

Mahindra & Mahindra Ltd.

Performance Update

Y/E March (₹ cr)	4QFY18	4QFY17	% yoy	3QFY18	% qoq
Net sales	13,308	12,048	10.5	11,578	14.9
EBITDA	1,754	870	101.6	1,494	17.4
EBITDA margin (%)	13.2	7.2	596	12.9	28
Adjusted PAT	1,059	622	70.2	1,216	(12.9)

Source: Company, Angel Research

For 4QFY2018, M&M posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~10% yoy. On the bottom-line front, M&M reported growth of ~70% yoy to ₹1,059cr 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 ~10% yoy to ₹13,308cr on the back of strong growth in farm equipment segment and others segment. Farm Equipment segment grew by ~33% yoy during the quarter, whereas others segment reported a growth of ~31% 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, Automobile segment ~grew by mere 3%.

Profitability driven by strong revenue growth and lower interest: On the operating front, the company's margin strengthened by 596bps to 13.2%. Moreover, M&M reported ~70% yoy rise in its net profit to ₹1,059cr on the back of strong top-line growth as well as lower interest and depreciation costs.

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 ~9% to ₹5,219cr 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	4,457	5,219
% chg	0.4	25.7	10.2	17.1
EBITDA margin (%)	10.2	12.8	12.2	12.3
EPS (₹)	27.1	34.0	37.5	43.9
P/E (x)	32.1	25.5	23.2	19.8
P/BV (x)	4.0	3.6	3.2	2.8
RoE (%)	12.5	14.0	13.8	14.3
RoCE (%)	10.5	15.0	14.4	15.1
EV/Sales (x)	2.0	1.8	1.5	1.3
EV/EBITDA (x)	19.2	13.7	12.6	10.7

Source: Company, Angel Research Note

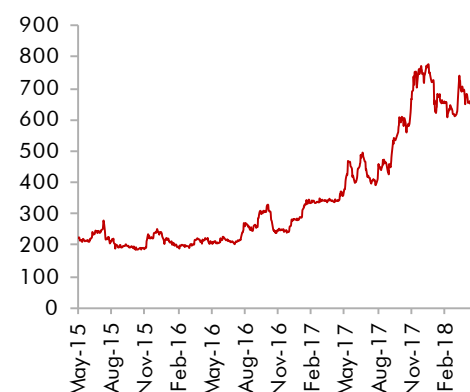
BUY

CMP	₹868
Target Price	₹1,050
Investment Period	12 months

Stock Info	
Sector	Automobile
Market Cap (₹ cr)	1,11,340
Net Debt (₹ cr)	2,900
Beta	0.8
52 Week High / Low	901/612
Avg. Daily Volume	93,271
Face Value (₹)	5
BSE Sensex	34,906
Nifty	10,430
Reuters Code	MAHM.BO
Bloomberg Code	MM.IN

Shareholding Pattern (%)			
Promoters	21.7		
MF / Banks / Indian	9.7		
FII / NRIs / OCBs	33.2		
Indian Public/Others	35.4		
Abs.(%)			
	3m	1yr	3yr
Sensex	7.3	27.7	30.0
M&M	19.5	22.8	38.3

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2018 Performance

Y/E March (₹ cr)	4QFY18	4QFY17	% yoy	3QFY18	% qoq	FY2018	FY2017	% chg
Net Sales	13,308	12,048	10.5	11,578	14.9	49445.0	47383.7	4.4
Consumption of RM	9236.4	9161.83	0.8	8030.6	15.0	34894.1	35411.4	(1.5)
(% of Sales)	69.4	76.0		69.4		70.6	74.7	
Staff Costs	706	617	14.4	723	(2.3)	2840.9	2714.4	4.7
(% of Sales)	5.3	5.1		6.2		5.7	5.7	
Other Expenses	1,611	1,399	15.2	1,331	21.1	5486.0	4743.3	15.7
(% of Sales)	12.1	11.6		11.5		11.1	10.0	
Total Expenditure	11,554	11,178	3.4	10,084	14.6	43,221	42,869	0.8
Operating Profit	1,754	870	101.6	1,494	17.4	6,224	4,515	37.9
OPM	13.2	7.2		12.9		12.6	9.5	
Interest	33	48	(31.3)	25	34.0	112.2	159.6	(29.7)
Depreciation	399	427	(6.4)	369	8.1	1479.4	1526.4	(3.1)
Other Income	171	311		98		1036.4	1345.5	
PBT (excl. Ext Items)	1,493	706	111.5	1,198	24.7	5,669	4,174	35.8
Ext (Income)/Expense	47.9	93.7		385.8		434	548	
PBT (incl. Ext Items)	1,541	800	92.7	1,584	(2.7)	6,102	4,723	29.2
(% of Sales)	11.6	6.6		13.7		12.3	10.0	
Provision for Taxation	482	177		368		1746.4	1079.2	61.8
(% of PBT)	31.3	22.2		23.2		29	23	
Reported PAT	1,059	622	70.2	1,216	(12.9)	4,356	3,643	19.6
PATM	8.0	5.2		10.5		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 ~9% to `5,219cr 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 comprises 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	48,236	54,580
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	5,988	6,721
EBITDA	4,515	6,224	6,703	7,655
% chg	(2.3)	37.9	7.7	14.2
(% of Net Sales)	10.2	12.8	12.2	12.3
Depreciation & Amortisation	1,526	1,479	1,644	1,744
EBIT	2,988	4,745	5,059	5,911
% chg	(15.9)	58.8	6.6	16.8
(% of Net Sales)	6.8	9.7	9.2	9.5
Interest & other Charges	160	112	116	122
Other Income	1,894	1,470	1,300	1,300
(% of PBT)	40.1	24.1	20.8	18.3
Share in profit of Associates	-	-	-	-
Recurring PBT	4,723	6,102	6,243	7,089
% chg	10.2	29.2	2.3	13.6
Tax	1,079	1,746	1,785	1,870
(% of PBT)	22.9	28.6	28.6	29.0
PAT (reported)	3,643	4,356	4,457	5,219
Extraordinary Items	423	310	-	-
ADJ. PAT	3,220	4,046	4,457	5,219
% chg	0.4	25.7	10.2	17.1
(% of Net Sales)	7.3	8.3	8.1	8.4
Basic EPS (Rs)	27.1	34.0	37.5	43.9
Fully Diluted EPS (₹)	27.1	34.0	37.5	43.9
% chg	0.4	25.7	10.2	17.1

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	32,006	36,077
Shareholders Funds	25,670	28,826	32,303	36,374
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	36,840	40,911
APPLICATION OF FUNDS				
Gross Block	14,938	15,938	16,938	17,938
Less: Acc. Depreciation	7,303	8,782	10,426	12,170
Net Block	7,635	7,155	6,511	5,768
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	20,064	26,045
Inventories	2,716	3,201	3,913	4,604
Sundry Debtors	2,918	3,468	4,365	5,115
Cash	1,687	2,891	4,094	6,679
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	10,308	11,474
Net Current Assets	1,605	5,635	9,755	14,570
Deferred Tax Asset	942	942	942	942
Mis. Exp. not written off	-	-	-	-
Total Assets	30,122	33,363	36,840	40,911

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	4639	6102	6243	7089
Depreciation	1327	1479	1644	1744
Change in Working Capital	(31)	(2825)	(2918)	(2229)
Interest / Dividend (Net)	(834)	0	0	0
Direct taxes paid	0	(1746)	(1785)	(1870)
Others	(138)	0	0	0
Cash Flow from Operations	4964	3010	3183	4734
(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)	(981)	(1148)
Interest / Dividend (Net)	(59)	0	0	0
Cash Flow from Financing	(898)	(806)	(981)	(1148)
Inc./(Dec.) in Cash	845	1204	1203	2586
Opening Cash balances	842	1687	2891	4094
Closing Cash balances	1687	2891	4094	6679

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	32.1	25.5	23.2	19.8
P/CEPS	20.0	17.7	16.9	14.8
P/BV	4.0	3.6	3.2	2.8
Dividend yield (%)	0.7	0.9	0.9	1.1
EV/Sales	2.0	1.8	1.5	1.3
EV/EBITDA	19.2	13.7	12.6	10.7
EV / Total Assets	2.9	2.5	2.3	2.0
Per Share Data (₹)				
EPS (Basic)	27.1	34.0	37.5	43.9
EPS (fully diluted)	27.1	34.0	37.5	43.9
Cash EPS	43.4	49.0	51.3	58.5
DPS	6.0	7.5	8.2	9.6
Book Value	215.7	242.2	271.5	305.7
Returns (%)				
ROCE	10.5	15.0	14.4	15.1
Angel ROIC (Pre-tax)	33.6	43.4	38.3	40.2
ROE	12.5	14.0	13.8	14.3
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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Disclosure of Interest Statement	Mahindra & Mahindra
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	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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