6
Angel ROIC (Pre-tax)	48.5	43.0	22.8	23.0
ROE	13.4	14.1	11.1	11.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.9	2.6	3.0	3.0
Inventory / Sales (days)	20	26	26	26
Receivables (days)	24	27	27	27
Payables (days)	58	60	45	40
Working capital cycle (ex-cash) (days)	(14)	(7)	8	13

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
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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