Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

August 7, 2018

Q1FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	**BUY**		**BUY**	
Target Price	**1,075**		**1,041**	
Sales (Rs. m)	592,946	685,623	583,955	673,529
% Chng.			*1.5*	*1.8*
EBITDA (Rs. m)	80,275	94,113	77,327	90,460
% Chng.			*3.8*	*4.0*
EPS (Rs.)	45.3	54.3	43.1	51.2
% Chng.			*5.3*	*5.9*

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	440,535	486,856	592,946	685,623
EBITDA (Rs. m)	45,147	62,240	80,275	94,113
Margin (%)	*10.2*	*12.8*	*13.5*	*13.7*
PAT (Rs. m)	30,949	39,224	53,942	64,580
EPS (Rs.)	52.1	33.0	45.3	54.3
Gr. (%)	*(29.0)*	*(36.8)*	*37.5*	*19.7*
DPS (Rs.)	15.7	7.8	20.9	22.0
Yield (%)	*1.7*	*0.8*	*2.3*	*2.4*
RoE (%)	*12.6*	*13.7*	*17.1*	*18.7*
RoCE (%)	*10.9*	*15.1*	*18.7*	*20.6*
EV/Sales (x)	1.2	2.2	1.8	1.5
EV/EBITDA (x)	11.6	17.1	13.1	10.9
PE (x)	17.8	28.1	20.4	17.1
P/BV (x)	2.1	3.6	3.4	3.0

Key Data	MAHM.BO | MM IN
52-W High / Low	Rs.945 / Rs.612
Sensex / Nifty	37,666 / 11,389
Market Cap	Rs.1,152bn/ $ 16,778m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.4293.36m

Shareholding Pattern (%)

Promoter's	26.77
Foreign	33.60
Domestic Institution	21.33
Public & Others	18.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.2	24.1	32.4
Relative	(5.1)	12.3	13.4

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Mahindra & Mahindra (MM IN)

Rating: BUY | CMP: Rs927 | TP: Rs1,075

Good Quarter; Launch season ahead

While M&M's Q1FY19 revenue somewhat missed our estimates, its operating margins were marginally ahead of our expectations. Overall revenue growth for Q1FY19 was ~16% YoY / 2% QoQ at Rs135.2bn v/s our estimate of Rs140bn whereas operating margins stood at 13.8% (up 310bps YoY / 60bps QoQ) v/s PLe of 13.5%. Absolute EBITDA surged 50% YoY (up ~7% QoQ) to Rs18.7bn. With higher non-operating income and lower tax rate, adjusted net profit for the company stood at Rs12.1bn, against PLe of Rs11.4bn. Auto EBIT margins for M&M + MVML came in at 9.4% (up 260bps YoY, down 130bps QoQ) on the back of a favourable product mix. EBIT margins for the FES segment continue the upward trajectory at 20.9% (up 370bps YoY / 140bps QoQ), with tractors forming ~42% of overall Q1FY19 volumes. Revenue for M&M + MVML for Q1FY19 stood at Rs133.6bn, up 22.8% YoY, with operating margins at 15.8%, higher 260bps YoY. Adjusted PAT for the quarter grew 65% YoY to Rs12.4bn.

- **Key takeaways from the con-call:** (1) The management does not foresee any major headwinds for both the segments in the current fiscal (although, axle norm changes may cause temporary slump in M&HCV demand) (2) Management has increased their tractor industry growth guidance for FY19E from earlier 8-10% to 12-14%, while Q2FY19 is expected to be flat on account of festive season mismatch (Diwali fell in Oct in FY18 against Nov in FY19) (3) Inventory levels for M&M are below the industry level for the tractor segment and in-line with the industry level for the auto segment (4) The three Auto segment product launches are on track, where, U321 is expected to be launched by Sep end, another launch will take place before Diwali and the third product will be launched after Diwali. Further new platforms will be launched in CY20 (5) The company has partially passed on the raw material cost inflation through price hike of ~1.5% in the auto segment and 1.2-1.3% in the farm equipment segment (6) Agri-implements revenue for the company over Q1FY19 stood at ~Rs1bn, up 41% YoY.

- **Valuations & view:** M&M continues to benefit from the buoyancy in rural demand as volumes for tractors and pick-ups carry on the upward trajectory, on back of the recent MSP increase, good monsoon and healthy farm produce. To factor in the favourable outlook, we increase our FY19E tractor volume growth by 2% (now at 17% YoY) as against the management's stated guidance of 12-14% for FY19E. Recovery and up-tick in Auto margins largely depends on the success of the upcoming model launches (S201, U321, G4 Rexton) which would not only boost volume growth but provide operating leverage benefits as well. Increased government focus on rural economy could further accelerate growth for both, Farm and Auto segment.

We maintain 'BUY' with a price target of Rs1,075, based on a core PE of 17x Mar'20E and value of subsidiaries at Rs278. The stock currently trades at a core PE of ~14x Mar'20E.

Exhibit 1: Q1FY19 Result Overview (Rs m)

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Net Revenues	**135,199**	**116,144**	***16.4***	**133,079**	**592,946**	**486,821**	***21.8***
Raw Materials	95,566	84,555	*13.0*	92,364	417,434	341,312	*22.3*
% of Net Sales	*70.7*	*72.8*		*69.4*	*70.4*	*70.1*	
Personnel	7,516	7,067	*6.4*	7,063	33,205	28,409	*16.9*
% of Net Sales	*5.6*	*6.1*		*5.3*	*5.6*	*5.8*	
Manufacturing & Other Exp	13,401	12,058	*11.1*	16,110	62,032	54,848	*13.1*
% of Net Sales	*9.9*	*10.4*		*12.1*	*10.5*	*11.3*	
Total Expenditure	116,483	103,679	*12.3*	115,537	512,671	424,569	*20.8*
EBITDA	**18,716**	**12,464**	***50.2***	**17,542**	**80,275**	**62,252**	***29.0***
EBITDA Margin (%)	*13.8*	*10.7*	*0.0311*	*13.2*	*13.5*	*12.8*	
Depreciation	3,930	3,476	*13.1*	3,993	15,554	14,794	*5.1*
EBIT	**14,787**	**8,989**	***64.5***	**13,549**	**64,721**	**47,458**	***36.4***
Interest Expenses	327	317	*3.2*	330	1,183	1,122	*5.5*
Non-operating income	2,650	2,051	*29.2*	1,715	12,436	10,352	*20.1*
Extraordinary Income	209	-	*NA*	479	-	4,336	*NA*
PBT	**17,318**	**10,723**	***61.5***	**15,412**	**75,974**	**61,024**	***24.5***
Tax-Total	5,108	3,228	*58.2*	4,821	22,032	17,464	*26.2*
Tax Rate (%) - Total	*29.5*	*30.1*	*(2.0)*	*31.3*	*29.0*	*28.6*	*1.3*
Reported PAT	**12,210**	**7,495**	***62.9***	**10,591**	**53,942**	**43,560**	***23.8***
Adj. PAT	**12,053**	**7,495**	***60.8***	**10,232**	**53,942**	**39,268**	***37.4***

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Sales Volume (nos)	240,884	201,501	*19.5*	235,887	1,002,369	866,048	*15.7*
Net Realisation/Vehicle	561,262	576,393	*(2.6)*	564,163	591,544	562,118	*5.2*
Material cost / vehicle	396,731	419,626	*(5.5)*	391,560	416,447	394,103	*5.7*
Gross Profit / vehicle	164,531	156,766	*5.0*	172,603	175,097	168,015	*4.2*
Employee cost /vehicle	31,200	35,070	*(11.0)*	29,941	33,126	32,803	*1.0*
Other expenses / vehicle	55,633	59,838	*(7.0)*	68,297	61,886	63,331	*(2.3)*
EBITDA/vehicle	77,699	61,858	*25.6*	74,366	80,085	71,881	*11.4*
Net Profit/vehicle	50,037	37,194	*34.5*	43,376	53,814	45,341	*18.7*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	**440,535**	**486,856**	**592,946**	**685,623**
YoY gr. (%)	*4.7*	*10.5*	*21.8*	*15.6*
Cost of Goods Sold	320,812	341,347	417,434	483,364
Gross Profit	119,724	145,509	175,512	202,259
Margin (%)	*27.2*	*29.9*	*29.6*	*29.5*
Employee Cost	27,144	28,409	33,205	38,395
Other Expenses	47,433	54,860	62,032	69,750
EBITDA	**45,147**	**62,240**	**80,275**	**94,113**
YoY gr. (%)	*(22.6)*	*37.9*	*29.0*	*17.2*
Margin (%)	*10.2*	*12.8*	*13.5*	*13.7*
Depreciation and Amortization	15,264	14,794	15,554	16,896
EBIT	**29,883**	**47,446**	**64,721**	**77,217**
Margin (%)	*6.8*	*9.7*	*10.9*	*11.3*
Net Interest	1,596	1,122	1,183	1,183
Other Income	13,455	10,364	12,436	14,924
Profit Before Tax	**47,226**	**61,024**	**75,974**	**90,958**
Margin (%)	*10.7*	*12.5*	*12.8*	*13.3*
Total Tax	10,792	17,464	22,032	26,378
Effective tax rate (%)	*22.9*	*28.6*	*29.0*	*29.0*
Profit after tax	**36,434**	**43,560**	**53,942**	**64,580**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**30,949**	**39,224**	**53,942**	**64,580**
YoY gr. (%)	*(28.8)*	*26.7*	*37.5*	*19.7*
Margin (%)	*7.0*	*8.1*	*9.1*	*9.4*
Extra Ord. Income / (Exp)	5,485	4,336	-	-
Reported PAT	**36,434**	**43,560**	**53,942**	**64,580**
YoY gr. (%)	*(17.5)*	*19.6*	*23.8*	*19.7*
Margin (%)	*8.3*	*8.9*	*9.1*	*9.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,434	43,560	53,942	64,580
Equity Shares O/s (m)	**594**	**1,190**	**1,190**	**1,190**
EPS (Rs)	**52.1**	**33.0**	**45.3**	**54.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	**154,773**	**168,780**	**188,780**	**208,780**
Tangibles	132,676	141,589	161,589	181,589
Intangibles	22,097	27,191	27,191	27,191
Acc: Dep / Amortization	**77,062**	**90,186**	**105,740**	**122,636**
Tangibles	67,308	76,509	92,063	108,959
Intangibles	9,754	13,677	13,677	13,677
Net fixed assets	**77,710**	**78,594**	**83,040**	**86,144**
Tangibles	65,367	65,080	69,526	72,629
Intangibles	12,343	13,515	13,515	13,515
Capital Work In Progress	20,404	31,287	31,287	31,287
Goodwill	-	-	-	-
Non-Current Investments	147,144	171,772	183,022	194,272
Net Deferred tax assets	2,548	(2,772)	(2,772)	(2,772)
Other Non-Current Assets	25,796	27,769	28,269	28,769
Current Assets				
Investments	36,067	39,375	49,375	59,375
Inventories	27,580	27,017	37,930	43,876
Trade receivables	29,388	31,730	35,448	41,005
Cash & Bank Balance	16,875	28,937	28,090	43,207
Other Current Assets	5,392	20,618	20,618	20,618
Total Assets	**415,383**	**488,903**	**528,531**	**580,756**
Equity				
Equity Share Capital	2,968	5,950	5,950	5,950
Other Equity	264,888	296,991	322,623	357,479
Total Networth	**267,856**	**302,940**	**328,573**	**363,428**
Non-Current Liabilities				
Long Term borrowings	23,122	22,896	22,896	22,896
Provisions	8,245	8,618	9,368	10,118
Other non current liabilities	709	902	902	902
Current Liabilities				
ST Debt / Current of LT Debt	5,389	6,685	6,685	6,685
Trade payables	68,811	86,034	98,030	113,399
Other current liabilities	21,359	39,576	40,826	42,076
Total Equity & Liabilities	**415,383**	**488,903**	**528,531**	**580,756**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	47,226	61,024	75,974	90,958
Add. Depreciation	15,264	14,794	15,554	16,896
Add. Interest	1,596	1,122	1,183	1,183
Less Financial Other Income	13,455	10,364	12,436	14,924
Add. Other	17,779	(842)	-	-
Op. profit before WC changes	81,864	76,098	92,711	109,037
Net Changes-WC	8,331	9,100	(2,034)	3,365
Direct tax	(17,941)	(12,143)	(22,032)	(26,378)
Net cash from Op. activities	**72,254**	**73,055**	**68,645**	**86,025**
Capital expenditures	(65,407)	(53,307)	(40,000)	(40,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(65,407)**	**(53,307)**	**(40,000)**	**(40,000)**
Issue of share cap. / premium	5	2,982	-	-
Debt changes	(658)	1,070	-	-
Dividend paid	(10,593)	(10,616)	(28,309)	(29,724)
Interest paid	(1,596)	(1,122)	(1,183)	(1,183)
Others	-	-	-	-
Net cash from Fin. activities	**(12,842)**	**(7,686)**	**(29,492)**	**(30,908)**
Net change in cash	**(5,996)**	**12,063**	**(847)**	**15,117**
Free Cash Flow	50,457	46,494	48,645	66,025

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	**121,821**	**115,778**	**133,079**	**135,199**
YoY gr. (%)	*15.9*	*5.2*	*19.6*	*16.4*
Raw Material Expenses	84,087	80,306	92,364	95,566
Gross Profit	37,734	35,472	40,715	39,633
Margin (%)	*31.0*	*30.6*	*30.6*	*29.3*
EBITDA	**17,293**	**14,953**	**17,542**	**18,716**
YoY gr. (%)	*38.7*	*(13.5)*	*17.3*	*6.7*
Margin (%)	*14.2*	*12.9*	*13.2*	*13.8*
Depreciation / Depletion	3,633	3,693	3,993	3,930
EBIT	**13,660**	**11,261**	**13,549**	**14,787**
Margin (%)	*11.2*	*9.7*	*10.2*	*10.9*
Net Interest	229	246	330	327
Other Income	5,620	966	1,715	2,650
Profit before Tax	**19,051**	**15,838**	**15,412**	**17,318**
Margin (%)	*15.6*	*13.7*	*11.6*	*12.8*
Total Tax	5,736	3,678	4,821	5,108
Effective tax rate (%)	*30.1*	*23.2*	*31.3*	*29.5*
Profit after Tax	**13,316**	**12,159**	**10,591**	**12,210**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**13,316**	**8,302**	**10,112**	**12,001**
YoY gr. (%)	*25.2*	*10.9*	*60.1*	*60.1*
Margin (%)	*10.9*	*7.2*	*7.6*	*8.9*
Extra Ord. Income / (Exp)	-	3,858	479	209
Reported PAT	**13,316**	**12,159**	**10,591**	**12,210**
YoY gr. (%)	*14.5*	*9.3*	*46.0*	*62.9*
Margin (%)	*10.9*	*10.5*	*8.0*	*9.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**13,316**	**12,159**	**10,591**	**12,210**
Avg. Shares O/s (m)	1,245	1,245	1,245	1,245
EPS (Rs)	**10.7**	**6.7**	**8.1**	**9.6**

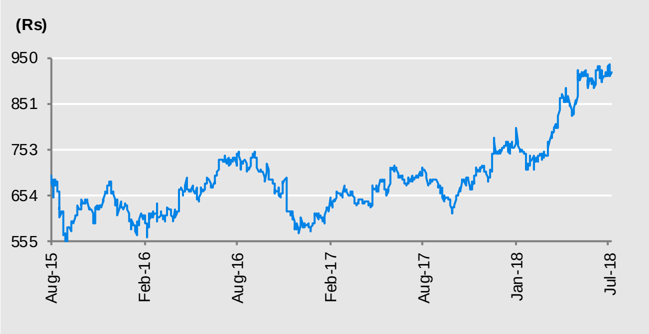
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	52.1	33.0	45.3	54.3
CEPS	77.8	45.4	58.4	68.5
BVPS	451.2	254.6	276.1	305.4
FCF	85.0	39.1	40.9	55.5
DPS	15.7	7.8	20.9	22.0
Return Ratio(%)				
RoCE	10.9	15.1	18.7	20.6
ROIC	10.4	13.8	17.2	20.1
RoE	12.6	13.7	17.1	18.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	(10)	(20)	(15)	(15)
Valuation(x)				
PER	17.8	28.1	20.4	17.1
P/B	2.1	3.6	3.4	3.0
P/CEPS	80.8	47.1	60.6	71.1
EV/EBITDA	11.6	17.1	13.1	10.9
EV/Sales	1.2	2.2	1.8	1.5
Dividend Yield (%)	1.7	0.8	2.3	2.4

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Oct-17	Accumulate	1,471	1,302
2	13-Nov-17	Accumulate	1,580	1,393
3	4-Jan-18	BUY	895	755
4	10-Jan-18	BUY	895	761
5	12-Feb-18	BUY	890	750
6	12-Feb-18	BUY	890	750
7	15-Mar-18	BUY	890	735
8	19-Mar-18	BUY	890	742
9	13-Apr-18	BUY	886	788
10	23-May-18	BUY	890	831

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	111
2	Atul Auto	Accumulate	397	394
3	Bajaj Auto	Reduce	2,573	2,684
4	Bharat Forge	Accumulate	760	620
5	CEAT	Accumulate	1,451	1,324
6	Eicher Motors	Accumulate	33,516	28,079
7	Exide Industries	Accumulate	282	271
8	Hero Motocorp	Accumulate	3,824	3,110
9	Mahindra & Mahindra	BUY	1,041	894
10	Maruti Suzuki	BUY	10,705	9,396
11	Motherson Sumi Systems	Accumulate	373	293
12	Tata Motors	BUY	352	264
13	TVS Motors	Accumulate	678	561
14	Wabco India	Accumulate	7,111	6,698

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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