Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Mahindra & Mahindra (MM IN)

Rating: BUY | CMP: Rs770 | TP: Rs984

November 14, 2018

Q2FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	**BUY**		**BUY**	
Target Price	**984**		**1,058**	
Sales (Rs. m)	559,492	633,199	590,448	680,647
% Chng.			*(5.2)*	*(7.0)*
EBITDA (Rs. m)	74,147	86,403	81,714	93,442
% Chng.			*(9.3)*	*(7.5)*
EPS (Rs.)	44.2	50.2	45.9	53.3
% Chng.			*(3.7)*	*(5.7)*

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	441	487	559	633
EBITDA (Rs. bn)	45	62	74	86
Margin (%)	*10.2*	*12.8*	*13.3*	*13.6*
PAT (Rs. bn)	31	39	53	60
EPS (Rs.)	26.1	33.0	44.2	50.2
Gr. (%)	*(29.0)*	*26.4*	*34.0*	*13.7*
DPS (Rs.)	7.8	7.8	20.9	22.0
Yield (%)	*1.0*	*1.0*	*2.7*	*2.9*
RoE (%)	*12.6*	*13.7*	*16.7*	*17.5*
RoCE (%)	*10.9*	*15.1*	*16.8*	*18.7*
EV/Sales (x)	2.0	1.8	1.6	1.3
EV/EBITDA (x)	19.7	14.1	11.7	9.8
PE (x)	29.5	23.3	17.4	15.3
P/BV (x)	3.4	3.0	2.8	2.6

Key Data	MAHM.BO | MM IN
52-W High / Low	Rs.993 / Rs.682
Sensex / Nifty	35,142 / 10,576
Market Cap	Rs.957bn/ $ 13,233m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.5249.4m

Shareholding Pattern (%)

Promoter's	26.77
Foreign	34.60
Domestic Institution	20.33
Public & Others	19.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	(9.7)	7.7
Relative	(1.0)	(8.7)	0.9

Saksham Kaushal
sakshamkaushal@plindia.com | 91-22-66322235

Poorvi Banka
poorvibanka@plindia.com | 91-22-66322426

Quarter missed expectations

M&M's performance over Q2FY19 missed our estimates, with operating margins at 12.4%, as against PLe of 13.3%. The recently launched Marazzo has been received well, with order book currently at ~13k units, however the overall decline in overall passenger car market especially in the UV segment has hampered M&M's existing UV portfolio. M&M's Tractor and Pick-up segment continue to do well, however the rural demand has been a little tepid in comparison to Q1FY19 and to factor that in we reduce our FY19E tractor volume estimates by 2% (earlier 17% YoY) as against the management's stated guidance of 12% for FY19E. In the near term we expect margins to be under pressure due to the upcoming UV launches (S201, Alturas) in H2FY19, however for the longer term up-tick in margins largely depends on the success of these models as they 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 Rs984 (earlier Rs1156), based on a core PE of 17x Mar'20E and value of subsidiaries at Rs268. The stock currently trades at a core PE of ~14x Mar'20E .

- **Standalone performance:** Overall revenue growth for Q2FY19 was 6.6% YoY (down 4% QoQ) at Rs130bn v/s our estimate of Rs134.5bn. This was on account of modest volume growth of 4.6% YoY (down 5% QoQ), while realisations inched up ~2% YoY (up 1.2% QoQ). Operating margins came in at 12.4% (below PLe: 13.3%), lower 180bps YoY & 140bps QoQ. The dip in operating margins was mainly owing to gross margin decline of 230bps YoY / 60bps QoQ, while staff costs as well as other expenses as a % of sales were lower 10bps & 30bps YoY respectively. Absolute EBITDA too declined ~7% YoY (lower ~14% QoQ) to Rs16.1bn. With significantly higher non-operating income and lower tax rate (deferred tax benefit amounting to Rs1.21bn received in Q2FY19), adjusted net profit (adjusting for profit on sale of some long term investments) for the company stood at Rs15.5bn, up 16% YoY, above PLe of ~Rs14bn.

- **Segmental mix:** As for the segmental mix, tractors formed ~34% of overall volumes in Q2FY19 (v/s 37% in Q2FY18 & 42% in Q1FY19) and thus, farm equipment segment EBIT margins came in at 20.2%, lower 110bps YoY & 70bps QoQ. Automotive margins for the quarter also stood lower at 5.3%, down 330bps YoY / 150bps QoQ.

- **M&M+ MVML performance:** Revenue for M&M + MVML for Q2FY19 stood at Rs127.9bn, up 6.4% YoY, with operating margins at 14.5%, lower 150bps YoY / 130bps QoQ. Adjusted PAT for the quarter grew ~19% YoY to Rs16.8bn. Auto EBIT margins for M&M + MVML came in at 7.9% (lower 270bps YoY, 160bps QoQ).

- **Key takeaways from the con-call:** (1) Q2FY19 margins (particularly Auto segment margins) were impacted to the tune of 1.25% by higher material costs, ~0.5% due to *Marazzo* initial pricing and 0.6-0.7% on account of launch costs expenses. (2) Overall material costs were up 2.5%, of which the company was able to pass on just half. (3) Q3/Q4 margins will also be impacted by launch costs. (4) Management has maintained their tractor industry growth guidance for FY19E at 12-14%, with a bias now towards the lower end (YTDFY19 growth rate at 12.5% YoY) (5) Inventory levels for M&M are at desired level for the tractor segment while it is 4-5 days higher than desired levels for the auto segment. (6) Rural volume contribution was higher than urban contribution this quarter.

Exhibit 1: Q2FY19 Result Overview (Rs m)

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Net Revenues	**129,886**	**121,821**	***6.6***	**135,199**	**265,085**	**237,964**	***11.4***
Raw Materials	92,561	84,087	*10.1*	95,566	188,127	168,642	*11.6*
% of Net Sales	*71.3*	*69.0*		*70.7*	*71.0*	*70.9*	
Personnel	7,418	7,052	*5.2*	7,516	14,934	14,118	*5.8*
% of Net Sales	*5.7*	*5.8*		*5.6*	*5.6*	*5.9*	
Manufacturing & Other Exp	13,857	13,389	*3.5*	13,401	27,258	25,447	*7.1*
% of Net Sales	*10.7*	*11.0*		*9.9*	*10.3*	*10.7*	
Total Expenditure	113,836	104,528	*8.9*	116,483	230,319	208,207	*10.6*
EBITDA	**16,050**	**17,293**	***(7.2)***	**18,716**	**34,766**	**29,757**	***16.8***
EBITDA Margin (%)	*12.4*	*14.2*		*13.8*	*13.1*	*12.5*	
Depreciation	4,614	3,633	*27.0*	3,930	8,544	7,108	*20.2*
EBIT	**11,436**	**13,660**	***(16.3)***	**14,787**	**26,222**	**22,649**	***15.8***
Interest Expenses	277	229	*21.1*	327	604	546	*10.7*
Non-operating income	8,463	5,620	*50.6*	2,650	11,113	7,671	*44.9*
Extraordinary Income	1,341	0		209	1,550	0	
PBT	**20,963**	**19,051**	***10.0***	**17,318**	**38,281**	**29,774**	***28.6***
Tax-Total	4,469	5,736	*(22.1)*	5,108	9,577	8,964	*6.8*
Tax Rate (%) - Total	*21.3*	*30.1*		*29.5*	*25.0*	*30.1*	
Reported PAT	**16,495**	**13,316**	***23.9***	**12,210**	**28,704**	**20,810**	***37.9***
Adj. PAT	**15,489**	**13,316**	***16.3***	**12,053**	**27,542**	**20,810**	***32.3***

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Sales Volume (nos)	**228,590**	**218,437**	***4.6***	**240,884**	**469,474**	**419,938**	***11.8***
Net Realisation/Vehicle	568,204	557,693	*1.9*	561,262	564,642	566,666	*(0.4)*
Material cost / vehicle	404,922	384,949	*5.2*	396,731	400,719	401,588	*(0.2)*
Gross Profit / vehicle	163,282	172,744	*(5.5)*	164,531	163,923	165,077	*(0.7)*
Employee cost /vehicle	32,451	32,283	*0.5*	31,200	31,809	33,620	*(5.4)*
Other expenses / vehicle	60,620	61,296	*(1.1)*	55,633	58,061	60,597	*(4.2)*
EBITDA/vehicle	70,211	79,165	*(11.3)*	77,699	74,053	70,860	*4.5*
Net Profit/vehicle	67,757	60,959	*11.2*	50,037	58,665	49,556	*18.4*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	**440,535**	**486,856**	**559,492**	**633,199**
YoY gr. (%)	*4.7*	*10.5*	*14.9*	*13.2*
Cost of Goods Sold	320,812	341,347	393,882	446,405
Gross Profit	119,724	145,509	165,609	186,794
Margin (%)	*27.2*	*29.9*	*29.6*	*29.5*
Employee Cost	27,144	28,409	31,332	34,826
Other Expenses	47,433	54,860	60,131	65,565
EBITDA	**45,147**	**62,240**	**74,147**	**86,403**
YoY gr. (%)	*(22.6)*	*37.9*	*19.1*	*16.5*
Margin (%)	*10.2*	*12.8*	*13.3*	*13.6*
Depreciation and Amortization	15,264	14,794	16,090	16,896
EBIT	**29,883**	**47,446**	**58,057**	**69,507**
Margin (%)	*6.8*	*9.7*	*10.4*	*11.0*
Net Interest	1,596	1,122	1,183	1,183
Other Income	13,455	10,364	13,211	15,854
Profit Before Tax	**47,226**	**61,024**	**70,085**	**84,177**
Margin (%)	*10.7*	*12.5*	*12.5*	*13.3*
Total Tax	10,792	17,464	17,521	24,411
Effective tax rate (%)	*22.9*	*28.6*	*25.0*	*29.0*
Profit after tax	**36,434**	**43,560**	**52,564**	**59,766**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**30,949**	**39,224**	**52,564**	**59,766**
YoY gr. (%)	*(28.8)*	*26.7*	*34.0*	*13.7*
Margin (%)	*7.0*	*8.1*	*9.4*	*9.4*
Extra Ord. Income / (Exp)	5,485	4,336	-	-
Reported PAT	**36,434**	**43,560**	**52,564**	**59,766**
YoY gr. (%)	*(17.5)*	*19.6*	*20.7*	*13.7*
Margin (%)	*8.3*	*8.9*	*9.4*	*9.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,434	43,560	52,564	59,766
Equity Shares O/s (m)	**1,187**	**1,190**	**1,190**	**1,190**
EPS (Rs)	**26.1**	**33.0**	**44.2**	**50.2**

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**	**106,276**	**123,172**
Tangibles	67,308	76,509	92,599	109,496
Intangibles	9,754	13,677	13,677	13,677
Net fixed assets	**77,710**	**78,594**	**82,504**	**85,608**
Tangibles	65,367	65,080	68,989	72,093
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	35,766	40,486
Trade receivables	29,388	31,730	33,426	37,837
Cash & Bank Balance	16,875	28,937	25,843	35,348
Other Current Assets	5,392	20,618	20,618	20,618
Total Assets	**415,383**	**488,903**	**521,563**	**565,803**
Equity				
Equity Share Capital	2,968	5,950	5,950	5,950
Other Equity	264,888	296,991	321,245	351,287
Total Networth	**267,856**	**302,940**	**327,195**	**357,236**
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	92,439	104,638
Other current liabilities	21,359	39,576	40,826	42,076
Total Equity & Liabilities	**415,383**	**488,903**	**521,563**	**565,803**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	47,226	61,024	70,085	84,177
Add. Depreciation	15,264	14,794	16,090	16,896
Add. Interest	1,596	1,122	1,183	1,183
Less Financial Other Income	13,455	10,364	13,211	15,854
Add. Other	17,779	(842)	-	-
Op. profit before WC changes	81,864	76,098	87,358	102,257
Net Changes-WC	8,331	9,100	(3,440)	2,568
Direct tax	(17,941)	(12,143)	(17,521)	(24,411)
Net cash from Op. activities	**72,254**	**73,055**	**66,397**	**80,413**
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**	**(3,095)**	**9,505**
Free Cash Flow	50,457	46,494	46,397	60,413

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	26.1	33.0	44.2	50.2
CEPS	38.9	45.4	57.7	64.4
BVPS	225.6	254.6	275.0	300.2
FCF	42.5	39.1	39.0	50.8
DPS	7.8	7.8	20.9	22.0
Return Ratio(%)				
RoCE	10.9	15.1	16.8	18.7
ROIC	10.4	13.8	16.2	17.8
RoE	12.6	13.7	16.7	17.5
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	29.5	23.3	17.4	15.3
P/B	3.4	3.0	2.8	2.6
P/CEPS	32.2	37.5	47.7	53.2
EV/EBITDA	19.7	14.1	11.7	9.8
EV/Sales	2.0	1.8	1.6	1.3
Dividend Yield (%)	1.0	1.0	2.7	2.9

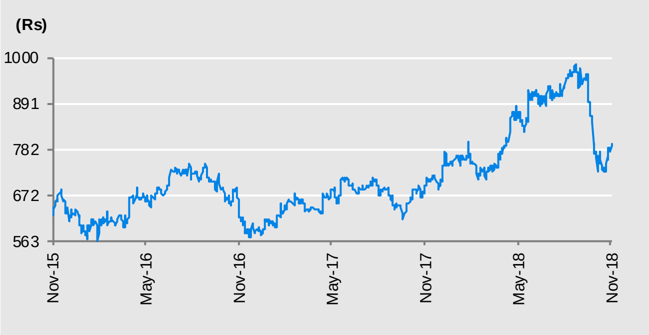
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	**115,778**	**133,079**	**135,199**	**129,886**
YoY gr. (%)	*5.2*	*19.6*	*16.4*	*6.6*
Raw Material Expenses	80,306	92,364	95,566	92,561
Gross Profit	35,472	40,715	39,633	37,325
Margin (%)	*30.6*	*30.6*	*29.3*	*28.7*
EBITDA	**14,953**	**17,542**	**18,716**	**16,050**
YoY gr. (%)	*(13.5)*	*17.3*	*6.7*	*(14.2)*
Margin (%)	*12.9*	*13.2*	*13.8*	*12.4*
Depreciation / Depletion	3,693	3,993	3,930	4,614
EBIT	**11,261**	**13,549**	**14,787**	**11,436**
Margin (%)	*9.7*	*10.2*	*10.9*	*8.8*
Net Interest	246	330	327	277
Other Income	966	1,715	2,650	8,463
Profit before Tax	**15,838**	**15,412**	**17,318**	**20,963**
Margin (%)	*13.7*	*11.6*	*12.8*	*16.1*
Total Tax	3,678	4,821	5,108	4,469
Effective tax rate (%)	*23.2*	*31.3*	*29.5*	*21.3*
Profit after Tax	**12,159**	**10,591**	**12,210**	**16,495**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**8,302**	**10,112**	**12,001**	**15,153**
YoY gr. (%)	*10.9*	*60.1*	*60.1*	*13.8*
Margin (%)	*7.2*	*7.6*	*8.9*	*11.7*
Extra Ord. Income / (Exp)	3,858	479	209	1,341
Reported PAT	**12,159**	**10,591**	**12,210**	**16,495**
YoY gr. (%)	*9.3*	*46.0*	*62.9*	*23.9*
Margin (%)	*10.5*	*8.0*	*9.0*	*12.7*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**12,159**	**10,591**	**12,210**	**16,495**
Avg. Shares O/s (m)	1,245	1,245	1,245	1,245
EPS (Rs)	**6.7**	**8.1**	**9.6**	**12.2**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jan-18	BUY	895	755
2	10-Jan-18	BUY	895	761
3	12-Feb-18	BUY	890	750
4	12-Feb-18	BUY	890	750
5	15-Mar-18	BUY	890	735
6	19-Mar-18	BUY	890	742
7	13-Apr-18	BUY	886	788
8	23-May-18	BUY	890	831
9	29-May-18	BUY	1,041	869
10	11-Jun-18	BUY	1,041	869

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	119
2	Atul Auto	Accumulate	397	303
3	Bajaj Auto	Reduce	2,394	2,478
4	Bharat Forge	Accumulate	696	607
5	CEAT	Accumulate	1,255	1,106
6	Eicher Motors	Hold	23,137	21,934
7	Exide Industries	Accumulate	268	249
8	Hero Motocorp	Accumulate	3,385	2,895
9	Mahindra & Mahindra	BUY	1,058	795
10	Maruti Suzuki	BUY	8,510	6,723
11	Motherson Sumi Systems	Accumulate	348	242
12	Tata Motors	BUY	267	179
13	TVS Motors	Accumulate	618	535
14	Wabco India	Accumulate	7,111	6,682

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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