Mahindra & Mahindra Ltd.

Nifty	9,588
Sensex	31,056

KEY STOCK DATA	
CMP	1389
Market Cap (₹ bn)	820
52W High/Low	1509/1142
Bloomberg	MM IN

SHAREHOLDING PATTERN	**MAR 2017**
Promoters	26.69%
FII & Others	57.50%
Public & Others	15.81%

(₹ mn)

YEAR	FY17	FY18E	FY19E
Revenue	418,954	470,734	533,564
EBITDA	56,556	64,487	74,989
OPM(%)	13.5%	13.7%	14.1%
PAT	36,877	39,830	46,366
EPS (₹)	62.1	67.1	78.1
P/E(x)*	14.2	13.6	11.6

*Based on core earnings

Source: Company, Way2wealth Inst. Equity

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Key Result Highlights – Q4FY17

M&M reported its Q4FY17 results. Following are the key highlights.

Q4FY17Result Highlights

- Overall volumes grew by 2.3% YoY (Auto de-grew by 1.8% YoY & Tractors grew by15.5% YoY).
- Overall realizations grew by 2.2% YoY (Automotive and Tractor division realization grew by 3.6% and 2.1% YoYrespectively)
- Net Sales (without BS-III impact) grew by 5.1% YoY to ₹106.9bn.
- EBITDA margins (without BS-III impact)expanded by 50bps YoY to 13.2%.
- PAT (before exceptional items) grew by 13.8% YoY to ₹7.8bn.

Tractor Division – Demand Revival Continues

The domestic tractor volume sold by M&M increased by 23% compared to 18% industry growth resulting in market share improvement to 42.7% during the year, highest ever market share gain of 1.8% points. Yuvo range of tractors, launched by M&M during H2FY17 has been well received by its customers. The company is also working on a higher than 50HP tractor in Swaraj division. The expectation of above normal monsoon and pent up demand resulted in robust growth in FY17. On the new launches side, M&M is planning to launch one new variant in tractor in the next 12 months.On accountof better monsoonspread and government's increasing thrust on rural spend, we expect revival in the tractor demand in farm and non-farm usage segment and estimate 10%+ volume CAGR for M&M between FY17-19E.

Auto Division

During FY17, M&M auto division reported 0.1% YoY volume growth while LCV and MHCV segment reported 18.7% and 17.7% respectively. Softness in the auto division is mainly on account of rural sales getting impacted by demonetization. Going forward the Company plans a) to enhance its UV portfolio b)offer complete range in commercial vehicles and c) Offer BS-VI emission Norms compliant vehicles.

Concall Highlights

- The company plans to launch refreshes of XUV500, KUV100 and Scorpio in FY18. This is in addition to a new UV that will be launched by FY18 end.
- M &M has launched a new 24HP tractor for the horticulture and vineyards application segment. Initially it has been launched in Maharashtra.
- Going forward,Management expects, Utility vehicles market to grow in line with the rest of the PV industry in the country as Utility Vehicles penetration levels have reached to 25% level in line with developed world.
- The Company expects to spend ₹120bn under its capex plan over the next 3 years (₹45bn - investments and ₹75bn- growth and maintenance capex).
- M&M is preparing to be fully ready for electric vehicle launch in the country. Its current production capacity is ~100 units per month, which the company plans to increase to 1000 units in Phase I and to 5000 units per month in Phase II over the next 3 years. M&M is also targeting ~20% cost reduction in this segment over 2-3 years.
- As per the management, GST is likely to benefit larger SUVs.
- The Company made provisions for ₹1.7bn in Q4 for the older BSIII inventory (conservative estimate accounting for future and past discount on sales, conversion cost and other related costs like logistics.)

Valuations and Recommendations

Based on its core earnings, the stock at ₹1389 is trading at a PE multiple of 11.6xFY19E and an EV/EBIDTA of 6xFY19E, excluding its subsidiary value of ₹549per share. We have assigned FY19E PER of 16x 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 ₹1711per share.**

QUARTER RESULTS(M&M + MVML)

(₹mn)

	Q4FY17	Q4FY16	YOY%	Q3FY17	QOQ%
Sales	**106,121**	**101,746**	4.3%	**105,868**	0.2%
Material Consumed	72,629	69,830	4.0%	72,589	0.1%
Staff Cost	6,755	5,687	18.8%	7,586	-10.9%
Other expenditure	14,370	13,289	8.1%	11,199	28.3%
Total Expenditure	93,754	88,806	5.6%	91,374	2.6%
EBITDA	**12,367**	**12,940**	-4.4%	**14,495**	-14.7%
Depreciation	3,782	3,581	5.6%	3,753	0.8%
EBIT	8,585	9,359	-8.3%	10,741	-20.1%
Interest	673	717	-6.1%	591	13.8%
Other Income	2,940	957	207.2%	921	219.2%
PBT	10,852	9,599	13.1%	11,071	-2.0%
Tax	3,052	2,744	11.2%	3,226	-5.4%
PAT	**7,800**	**6,855**	13.8%	**7,846**	-0.6%
Exceptional items	937	60	1463.9%	165	467.4%
Reported Profit	8,737	6,915	26.3%	8,011	9.1%
EPS (₹)	13.2	11.6	13.5%	13.2	-0.6%
MARGINS	**Q4FY17**	**Q4FY16**	**YOY (BPS)**	**Q3FY17**	**QOQ (BPS)**
Gross margins	31.6%	31.4%	19	31.4%	13
EBITDA	11.7%	12.7%	(106)	13.7%	(204)
PAT	7.3%	6.7%	61	7.4%	(6)
Tax Rate	28.1%	28.6%	-46	29.1%	(101)
SEGMENTAL	**Q4FY17**	**Q4FY16**	**YOY%**	**Q3FY17**	**QOQ%**
Automotive sales (₹Mn)	76,128	74,767	1.8%	63,589	19.7%
Farm Equipment sales (₹Mn)	27,669	23,454	18.0%	42,807	-35.4%
Others	3,708	4,540	-18.3%	89	4047.1%
Total	**107,504**	**102,761**	4.6%	**106,485**	1.0%
Less : Intersegmental	1,383	1,015	36.3%	617	124.1%
Total sales (₹Mn)	**106,121**	**101,746**	4.3%	**105,868**	0.2%
Total Tractors Volume	**50,145**	**43,415**	**15.5%**	**76,486**	**-34.4%**
Total Automotive Volume	**138,047**	**140,509**	**-1.8%**	**120,869**	**14.2%**
Total Volume (Auto + Farm)	188,192	183,924	2.3%	197,355	-4.6%
Avg. Realisation (Automotive segment)	551,462	532,117	3.6%	526,101	4.8%
Avg. Realisation (Farm Equipment segment)	551,780	540,217	2.1%	559,665	-1.4%
Total Realisation	571,247	558,712	2.2%	539,562	5.9%

FINANCIALS

(₹mn)

Income Statement	FY15	FY16	FY17	FY18E	FY19E
Net sales	369,677	388,879	418,954	470,734	533,564
YoY (%)	(4.8)	5.2	7.7	12.4	13.3
Raw material cost	257,269	265,013	285,265	320,051	362,235
Employee Cost	24,936	25,720	28,729	32,280	36,589
Admin Expenses	41,440	45,683	48,404	53,915	59,751
Total expenses	323,645	336,416	362,398	406,247	458,575
EBIDTA	**46,033**	**52,463**	**56,556**	**64,487**	**74,989**
(%)	12.5%	13.5%	13.5%	13.7%	14.1%
Depreciation	10,980	12,047	14,721	16,672	18,950
EBIT	35,053	40,416	41,836	47,815	56,039
Interest	3,039	2,653	2,285	2,521	2,220
Other income	8,201	7,845	12,035	10,421	11,039
PBT	40,215	45,608	51,585	55,716	64,858
(-) Tax	9,339	12,230	14,708	15,885	18,492
Tax/ PBT	23.2	26.8	28.5	28.5	28.5
PAT	**30,876**	**33,378**	**36,877**	**39,830**	**46,366**
YoY (%)	(19.9)	8.1	10.5	8.0	16.4
PAT(%)	8.4%	8.6%	8.8%	8.5%	8.7%
Extraordinary	3357	60	2012	0	0
Reported Profit	34,233	33,438	38,889	39,830	46,366

Balance Sheet	FY15	FY16	FY17	FY18E	FY19E
Equity capital	2,957	2,963	2,968	2,968	2,968
Reserves	195,812	228,145	261,132	291,689	327,259
Net worth	198,769	231,108	264,101	294,657	330,227
Total Loans	33,885	31,615	44,453	39,453	34,453
Def Tax Liability	11,509	6,243	8,581	8,581	8,581
Total Liabilities	**244,163**	**268,966**	**317,134**	**342,690**	**373,260**
Gross Block	135,309	155,201	174,718	199,718	224,718
Less: Acc. depreciation	34,502	46,549	61,269	77,941	96,891
Net block	100,807	106,114	109,239	117,567	123,617
Investments	121,787	141,666	175,489	185,489	200,489
Inventories	28,152	33,262	31,861	35,747	40,458
Debtors	24,241	23,493	28,554	29,240	33,142
Cash	21,053	23,610	17,328	40,231	34,445
Loans and advances	54,428	50,011	55,554	62,420	70,751
Current assets	127,874	130,376	133,297	167,637	178,797
Current liabilities	84,936	100,690	93,230	118,875	118,734
Provisions	21,369	11,038	11,871	13,339	15,119
Net current assets	21,569	18,648	28,196	35,424	44,944
Total Assets	**244,163**	**268,966**	**317,134**	**342,690**	**373,260**

Key Ratios	FY15	FY16	FY17	FY18E	FY19E
EPS (Standalone)	52	56	62.1	67.1	78.1
Book value	336	390	445	496	556
P/E (Standalone)	26.6	24.7	22.4	20.7	17.8
EV/EBDITA (x)	15.5	13.1	12.0	9.9	8.3
P/B (x)	4.1	3.6	3.1	2.8	2.5
EPS (Core EPS)	45.7	52.4	59.3	61.7	72.6
Subsidiary Valuation	549	549	549	549	549
P/E (Core)	18.4	16.0	14.2	13.6	11.6
EV/EBITDA (Core)	10.7	8.9	8.4	7.0	6.0
ROCE	14%	14.0%	13.4%	12.8%	13.6%
ROE	17%	15.5%	14.9%	14.3%	14.8%
Dividend/Share	13	12	13	13	16
Dividend Yield	0.9%	0.9%	0.9%	1.0%	1.1%
Gross Asset Turnover	2.9	2.7	2.6	2.6	2.6
Avg Net WC Days	3	-2	3	2	2
Net W/C (% of sales)	0.1%	-1.3%	2.6%	-1.0%	2.0%

Cash Flow	FY15	FY16	FY17	FY18E	FY19E
Net profit	34,233	33,438	38,889	39,830	46,366
Depreciation	1,046	0	0	0	0
Deferred tax	10,980	12,047	14,721	16,672	18,950
Change in W/C	5,541	5,478	(15,830)	15,674	(15,306)
Operating cash flow	51,800	50,962	37,779	72,177	50,010
Capex	(15,000)	(19,893)	(19,517)	(25,000)	(25,000)
Investments	(23,424)	(25,144)	(31,486)	(10,000)	(15,000)
Investing cash flow	(38,424)	(45,037)	(51,003)	(35,000)	(40,000)
Free Cash Flow	**36,800**	**31,070**	**18,262**	**47,177**	**25,010**
Dividend	(8,715)	(8,354)	(9,055)	(9,274)	(10,796)
Equity	27	7,255	3,159	(0)	0
Debt	(15,049)	(2,270)	12,838	(5,000)	(5,000)
Financing cash flow	(23,737)	(3,369)	6,941	(14,274)	(15,796)
Net change in cash	(10,361)	2,556	(6,282)	22,903	(5786)
Opening cash	31,414	21,053	23,610	17,328	40,231
Closing cash	21,053	23,610	17,328	40,231	34,445

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Disclosure of Interest Statement in Mahindra & Mahindra Ltd. as on June 19, 2017

Name of the Security	**Mahindra & Mahindra Ltd.**
Name of the analyst	**Mahesh Bendre, Chintan Gupta**
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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