Mahindra & Mahindra

Operating performance in-line; 'BUY'

Q3FY18 Result Update

February 12, 2018

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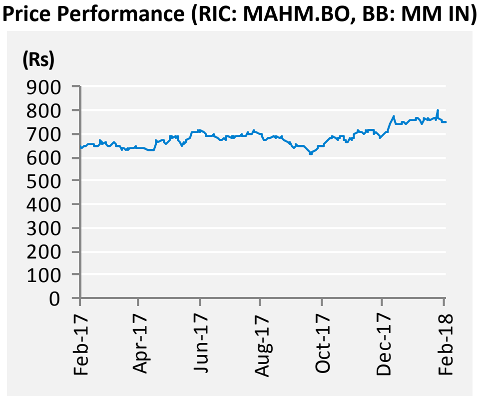
Rating	BUY
Price	Rs750
Target Price	Rs890
Implied Upside	18.7%
Sensex	34,006
Nifty	10,455

(Prices as on February 09, 2018)

Trading data			
Market Cap. (Rs bn)			444.5
Shares o/s (m)			592.6
3M Avg. Daily value (Rs m)			2501
Major shareholders			
Promoters			26.69%
Foreign			33.71%
Domestic Inst.			20.38%
Public & Other			19.22%
Stock Performance			
(%)	1M	6M	12M
Absolute	(1.4)	7.8	16.1
Relative	(0.1)	0.9	(3.9)
How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2019	42.8	39.3	8.8
2020	48.7	43.9	10.9

Price Performance (RIC: MAHM.BO, BB: MM IN)



Source: Bloomberg

M&M's Q3FY18 adjusted profit at Rs9.3bn, up ~15% YoY, was slightly ahead of our estimates. While revenue as well as operating performance was broadly on expected lines with revenue at ~Rs116bn, up 4.6% YoY v/s our estimate of Rs118bn and operating margin at 12.9% v/s PLe of 12.8%, the marginal PAT beat was mainly on account of lower than expected finance cost and effective tax rate. Absolute EBITDA stood at Rs14.9bn, up 18% YoY, with EBITDA margins at 12.8% up 150bps YoY (lower 130bps QoQ), on back of a favourable product mix (higher share of tractors), reduced losses in the MTBD (Truck and Bus division) and operating leverage. Resultantly, EBIT margins for the FES and Auto division came in at 20.5% (up 290bps YoY) and 6.2% (up 170bps YoY) respectively.

M&M's volumes continue to be driven by strong demand in tractors and a cyclical recovery in the LCV segment. On the back of a second consecutive year of good monsoon, healthy farm produce and MSPs looking up, M&M's tractor division is expected to continue delivering good performance. Shortage of skilled labour has led to the need of increased mechanization, which is, in turn, leading to a structural shift towards higher HP tractors, accelerating growth and improving profitability. The UV business continues to be a drag with M&M losing ~14% market share over the last three years. However, given the extremely low base, upcoming model launches (MPV/Mahindra branded Tivoli) and refreshes (KUV1oo/TUV3oo) should boost volume growth for M&M over FY19E. Increased government focus on rural economy could further accelerate growth for both, Farm and Auto segment.

We maintain 'BUY' with a price target of Rs890, based on a core PE of 16x Mar'20E and value of subsidiaries at Rs250.

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Key financials (Y/e March)	2017	2018E	2019E	2020E
Revenues (Rs m)	451,384	510,667	577,004	642,568
Growth (%)	*7.2*	*13.1*	*13.0*	*11.4*
EBITDA (Rs m)	61,584	64,320	74,938	84,716
PAT (Rs m)	47,602	44,952	50,764	57,832
EPS (Rs)	80.2	37.9	42.8	48.7
Growth (%)	*8.8*	*(52.8)*	*12.9*	*13.9*
Net DPS (Rs)	15.7	18.8	20.9	22.0

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	*13.6*	*12.6*	*13.0*	*13.2*
RoE (%)	*19.8*	*16.8*	*17.5*	*18.3*
RoCE (%)	*18.1*	*15.5*	*16.2*	*17.1*
EV / sales (x)	1.0	1.8	1.6	1.4
EV / EBITDA (x)	7.4	14.0	12.0	10.5
PE (x)	9.4	19.8	17.5	15.4
P / BV (x)	1.7	3.2	3.0	2.7
Net dividend yield (%)	*2.1*	*2.5*	*2.8*	*2.9*

Source: Company Data; PL Research

Standalone performance

- M&M's standalone revenues grew by 4.6% YoY to Rs115.8bn (PLe: Rs118.5bn) on the back of volume growth of 6.5% YoY and realization dip of ~2% YoY. Both tractor and automotive volumes for Q3FY18 saw decent growth of 6.3% and 6.7% respectively. The product mix was favourable with tractors constituting 38.7% of the volumes (stable YoY, higher 170bps QoQ).
- Q3FY18 gross margins improved 300bps YoY (lower 40bps QoQ) mainly due to the GST accounting impact. Staff costs too were improved 10bps YoY (higher 40bps QoQ), while other expenditure as a % of sales was higher 170bps YoY (up 50bps QoQ). Resultantly, EBITDA margin was up 150bps YoY (lower 130bps QoQ) at 12.9% (PLe: 12.8%), with absolute EBITDA increasing ~18% YoY to Rs14.9bn (in-line with PLe). Adjusted profit for the quarter stood at Rs9.3bn, up ~15% YoY.
- In the segmental mix, FES EBIT margin was at 20.5% (up 290bps YoY/ down 80bps QoQ), while the Automotive EBIT margin stood at 6.2% (up 170bps YoY / down 240bps QoQ).

Key takeaways from conference call:

- Management expects the tractor industry to attain its highest growth in FY18. It expects a long term CAGR of ~8% for the tractor industry.
- As for the automotive segment, the management expects PVs to grow 10-12%, CVs to be higher by ~10% and 2Ws to grow over 10% in FY19E.
- New launches for both the Auto (U321 and Rexton) and FES segment are on track.
- Cost increase over 9MFY18 owing to commodity price rise for the FES segment has been ~3.5% while for the automotive segment, it has been marginally less than 2%. This cost increase has been passed on with price hike in both the segments (however, with a lag in the automotive segment).
- M&M has sold over 1,000 units of Electric 3Ws over Q3FY18. Over the next few months, M&M as well as other players are expected to launch Li-ion 3Ws.
- M&M is also looking at entering the electric bus segment soon.
- Capex guidance for the next 3 years remains at Rs7.5bn.

Exhibit 1: Q3FY18 Result Overview (Rs mn)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Revenues	**115,778**	**110,103**	***5.2***	**121,821**	**353,742**	**325,602**	***8.6***
Raw Materials	80,306	79,586	*0.9*	84,087	248,948	235,856	*5.6*
% of Net Sales	*69.4*	*72.3*		*69.0*	*70.4*	*72.4*	
Personnel	7,228	6,855	*5.4*	7,052	21,346	19,937	*7.1*
% of Net Sales	*6.2*	*6.2*		*5.8*	*6.0*	*6.1*	
Manufacturing & Other Exp	13,291	10,669	*24.6*	13,389	38,738	32,629	*18.7*
% of Net Sales	*11.5*	*9.7*		*11.0*	*11.0*	*10.0*	
Total Expenditure	100,825	97,110	*3.8*	104,528	309,032	288,422	*7.1*
EBITDA	**14,953**	**12,994**	***15.1***	**17,293**	**44,710**	**37,180**	***20.3***
EBITDA Margin (%)	*12.9*	*11.8*		*14.2*	*12.6*	*11.4*	
Depreciation	3,693	3,389	*9.0*	3,633	10,801	9,847	*9.7*
EBIT	**11,261**	**9,605**	***17.2***	**13,660**	**33,909**	**27,334**	***24.1***
Interest Expenses	246	381	*(35.4)*	229	792	881	*(10.1)*
Non-operating income	966	1,101	*(12.3)*	5,620	8,637	10,345	*(16.5)*
Extraordinary Income	3,858	3,638	*6.0*	0	3,858	5,548	*(30.5)*
PBT	**15,838**	**13,962**	***13.4***	**19,051**	**45,612**	**42,345**	***7.7***
Tax-Total	3,678	2,840	*29.5*	5,736	12,642	10,038	*25.9*
Tax Rate (%) – Total	*23.2*	*20.3*	*14.2*	*30.1*	*27.7*	*23.7*	*16.9*
Reported PAT	**12,159**	**11,123**	***9.3***	**13,316**	**32,969**	**32,308**	***2.0***
Adj. PAT	**9,266**	**8,394**	***10.4***	**13,316**	**30,076**	**28,147**	***6.9***

Source: Company Data, PL Research

Exhibit 2: Operating Metrics – Standalone (Rs m)

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Sales Volume (nos)	**210,223**	**197,356**	***6.5***	**218,437**	**630,161**	**582,303**	***8.2***
Net Realisation/Vehicle	550,738	557,892	*(1.3)*	557,693	561,352	559,163	*0.4*
Material cost / vehicle	382,003	403,261	*(5.3)*	384,949	395,055	405,040	*(2.5)*
Gross Profit / vehicle	168,735	154,632	*9.1*	172,744	166,298	154,123	*7.9*
Employee cost /vehicle	34,382	34,735	*(1.0)*	32,283	33,874	34,238	*(1.1)*
Other expenses / vehicle	63,222	54,059	*17.0*	61,296	61,473	56,034	*9.7*
EBITDA/vehicle	71,131	65,838	*8.0*	79,165	70,951	63,850	*11.1*
Net Profit/vehicle	44,077	42,534	*3.6*	60,959	47,728	48,337	*(1.3)*

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Net Revenue	**451,384**	**510,667**	**577,004**	**642,568**
Raw Material Expenses	317,666	363,085	410,827	456,223
Gross Profit	133,718	147,583	166,177	186,345
Employee Cost	25,954	30,640	34,043	37,912
Other Expenses	46,180	52,623	57,196	63,718
EBITDA	**61,584**	**64,320**	**74,938**	**84,716**
Depr. & Amortization	13,272	14,344	16,144	17,944
Net Interest	1,456	1,430	1,408	1,408
Other Income	18,549	14,767	16,829	19,185
Profit before Tax	**65,406**	**63,313**	**74,216**	**84,549**
Total Tax	12,319	18,361	23,452	26,718
Profit after Tax	**53,087**	**44,952**	**50,764**	**57,832**
Ex-Od items / Min. Int.	5,485	—	—	—
Adj. PAT	**47,602**	**44,952**	**50,764**	**57,832**
Avg. Shares O/S (m)	**593.6**	**1,187.2**	**1,187.2**	**1,187.2**
EPS (Rs.)	**80.2**	**37.9**	**42.8**	**48.7**

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	256,696	279,193	301,709	329,881
Total Debt	28,156	28,156	28,156	28,156
Other Liabilities	6,949	6,949	6,949	6,949
Total Liabilities	**291,801**	**314,298**	**336,814**	**364,986**
Net Fixed Assets	96,726	102,382	106,238	108,294
Goodwill	—	—	—	—
Investments	179,022	199,022	219,022	239,022
Net Current Assets	16,053	12,895	11,554	17,670
Cash & Equivalents	*16,870*	*16,929*	*17,842*	*26,176*
Other Current Assets	*100,766*	*109,879*	*120,576*	*131,165*
Current Liabilities	*101,583*	*113,913*	*126,864*	*139,671*
Other Assets	—	—	—	—
Total Assets	**291,801**	**314,298**	**336,814**	**364,986**

Cash Flow Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	79,055	63,943	70,569	79,401
C/F from Investing	(61,964)	(40,000)	(40,000)	(40,000)
C/F from Financing	(23,092)	(23,885)	(29,655)	(31,068)
Inc. / Dec. in Cash	(6,000)	59	914	8,333
Opening Cash	22,870	16,870	16,929	17,842
Closing Cash	16,870	16,929	17,842	26,176
FCFF	58,377	42,513	49,162	57,993
FCFE	57,364	42,513	49,162	57,993

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	**125,782**	**116,144**	**123,301**	**118,491**
EBITDA	**23,915**	**12,464**	**18,773**	**17,666**
% of revenue	*19.0*	*10.7*	*15.2*	*14.9*
Depr. & Amortization	3,425	3,476	3,633	3,693
Net Interest	445	317	229	246
Other Income	3,081	2,051	5,620	966
Profit before Tax	**24,063**	**10,723**	**20,532**	**18,551**
Total Tax	2,281	3,228	5,736	3,678
Profit after Tax	**21,782**	**7,495**	**14,796**	**14,872**
Adj. PAT	**21,079**	**7,495**	**14,796**	**11,979**

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	7.2	13.1	13.0	11.4
EBITDA (%)	5.6	4.4	16.5	13.0
PAT (%)	9.0	(5.6)	12.9	13.9
EPS (%)	8.8	(52.8)	12.9	13.9
Profitability				
EBITDA Margin (%)	13.6	12.6	13.0	13.2
PAT Margin (%)	10.5	8.8	8.8	9.0
RoCE (%)	18.1	15.5	16.2	17.1
RoE (%)	19.8	16.8	17.5	18.3
Balance Sheet				
Net Debt : Equity	—	—	—	—
Net Wrkng Cap. (days)	(27)	(30)	(30)	(30)
Valuation				
PER (x)	9.4	19.8	17.5	15.4
P / B (x)	1.7	3.2	3.0	2.7
EV / EBITDA (x)	7.4	14.0	12.0	10.5
EV / Sales (x)	1.0	1.8	1.6	1.4
Earnings Quality				
Eff. Tax Rate	18.8	29.0	31.6	31.6
Other Inc / PBT	21.8	23.3	22.7	22.7
Eff. Depr. Rate (%)	8.9	8.5	8.5	8.6
FCFE / PAT	120.5	94.6	96.8	100.3

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2017	2018E	2019E	2020E
PV & pick-up sales (units)	448,591	491,795	548,555	605,896
Three-wheeler sales (units)	52,306	51,260	53,310	54,643
CV sales (units)	6,715	7,722	8,688	9,773
Total automotive volume (units)	507,612	550,777	610,553	670,312
Tractor sales (units)	262,992	310,331	347,570	375,376
Total volume (units)	770,604	861,107	958,123	1,045,688
Realisation per vehicle (Rs)	577,073	584,421	593,636	605,765
Gross margin per vehicle (Rs)	173,523	171,387	173,440	178,203
EBITDA per vehicle (Rs)	79,917	74,694	78,213	81,014
Profit per vehicle (Rs)	63,552	52,203	52,982	55,305

Source: Company Data, PL Research.

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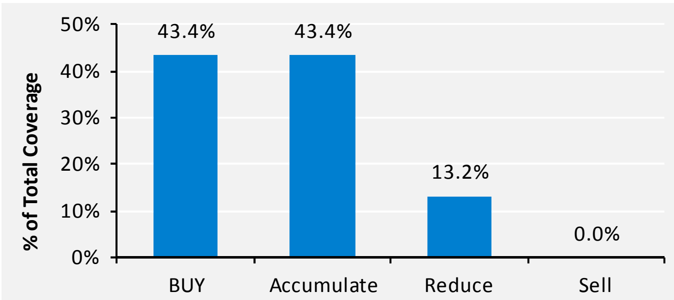

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
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