

Mahindra & Mahindra Ltd.

Performance Update

Y/E March (₹ cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq
Net sales	13,070	11,578	12.9	12,989	0.6
EBITDA	1,437	1,494	(3.8)	1,605	(10.5)
EBITDA margin (%)	11.0	12.9	(190bp)	12.4	(136bp)
Adjusted PAT	1,144	920	24.4	1,544	(25.9)

Source: Company, Angel Research

For 3QFY2019, revenues grew by ~13% yoy to ₹13,070cr. Operating margin declined by 190bps. On the bottom-line front, M&M reported growth of ~24% yoy to ₹1,144cr on the back of lower taxes.

Top-line grew ~13%: The company's top-line grew by ~13% yoy to ₹13,070cr on the back of volume growth (up ~11% yoy) and realization improvement (up ~1.9% yoy). Farm equipment segment grew by ~13% yoy during the quarter, whereas automotive segment reported a growth of ~12% yoy. Going forward, we expect automotive and farm equipment segments to perform better on the back of positive rural sentiment and government's push for infra & construction projects.

Lower tax drives profitability: On the operating front, the company's margin contracted by 190bps yoy to 11% due to lower volume growth, commodity cost pressure and new launch expenses. However, M&M reported ~24% yoy rise in net profit to ₹1,144cr on the back of lower taxes.

Outlook and Valuation: We expect M&M to report net revenue CAGR of ~12% to ~₹60,634cr over FY2018-20E mainly due to healthy growth in automobile segment i.e. utility vehicles (on the back of new launches and facelift of some models) and strong growth in tractors segment driven by brand recall and improvement in rural sentiment. Further, on the bottom-line front, we expect CAGR of ~16% to ₹5,429cr over the same period on the back of margin improvement. **Thus, we recommend BUY on the stock with a Target Price of ₹850.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	44,054	48,686	54,041	60,634
% chg	7.8	10.5	11.0	12.2
Adj. Net profit	3,220	4,046	4,751	5,429
% chg	0.4	25.7	17.4	14.3
EBITDA margin (%)	10.2	12.8	12.6	12.7
EPS (₹)	27.1	34.0	39.9	45.6
P/E (x)	23.1	18.4	15.7	13.7
P/BV (x)	2.9	2.5	2.2	1.9
RoE (%)	12.5	13.4	14.0	14.2
RoCE (%)	10.5	14.3	13.5	13.6
EV/Sales (x)	1.3	1.1	1.0	0.9
EV/EBITDA (x)	12.8	8.7	8.3	7.2

Source: Company, Angel Research Note

BUY

CMP	₹626
Target Price	₹850
Investment Period	12 months

Stock Info	
Sector	Automobile
Market Cap (₹ cr)	77,905
Net Debt (₹ cr)	2,900
Beta	0.8
52 Week High / Low	992/619
Avg. Daily Volume	2,51,238
Face Value (₹)	5
BSE Sensex	35,725
Nifty	10,669
Reuters Code	MAHM.BO
Bloomberg Code	MM.IN

Shareholding Pattern (%)	
Promoters	20.4
MF / Banks / Indian	20.7
FII / NRIs / OCBs	37.1
Indian Public/Others	21.8

Abs.(%)	3m	1yr	3yr
Sensex	2.1	5.0	52.3
M&M	(17.7)	(15.0)	3.7

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2019 Performance

Y/E March (` cr)	3QFY19	3QFY18	% yoy	2QFY19	% qoq	9MFY19	9MFY18	% chg
Net Sales	13,070	11,578	12.9	12,989	0.6	39,579	35,378	11.9
Consumption of RM	9407	8031	17.1	9256	1.6	28220	24898	13.3
(% of Sales)	72.0	69.4		71.3		71.3	70.4	
Staff Costs	778	723	7.6	742	4.8	2270.9	2134.6	6.4
(% of Sales)	5.9	6.2		5.7		5.7	6.0	
Other Expenses	1,449	1,331	8.9	1,386	4.5	4094.5	3875.0	5.7
(% of Sales)	11.1	11.5		10.7		10.3	11.0	
Total Expenditure	11,633	10,084	15.4	11,384	2.2	34,585	30,908	11.9
Operating Profit	1,437	1,494	(3.8)	1,605	(10.5)	4,994	4,470	11.7
OPM	11.0	12.9		12.4		12.6	12.6	
Interest	25	25	1.1	28	(9.9)	85.3	79.2	7.7
Depreciation	474	369	28.2	461	2.6	1327.9	1080.1	22.9
Other Income	341	484		846		1527.2	1250.6	
PBT (excl. Ext Items)	1,280	1,584	(19.2)	1,962	(34.8)	5,108	4,561	12.0
Ext (Income)/Expense				134				
PBT (incl. Ext Items)	1,280	1,584	(19.2)	2,096	(39.0)	5,108	4,561	12.0
(% of Sales)	9.8	13.7		16.1		12.9	12.9	
Provision for Taxation	203	368		447		1,161	1264	(8.2)
(% of PBT)	15.9	23.2		21.3		23	28	
Reported PAT	1,077	1,216	(11.4)	1,649	(34.7)	3,947	3,297	19.7
PATM	8.2	10.5		12.7		10.0	9.3	
Minority Interest After NP								
Extra-ordinary Items	67	296		(105)		58.0	278.8	
Reported PAT	1,144	920	24.4	1,544	(25.9)	3,889.3	3,018.1	28.9

Source: Company, Angel Research

Outlook and Valuation: We expect M&M to report net revenue CAGR of ~12% to ~₹60,634cr over FY2018-20E mainly due to healthy growth in automobile segment i.e. utility vehicles (on the back of new launches and facelift of some models) and strong growth in tractors segment driven by brand recall and improvement in rural sentiment. Further, on the bottom-line front, we expect CAGR of ~16% to ₹5,429cr over the same period on the back of margin improvement. **Thus, we recommend BUY on the stock with a Target Price of ₹850.**

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 comprise s logistics, aftermarket, two wheelers and investment.

Standalone Profit & Loss Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	44,054	48,686	54,041	60,634
% chg	7.8	10.5	11.0	12.2
Total Expenditure	39,539	42,462	47,232	52,933
Raw Material	32,082	34,135	38,099	42,747
Personnel	2,714	2,841	3,459	3,881
Others Expenses	4,742	5,486	5,674	6,306
EBITDA	4,515	6,224	6,809	7,701
% chg	(2.3)	37.9	9.4	13.1
(% of Net Sales)	10.2	12.8	12.6	12.7
Depreciation & Amortisation	1,526	1,479	1,808	2,093
EBIT	2,988	4,745	5,001	5,608
% chg	(15.9)	58.8	5.4	12.1
(% of Net Sales)	6.8	9.7	9.3	9.2
Interest & other Charges	160	112	109	109
Other Income	1,894	1,470	1,800	1,800
(% of PBT)	40.1	24.1	26.9	24.7
Share in profit of Associates	-	-	-	-
Recurring PBT	4,723	6,102	6,692	7,299
% chg	10.2	29.2	9.7	9.1
Tax	1,079	1,746	1,941	1,870
(% of PBT)	22.9	28.6	29.0	25.6
PAT (reported)	3,643	4,356	4,751	5,429
Extraordinary Items	423	310	-	-
ADJ. PAT	3,220	4,046	4,751	5,429
% chg	0.4	25.7	17.4	14.3
(% of Net Sales)	7.3	8.3	8.8	9.0
Basic EPS (Rs)	27.1	34.0	39.9	45.6
Fully Diluted EPS (₹)	27.1	34.0	39.9	45.6
% chg	0.4	25.7	17.4	14.3

Standalone Balance Sheet

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	297	595	595	595
Reserves & Surplus	25,373	29,699	33,405	37,639
Shareholders Funds	25,670	30,294	34,000	38,234
Total Loans	2,816	2,958	2,958	2,958
Deferred Tax Liability	1,637	1,767	1,767	1,767
Total Liabilities	30,122	35,019	38,725	42,959
APPLICATION OF FUNDS				
Gross Block	14,938	16,878	16,938	17,938
Less: Acc. Depreciation	7,303	9,019	10,827	12,919
Net Block	7,635	7,859	6,111	5,018
Capital Work-in-Progress	2,038	3,129	3,129	3,129
Investments	17,902	20,583	17,902	17,902
Current Assets	11,764	15,846	20,456	26,813
Inventories	2,716	2,702	3,553	4,319
Sundry Debtors	2,918	3,173	4,146	4,984
Cash	1,687	2,894	3,030	4,170
Loans & Advances	1,528	3,769	5,404	7,276
Other Assets	2,914	3,309	4,323	6,063
Current liabilities	10,158	13,887	10,363	11,392
Net Current Assets	1,605	1,958	10,093	15,420
Deferred Tax Asset	942	1,489	1,489	1,489
Mis. Exp. not written off	-	-	-	-
Total Assets	30,122	35,019	38,725	42,959

Standalone Cashflow Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	4639	5669	6692	7299
Depreciation	1327	1479	1808	2093
Change in Working Capital	(31)	1780	(7999)	(4186)
Interest / Dividend (Net)	(834)	112	0	0
Direct taxes paid	0	(1289)	(1941)	(1870)
Others	(138)	(725)	0	0
Cash Flow from Operations	4964	7027	(1440)	3335
(Inc.)/ Dec. in Fixed Assets	(2060)	(2669)	(1000)	(1000)
(Inc.)/ Dec. in Investments	(1160)	(2441)	0	0
Cash Flow from Investing	(3221)	(5110)	(1000)	(1000)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	0	0	0	0
Dividend Paid (Incl. Tax)	(839)	(923)	(1045)	(1194)
Interest / Dividend (Net)	(59)	3834	0	0
Cash Flow from Financing	(898)	2911	(1045)	(1194)
Inc./(Dec.) in Cash	845	4828	(3485)	1140
Opening Cash balances	842	1687	6515	3030
Closing Cash balances	1687	6515	3030	4170

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	23.1	18.4	15.7	13.7
P/CEPS	14.4	12.8	11.4	9.9
P/BV	2.9	2.5	2.2	1.9
Dividend yield (%)	1.0	1.2	1.4	1.6
EV/Sales	1.3	1.1	1.0	0.9
EV/EBITDA	12.8	8.7	8.3	7.2
EV / Total Assets	1.9	1.5	1.5	1.3
Per Share Data (₹)				
EPS (Basic)	27.1	34.0	39.9	45.6
EPS (fully diluted)	27.1	34.0	39.9	45.6
Cash EPS	43.4	49.0	55.1	63.2
DPS	6.0	7.5	8.8	10.0
Book Value	215.7	254.6	285.7	321.3
Returns (%)				
ROCE	10.5	14.3	13.5	13.6
Angel ROIC (Pre-tax)	33.6	48.5	31.2	29.3
ROE	12.5	13.4	14.0	14.2
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.9	2.9	3.2	3.4
Inventory / Sales (days)	22	20	24	26
Receivables (days)	24	24	28	30
Payables (days)	53	58	45	44
Working capital cycle (ex-cash) (days)	(7)	(14)	7	12

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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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