

On Growth Track !

5th August, 2017

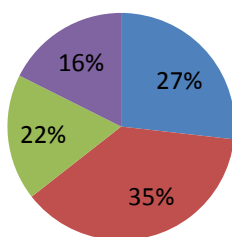
CMP: Rs1418
 Target Price: Rs 1,586
Recommendation: Accumulate

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	32,325
NSE Nifty	10,066

Market Info	
Market Capital	Rs 88,091 cr
Equity Capital	Rs 296cr
6M Avg Trading Volume	1,284,086
52 Wk High / low	Rs 1,508 / 1,141
Face Value	Rs 5

Shareholding Pattern , Mar 17

■ Promotor ■ FII ■ DII ■ Others



Q1FY18 Revenue:

Standalone: Net Revenues stood at Rs. 11,780 crore an increase of 4.8 % YoY. 1,12,293 vehicles were sold in domestic market, YoY growth of 1.2%. 81,270 tractors were sold in the domestic market, YoY growth of 13%. Total exports were 8031 units(Both Vehicles and tractors).

Q1FY18 Profitability:

Standalone: Profit before tax before Exceptional items stood at Rs.1097 crore, YoY decrease of 12.8%. Profit after tax after exceptional items stood at Rs. 766 crore, YoY decrease of 19.8%.

EBITDA & EBITDA Margins:

M&M's Operating EBITDA decreased by 1.5% YoY (35% Increase QoQ). EBITDA margins stood at 10.9% , decrease by 6% YoY (Increase of 29.7% QoQ).

Volume & Market Share.

M&M's total volumes increased 2.6% YoY and 7% QoQ to 201,185 units in Q1FY18.

Automotive Segment: Its automotive volume declined 3.9% YoY and 15.3% QoQ to 116,652 units. Its domestic volume was up 1% YoY and exports volume declined 55.8% YoY in Q1FY18. Its UV volume declined 5.1% YoY, MPV volume decreased 7.4% YoY, while LCV segment was up 18.7% YoY. M&M's three-wheelers declined 16.2% YoY. M&M's market share in UV segment declined 370 bps YoY to 27.9%, but it was up 397 bps YoY to 43.1% in LCVs.

FES Segment: M&M's tractor volume grew 13.3% YoY to 84,533 units in Q1FY18, with domestic volume growth of 13.3% YoY to 81,178 units, while export was up 13.9% YoY to 3,355 units. Its market share in tractors stood at ~45.8% in Q1FY18.

Conference call highlights:

- Tractor industry momentum to continue, with growth of 10-12% in FY18.
- Price reduction of upto 7% across segments due to GST implementation.
- Focus to continue on model launches (new/variants) in UV space.
- We expect launch of Detroit technical centre which developed U321 MPV in FY18 and Ssangyong platform based S201 in FY19.
- Losses in two-wheeler division expected to reduce to less than Rs100 Cr in FY18.
- Effective tax rate to increase to ~32%, primarily due to reduction in R&D benefits.

Outlook:

We expect strong bounce back in Q2FY18 onwards on account of expected demand revival from rural India, Government's strong focus on rural economy and favorable monsoon helping agri industry and rural UV sales. Though present product pipe line is lean, company plans strong product pipeline over FY18 & FY19. Economic revival with new launches would help company clock double digit growth in FY18 & FY19.



Valuation: We value M&M based on SoTP valuations and we have a “Accumulate” rating on the stock: We value the core business at Rs 1195 per share, based on 16 (x) FY19E PE(x) based on EPS of Rs 74.7. We have valued total investments (listed and unlisted) at Rs 391 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,586 per share.

Financial Snpashot:

Y/E March, (in Rs crore)	FY17	FY18E	FY19E
Net Sales	43,785	48,408	54,898
yoy%	8.4%	10.6%	13.4%
Operating EBIDTA	4,769	6,336	7,103
Operating EBITDA margin %	10.6%	12.9%	12.7%
PAT	3,956	4,157	4,436
yoy%	24.9%	5.1%	6.7%
EPS	66.6	70.0	74.7

Profit and loss for the year ended					
Standalone P&L (in Rs Crore)	Q1FY18	Q4FY17	Q1FY17	YoY%	QoQ%
Total Income from Operations	11576	11125	11041	4.8%	4.0%
Total RM Cost	8420	8217	8029	4.9%	2.5%
Contribution	3155	2908	3012	4.8%	8.5%
Gross margin%	27.3	26.1	27.3	-0.1%	4.3%
Total Expenditure	10309	10187	9755	5.7%	1.2%
Op EBITDA	1267	938	1286	-1.5%	35.0%
Op EBITDA margin %	10.9	8.4	11.6	-6.0%	29.7%
Interest Expense	31	45	24	27.2%	-30.9%
PBT before Excp Items	1097	860	1166	-6.0%	27.6%
Excp Items (Net)		94	91		
PBT	1097	953	1257	-12.8%	15.0%
Provision for Taxation	331	228	302	9.4%	44.9%
Net Profit	766	725	955	-19.8%	5.6%
Effective Tax rate	30.1	23.9	24.0	25.4%	26.0%
Basic EPS	12.90	12.22	16	-20.0%	5.6%

Source: Company data Ace Equity, Arianth Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Net Sales	43,785	48,408	54,898
YoY%	8	11	13
Other Operating Income	1,342	871	988
Income from Operations	45,128	49,279	55,887
Materials Consumed	20,913	22,026	25,418
Total Expenditure	40,359	42,944	48,783
Operating EBITDA	4,769	6,336	7,103
Operating EBITDA margin %	10.6	12.9	12.7
Depreciation	1,327	1,452	1,647
Operating EBIT	3,442	4,883	5,456
Other Income	1,342	739	559
Interest	146	122	142
PBT before Excp Items	4639	5501	5873
Exceptional item	548	50	50
PBT	5187	5551	5923
Tax Expense	1232	1394	1487
Reported Net Profit	3956	4157	4436
YoY%	25	5	7
Effective Tax Rate	24	25	25
Reported EPS	67	70	75

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Operating Activities			
PBT before Excp Items	4,639	5,501	5,873
Add Depr	1,327	1,452	1,647
Others	(971)	(935)	(1,321)
Total	4,995	6,018	6,199
Cash Taxes	(992)	(1,394)	(1,487)
Changes in Working Cap	(31)	755	69
Cash Flow from Operations	3,971	5,379	4,781
Investing Activities			
Change in investments	(997)	466	486
Capex	(2,202)	(4,071)	(4,609)
Cash Flow from Investing	(3,199)	(3,605)	(4,123)
Financing Activities			
Dividends + Taxes paid	(839)	(805)	(805)
Change in Non Curr Liab	(1,895)	(2,626)	(1,743)
Cash Flow from Financing	(1,056)	(1,821)	(938)
Opening Cash	843	538	491
Changes during year	(284)	(47)	(281)
Closing Cash	538	491	210

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Liabilities + Equity			
(a) Share capital	297	297	297
(b) Reserves and surplus	25,669	29,212	33,116
Shareholders' funds	25,966	29,509	33,413
Non-current liab & Prov	5,619	6,240	7,911
Current liabilities	9,459	10,893	11,247
Total - Equity and liabilities	41,043	46,642	52,571
Assets			
Non-current assets			
Fixed assets	11,380	14,416	17,489
Long Term Inv	14,925	16,418	18,060
Loans + Adv + Others	34	37	41
Other non-current assets	2,250	2,813	3,516
Current assets			
Cash & bank balance	1,687	1,545	1,264
Other Current Assets	10,769	11,415	12,200
Sub-total - Current assets	12,454	12,958	13,464
Total - Assets	41,043	46,642	52,571

Ratio Analysis

	FY17	FY18E	FY19E
Profitability			
Operating EBITDA%	10.6	13	13
Operating EBIT%	7.6	9.9	9.8
PAT%	8.8	8.4	7.9
Du Pont ROE breakup			
PAT / Sales	9.0	8.6	8.1
Sales / Avg Total Assets	1.1	1.0	1.0
Avg Total Assets / Avg Eqty	1.6	1.6	1.6
ROE	15.2	14.1	13.3
Other Ratios			
Current Ratio	1.3	1.2	1.2
Long Term Debt / Equity	0.1	0.1	0.1
EPS	67	70	75
DPS	13	13	13
Dividend %	260	260	260
Dividend Payout ratio	23	17	15
P/E	21.3	20.3	19.0
BVPS	437.4	497.0	562.7
P/BV	2.8	2.6	2.5

(* Closing cash excludes other bank balance)



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Stock Rating

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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