

Mahindra & Mahindra Ltd.

Performance Update

Y/E March (₹ cr)	2QFY19	2QFY18	% yoy	1QFY19	% qoq
Net sales	12,989	12,184	6.6	13,520	(3.9)
EBITDA	1,605	1,703	(5.7)	1,872	(14.2)
EBITDA margin (%)	12.4	14.0	(162)	13.8	(149)
Adjusted PAT	1,649	1,305	26.4	1,221	35.1

Source: Company, Angel Research

For 2QFY2019, M&M posted subdued performance on both, top-line as well as bottom-line fronts. Revenues grew by ~7% yoy to ₹12,989cr. On the bottom-line front, M&M reported growth of ~26% yoy to ₹1,649cr on the back of one time exceptional income and lower taxes.

Lower tractor sales drag the overall top-line: The company's top-line grew by ~6% yoy to ₹12,989cr on the back of volume growth (up ~4% yoy) and realization improvement (up ~2.3% yoy). Top-line was subdued mainly because of delayed festive season. On segment wise performance, farm equipment segment grew by ~2% yoy during the quarter, whereas automotive segment reported a growth of ~9% yoy. Going forward, we expect automotive and farm equipment segments to perform better on back of positive rural sentiment and government's push for infra & construction projects.

Profitability driven by strong revenue growth and lower interest cost: On the operating front, the company's margin contracted by 162bps yoy to 12.4% due to lower volume growth, commodity cost pressure and new launch expenses. However, M&M reported ~26% yoy rise in its net profit to ₹1,649cr on the back one time exceptional income (₹134cr) and lower taxes.

Outlook and Valuation: We expect M&M to report net revenue CAGR of ~13% to ~₹62,235cr over FY2018-20E mainly due to healthy growth in automobile segment like Utility Vehicles (on the back of new launches and facelift of some models) and strong growth in tractors segment driven by strong brand recall and improvement in rural sentiment. Further, on the bottom-line front, we expect CAGR of ~22% to ₹5,991cr over the same period on the back of margin improvement. **Thus, we recommend BUY on the stock with target price of ₹1,050.**

Key Financials

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Net sales	44,054	48,686	54,939	62,235
% chg	7.8	10.5	12.8	13.3
Adj. Net profit	3,220	4,046	5,021	5,991
% chg	0.4	25.7	24.1	19.3
EBITDA margin (%)	10.2	12.8	13.0	13.0
EPS (₹)	27.1	34.0	42.2	50.4
P/E (x)	28.5	22.7	18.3	15.3
P/BV (x)	3.6	3.0	2.7	2.4
RoE (%)	12.5	13.4	14.7	15.4
RoCE (%)	10.5	14.3	14.6	15.0
EV/Sales (x)	1.7	1.5	1.3	1.2
EV/EBITDA (x)	16.6	11.4	10.3	9.0

Source: Company, Angel Research Note
 Please refer to important disclosures at the end of this report

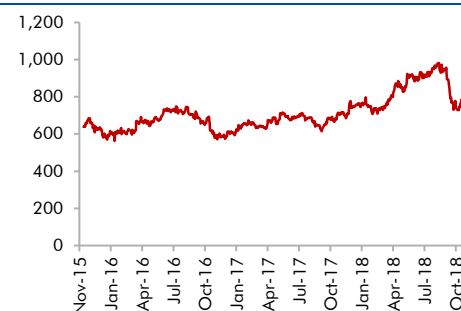
BUY

CMP	₹770
Target Price	₹1,050
Investment Period	12 months

Stock Info	
Sector	Automobile
Market Cap (₹ cr)	95,415
Net Debt (₹ cr)	2,900
Beta	0.8
52 Week High / Low	992/683
Avg. Daily Volume	1,75,348
Face Value (₹)	5
BSE Sensex	35,332
Nifty	10,620
Reuters Code	MAHM.BO
Bloomberg Code	MM.IN

Shareholding Pattern (%)			
Promoters			21.6
MF / Banks / Indian			9.9
FII / NRIs / OCBs			34.0
Indian Public/Others			34.5
Abs.(%)	3m	1yr	3yr
Sensex	(7.2)	6.7	36.4
M&M	(19.1)	7.8	20.4

Historical share price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2019 Performance

Y/E March (₹ cr)	2QFY19	2QFY18	% yoy	1QFY19	% qoq	1HFY19	1HFY18	% chg
Net Sales	12,989	12,184	6.6	13,520	(3.9)	26,508	24,559.3	7.9
Consumption of RM	9256.1	8,410.29	10.1	9556.6	(3.1)	18812.7	17627.1	6.7
(% of Sales)	71.3	69.0		70.7		71.0	71.8	
Staff Costs	742	705	5.2	752	(1.3)	1,493	1411.8	5.8
(% of Sales)	5.7	5.8		5.6		5.6	5.7	
Other Expenses	1,386	1,366	1.5	1,340	3.4	2,726	2544.2	7.1
(% of Sales)	10.7	11.2		9.9		10.3	10.4	
Total Expenditure	11,384	10,481	8.6	11,648	(2.3)	23,032	21,583	6.7
Operating Profit	1,605	1,703	(5.7)	1,872	(14.2)	3,477	2,976	16.8
OPM	12.4	14.0		13.8		13.1	12.1	
Interest	28	23	21.1	33	(15.5)	60.4	54.6	10.7
Depreciation	461	363	27.0	393	17.4	854.4	710.8	20.2
Other Income	846	562		265		1111.3	766.6	
PBT (excl. Ext Items)	1,962	1,878	4.5	1,711	14.7	3,673	2,977	23.4
Ext (Income)/Expense	134			20.9		155.0		
PBT (incl. Ext Items)	2,096	1,878	11.6	1,732	21.0	3,828	2,977	28.6
(% of Sales)	16.1	15.4		12.8		14.4	12.1	
Provision for Taxation	447	574		511		958	896	6.8
(% of PBT)	21.3	30.5		29.5		25	30	
Reported PAT	1,649	1,305	26.4	1,221	35.1	2,870	2,081	37.9
PATM	12.7	10.7		9.0		10.8	8.5	

Source: Company, Angel Research

Outlook and Valuation: We expect M&M to report net revenue CAGR of ~13% to ~₹62,235cr over FY2018-20E mainly due to healthy growth in automobile segment like Utility Vehicles (on the back of new launches and facelift of some models) and strong growth in tractors segment driven by strong brand recall and improvement in rural sentiment. Further, on the bottom-line front, we expect CAGR of ~22% to ₹5,991cr over the same period on the back of margin improvement. **Thus, we recommend BUY on the stock with target price of ₹1,050.**

Downside risks to our estimates

- Strong launches from competitors like Maruti Suzuki, Hyundai Motors and Ford can grab the market share from M&M
- Poor monsoon can impact the overall earnings growth (47% EBIT contribution from tractors segment)
- Lower growth and profitability of subsidiary companies can limit upside growth

Company Background

Mahindra & Mahindra Ltd (M&M) is an India-based company. The company operates in nine segments: automotive segment comprises sales of automobiles, spare parts and related services; farm equipment segment comprises sales of tractors, spare parts and related services; information technology (IT) services comprises services rendered for IT and telecom; financial services comprises services relating to financing, leasing and hire purchase of automobiles and tractors; steel trading and processing; infrastructure comprising operating of commercial complexes, project management and development; hospitality segment comprises sale of timeshare; Systech segment comprises automotive components and other related products and services, and others segment comprise s logistics, aftermarket, two wheelers and investment.

Standalone Profit & Loss Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Total operating income	44,054	48,686	54,939	62,235
% chg	7.8	10.5	12.8	13.3
Total Expenditure	39,539	42,462	47,797	54,144
Raw Material	32,082	34,135	38,732	43,875
Personnel	2,714	2,841	3,516	3,983
Others Expenses	4,742	5,486	5,549	6,286
EBITDA	4,515	6,224	7,142	8,090
% chg	(2.3)	37.9	14.7	13.3
(% of Net Sales)	10.2	12.8	13.0	13.0
Depreciation & Amortisation	1,526	1,479	1,701	1,805
EBIT	2,988	4,745	5,441	6,286
% chg	(15.9)	58.8	14.7	15.5
(% of Net Sales)	6.8	9.7	9.9	10.1
Interest & other Charges	160	112	118	124
Other Income	1,894	1,470	1,750	1,700
(% of PBT)	40.1	24.1	24.7	21.6
Share in profit of Associates	-	-	-	-
Recurring PBT	4,723	6,102	7,072	7,861
% chg	10.2	29.2	15.9	11.2
Tax	1,079	1,746	2,051	1,870
(% of PBT)	22.9	28.6	29.0	23.8
PAT (reported)	3,643	4,356	5,021	5,991
Extraordinary Items	423	310	-	-
ADJ. PAT	3,220	4,046	5,021	5,991
% chg	0.4	25.7	24.1	19.3
(% of Net Sales)	7.3	8.3	9.1	9.6
Basic EPS (Rs)	27.1	34.0	42.2	50.4
Fully Diluted EPS (₹)	27.1	34.0	42.2	50.4
% chg	0.4	25.7	24.1	19.3

Standalone Balance Sheet

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	297	595	595	595
Reserves & Surplus	25,373	29,699	33,616	38,289
Shareholders Funds	25,670	30,294	34,211	38,884
Total Loans	2,816	2,958	2,958	2,958
Deferred Tax Liability	1,637	1,767	1,767	1,767
Total Liabilities	30,122	35,019	38,935	43,609
APPLICATION OF FUNDS				
Gross Block	14,938	16,878	16,938	17,938
Less: Acc. Depreciation	7,303	9,019	10,720	12,525
Net Block	7,635	7,859	6,218	5,413
Capital Work-in-Progress	2,038	3,129	3,129	3,129
Investments	17,902	20,583	17,902	17,902
Current Assets	11,764	15,846	20,759	27,404
Inventories	2,716	2,702	3,612	4,433
Sundry Debtors	2,918	3,173	4,214	5,115
Cash	1,687	2,894	3,043	4,164
Loans & Advances	1,528	3,769	5,494	7,468
Other Assets	2,914	3,309	4,395	6,223
Current liabilities	10,158	13,887	10,562	11,728
Net Current Assets	1,605	1,958	10,197	15,676
Deferred Tax Asset	942	1,489	1,489	1,489
Mis. Exp. not written off	-	-	-	-
Total Assets	30,122	35,019	38,935	43,609

Standalone Cashflow Statement

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	4639	5669	7072	7861
Depreciation	1327	1479	1701	1805
Change in Working Capital	(31)	1780	(8090)	(4358)
Interest / Dividend (Net)	(834)	112	0	0
Direct taxes paid	0	(1289)	(2051)	(1870)
Others	(138)	(725)	0	0
Cash Flow from Operations	4964	7027	(1367)	3439
(Inc.)/ Dec. in Fixed Assets	(2060)	(2669)	(1000)	(1000)
(Inc.)/ Dec. in Investments	(1160)	(2441)	0	0
Cash Flow from Investing	(3221)	(5110)	(1000)	(1000)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	0	0	0	0
Dividend Paid (Incl. Tax)	(839)	(923)	(1105)	(1318)
Interest / Dividend (Net)	(59)	3834	0	0
Cash Flow from Financing	(898)	2911	(1105)	(1318)
Inc./(Dec.) in Cash	845	4828	(3472)	1121
Opening Cash balances	842	1687	6515	3043
Closing Cash balances	1687	6515	3043	4164

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	28.5	22.7	18.3	15.3
P/CEPS	17.7	15.7	13.6	11.8
P/BV	3.6	3.0	2.7	2.4
Dividend yield (%)	0.8	1.0	1.2	1.4
EV/Sales	1.7	1.5	1.3	1.2
EV/EBITDA	16.6	11.4	10.3	9.0
EV / Total Assets	2.5	2.0	1.9	1.7
Per Share Data (₹)				
EPS (Basic)	27.1	34.0	42.2	50.4
EPS (fully diluted)	27.1	34.0	42.2	50.4
Cash EPS	43.4	49.0	56.5	65.5
DPS	6.0	7.5	9.3	11.1
Book Value	215.7	254.6	287.5	326.8
Returns (%)				
ROCE	10.5	14.3	14.6	15.0
Angel ROIC (Pre-tax)	33.6	48.5	33.5	31.8
ROE	12.5	13.4	14.7	15.4
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.9	2.9	3.2	3.5
Inventory / Sales (days)	22	20	24	26
Receivables (days)	24	24	28	30
Payables (days)	53	58	45	44
Working capital cycle (ex-cash) (days)	(7)	(14)	7	12

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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