

Buy

## Mahindra &amp; Mahindra

Industry: Auto and Auto Components Industry View: Positive

LKP  
Since 1948

Result Update

## FES segment and new SUV product pipeline to drive the performance

## Stellar set of numbers in Q4.

M&M's standalone Q4FY18 revenues came in above street's expectations at ₹133 bn, growing at 19.6% yoy and 14.9% sequentially. Automotive volumes in the quarter grew by 28.2% qoq and 19.7% yoy on the back of overall growth in all the segments. FES volumes grew by 41% yoy. While the auto revenues moved up by 2.5% yoy, they scaled up by 28% qoq as CV and pick up businesses excelled sequentially. FES revenues zoomed up more than 23% yoy and fell by 9.3% qoq on seasonality. On profitability front, EBITDA margins went up to 13.2% from 8.4% yoy and 12.9% qoq. Auto EBIT margins improved to 8.4% due to better product mix and tight cost control despite RM costs soaring. Even FES margins zoomed up at 19.5% due to sharp surge in tractor margins along with the volumes offering operating leverage. Despite lower other income (down by 44% yoy), higher tax rate (@32.3%) and increased depreciation expenses (17% up yoy), PAT adjusted for exceptional items went up by 60% yoy and 46% qoq at ₹10.1 bn on superb operating performance and topline growth.

## New launches to lift up SUV business performance

The future of UV business of M&M is now pinned upon new launches only as competition is intensifying. The company will launch a new SUV (code named U321) and another new product based on SsangYong's Tivoli platform named S201 in FY2019E to take on the likes of Brezza and Creta. Additionally, the company has launched refresh of existing model XUV500 called as 'The Plush New XUV500' in FY2018E, which is attracting 125 bookings per day and has 6 months waiting period. The company will launch a new range of gasoline, diesel as well as CNG engines over the next two years, which will increase addressable market segment of the company. With government's stand on EVs getting toned down, M&M is going a bit slow on its EV ambitions. The company is also coming up with a premium vehicle Y400 on Rexton platform of Ssangyong. We believe that the company can regain its lost market share (~25% currently) in the UV space with these new offerings at attractive price points and grow higher than the management's outlook of 8-10% for FY19E.

## CV business to improve on expansion of product portfolio and CV story

In MHCV segment, the industry in FY 18 has grown by 28%, while M&M has grown by 41.2%, thus increasing its market share by 50 bps to 4.5% in the same period. This is on the success of the 'Blazo' and 'Grader' range of heavy trucks, while on the ICV side, BMT Plus, Bolero Plus, Jeeto and Supro range of small trucks are giving tough fight to its competitors. Also on the passenger CV side, buses finding utility with schools like the Excelo range of buses are doing excellent. The company has expanded its service network (14 touch points in Delhi-Mumbai route) and parts availability through its parts plazas. The company is now targeting ICV segment and will launch models in 7.5-16 ton segment over the next two years. On the back of positive story around the CV industry led by overloading bans and infra growth, we believe CV business will continue to perform well and grow at 15-20% in the ensuing years.

## FES segment on a fast track

FES segment of the company has posted a strong 41% yoy volume growth in Q4 and a 14% growth in FY18 led by a strong performance of the southwest monsoons last year resulting in good crop produce. M&M maintained its market leadership position with ~43% market over the last full year. The 20-30 hp tractor JIVO gained 4.9% market share in the above segment, while the newly launched NOVO has reported a successful launch in the 65-70 hp range of tractors. On the Swaraj range of tractors, the company launched Swaraj 963 tractor in the high hp range. M&M is also launching an altogether new brand of tractors 'Trackstar' in FY 19E which is expected to post a very strong performance. In collaboration with a Baroda based company, M&M is launching another new brand of tractors named as 'Growmax'. With expectations of normal monsoon, the company has expectations of 10% growth in FY19E, which can be easily surpassed considering the new launches.

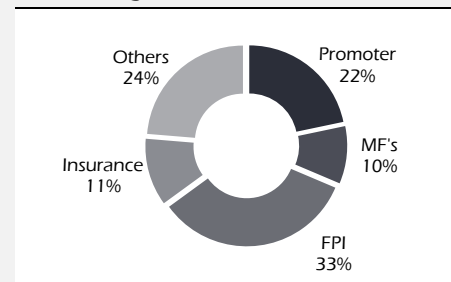
## Stock Data

Current Market Price (₹)	895
Target Price (₹)	1,028
Potential upside (%)	15
Reuters	MAHM.BO
Bloomberg	MM IN
FV (₹)	5
Market Cap. Full (₹ bn)	1,096
52-Week Range (₹)	895 / 613

## What's Changed

12 month Price Target (₹)	From 850 to 1,028
FY 2019E EPS (₹)	From 35 to 41
FY 2020E EPS (₹)	From 41 to 48

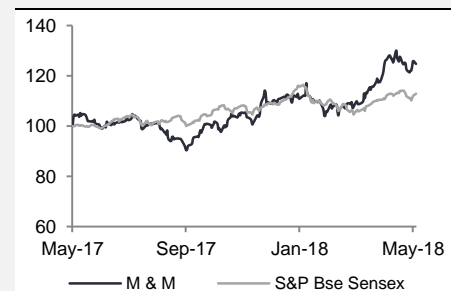
## Shareholding Pattern



## Fiscal YE

YE Mar	FY17	FY18	FY19E	FY20E
Total sales(₹ bn)	441	487	578	663
EBITDA margins (%)	10.3	12.8	13.0	13.3
PAT margins (%)	7.1	8.1	8.5	8.7
EPS	26.2	33.0	41.1	48.4
P/E	33.7	26.8	21.5	18.2
P/BV	3.9	3.5	3.0	2.6
EV/EBITDA	8.5	14.1	11.5	9.6
ROE%	11.6	12.9	14.1	14.5
Dividend yield %	0.7	0.5	0.5	0.5

## Relative Price Performance



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### Improved product mix to result into margins moving upwards

In Q4 FY18, the company posted robust margins at 13.2% as the FES segment (37% of volumes) posted strong margins at ~20%, while Auto business too posted a significant improvement in margins at ~8.5%. As FES sales move up hereon we expect even better margin performance reducing the impact of rising RM costs to a great extent. Lower discounts as compared to the festive season will be another factor leading to a better margin performance. Furthermore, price increases to be taken on both the segments along with tight cost control are expected to offset the RM prices hikes further assisting the margins. New launches at SUVs as well as FES segments would provide better product mix. Reduction in losses at subsidiary level (especially 2W) will augur well at the consolidated level. We expect 13-14% margins for FY19-20E as compared to 12.8% in FY18.

### Financial Highlights

YE Mar (₹.mn)	Q4 FY18	Q3 FY18	% qoq	Q4FY17	% yoy
Net sales	133,079	115,778	14.9%	111,252	19.6%
Raw material costs	92,364	80,305	15.0%	82,171	12.4%
Employee costs	7,063	7,228	-2.3%	6,017	17.4%
Other expenses	16,110	13,307	21.1%	13,679	17.8%
EBITDA	17,542	14,938	17.4%	9,385	86.9%
EBITDA margins %	13.2%	12.9%	30 bps	8.4%	480 bps
Other income	1,715	982	74.7%	3081	-44.3%
Depreciation	3,993	3,693	8.1%	3425	16.6%
Interest expenses	330	246	34.0%	445	-25.9%
PBT	14,934	11,981	24.6%	8596	73.7%
Tax	4,821	3,678	31.1%	2280	111.4%
Reported PAT	10,591	12,159	-12.9%	7253	46.0%
Exceptional items	479	3,857	-87.6%	937	-48.9%
Adjusted PAT	10,112	8,302	21.8%	6316	60.1%
Adj EPS	8.54	7.01	21.8%	5.3	60.1%

### Outlook and valuation

M&M's volume growth has picked up well in Q4 FY18. Going forward, new launches across SUV, FES and CV businesses will help the company to gain market share across the board. Better product mix in the form of new model launches will enable M&M to post better margins. In line with the company's thrust efforts on the petrol business and EV front (which is at a low pace now), we believe the company to give a better competition to its rivals. Apart from the new launches, on the back of GOI's added emphasis on the rural markets, we expect FY19E also to be a good year for the tractor industry. CV business will continue to get boost from the infra development in the country and the overloading bans in some of the major states. Margin performance to improve hereon as the company is bringing tighter cost control. Price hikes would considerably negate the impact of RM costs moving up. Lower losses at 2W subsidiary would aid the consolidated profitability. In view of this improved performance, we raise our target price to ₹1,028 which includes ₹302 of the subsidiary valuation. Maintain BUY.

## Financials

### Income statement

YE Mar (₹.mn)	FY17	FY18	FY19E	FY20E
<b>Total Revenues</b>	<b>440,731</b>	<b>486,855</b>	<b>578,115</b>	<b>663,168</b>
Raw Material Cost	320,812	341,347	406,415	465,544
Employee Cost	27,144	28,409	30,640	33,158
Other Exp	47,433	54,860	65,905	76,264
<b>EBITDA</b>	<b>45,342</b>	<b>62,240</b>	<b>75,155</b>	<b>88,201</b>
EBITDA Margin(%)	10.3	12.8	13.0	13.3
Other Income	13,455	10,363	12,200	13,800
Depreciation	15,264	14,794	16,437	18,644
Interest	1,596	1,122	1,010	1,070
<b>PBT</b>	<b>41,937</b>	<b>56,687</b>	<b>69,908</b>	<b>82,288</b>
PBT Margin(%)	9.5	11.6	12.1	12.4
Tax	10,792	17,464	20,972	24,686
<b>Adj PAT</b>	<b>31,145</b>	<b>39,223</b>	<b>48,935</b>	<b>57,601</b>
Adj PAT Margins (%)	7.1	8.1	8.5	8.7
Exceptional items	5485	4336	0	0
<b>Reported PAT</b>	<b>36,630</b>	<b>43,559</b>	<b>48,935</b>	<b>57,601</b>
Rep. PAT Margins (%)	8.3	8.9	8.5	8.7

### Key Ratios

YE Mar	FY17	FY18P	FY19E	FY20E
<b>Per Share Data (₹ )</b>				
Adj. EPS	26.2	33.0	41.1	48.4
CEPS	43.6	49.0	54.9	64.1
BVPS	225.1	254.6	290.8	334.0
DPS	6.3	4.2	4.4	4.5
<b>Growth Ratios (%)</b>				
Total revenues	7.8	10.5	18.7	14.7
EBITDA	-1.9	37.3	20.8	17.4
PAT	-0.7	25.9	24.8	17.7
EPS Growth	-48.2	25.9	24.8	17.7
<b>Valuation Ratios (X)</b>				
PE	33.7	26.8	21.5	18.2
P/CEPS	20.2	18.0	16.1	13.8
P/BV	3.9	3.5	3.0	2.6
EV/Sales	0.9	1.8	1.5	1.3
EV/EBITDA	8.5	14.1	11.5	9.6
<b>Operating Ratios (Days)</b>				
Inventory days	31.4	28.9	25.0	25.0
Receivable Days	22.6	22.9	24.0	27.0
Payables day	77.1	82.8	84.0	85.0
Net Debt/Equity (x)	0.08	0.07	0.07	0.07
<b>Profitability Ratios (%)</b>				
ROE	11.6	12.9	14.1	14.5
Dividend payout	23.9	12.7	10.6	9.4
Dividend yield	0.7	0.5	0.5	0.5

Source: Company, LKP Research

### Balance sheet

YE Mar (₹. mn)	FY17	FY18	FY19E	FY20E
<b>Equity and Liabilities</b>				
Equity Share Capital	2,968	5,950	5,950	5,950
Reserves & Surplus	264,888	296,991	340,050	391,549
Total Networth	267,856	302,940	346,000	397,499
Total debt	35,487	35,223	38,623	42,023
Deferred tax liabilities	0	2,772	2,772	2,772
<b>Current liabilities &amp; Provisions</b>	<b>96,340</b>	<b>133,232</b>	<b>141,929</b>	<b>158,012</b>
<b>Total Liabilities</b>	<b>399,682</b>	<b>474,168</b>	<b>529,324</b>	<b>600,307</b>
<b>Assets</b>				
Fixed assets	98,114	109,881	134,332	150,689
Non current Investments	143,017	166,455	181,455	196,455
Other non current assets	32,471	33,086	37,086	41,086
<b>Current Assets</b>	<b>126,095</b>	<b>164,745</b>	<b>176,450</b>	<b>212,077</b>
Cash and Bank	16,870	28,937	26,217	33,530
Inventories	27,580	27,017	27,837	31,887
Sundry Debtors	29,388	31,730	38,013	49,056
Loan, Advances & others	5,065	9,752	13,875	19,895
Other current assets	47,192	67,309	70,509	77,709
<b>Total Assets</b>	<b>399,682</b>	<b>474,168</b>	<b>529,324</b>	<b>600,307</b>

### Cash Flow

YE Mar (₹ mn)	FY17	FY18P	FY19E	FY20E
PBT	41,937	56,687	69,908	82,288
Depreciation	15,264	14,794	16,437	18,644
Interest	1,596	1,122	1,010	1,070
Chng in working capital	(313)	10,310	(5,729)	(12,230)
Tax paid	(9,924)	(17,464)	(20,972)	(24,686)
Other operating activities	(11,168)	(3,252)	(10,807)	(9,001)
<b>Cash flow from operations (a)</b>	<b>37,392</b>	<b>62,197</b>	<b>49,847</b>	<b>56,084</b>
Capital expenditure	(20,605)	(37,055)	(22,000)	(35,000)
Chng in investments	(48,065)	(23,438)	(15,000)	(15,000)
Other investing activities	36,682	9,001	9,001	9,001
<b>Cash flow from investing (b)</b>	<b>(31,988)</b>	<b>(51,491)</b>	<b>(27,999)</b>	<b>(40,999)</b>
<b>Free cash flow (a+b)</b>	<b>5,404</b>	<b>10,706</b>	<b>21,848</b>	<b>15,085</b>
Equity raised/(repaid)	0	2,982	0	0
Inc/dec in borrowings	(827)	(381)	3,000	3,000
Dividend paid (incl. tax)	(8,391)	(5,655)	(5,876)	(6,102)
Other financing activities	(456)	(456)	(456)	(456)
<b>Cash flow from financing (c)</b>	<b>(9,675)</b>	<b>(3,510)</b>	<b>(3,332)</b>	<b>(3,558)</b>
<b>Net chng in cash (a+b+c)</b>	<b>(4,270)</b>	<b>7,195</b>	<b>18,516</b>	<b>11,527</b>
<b>Closing cash &amp; cash equivalents</b>	<b>3,052</b>	<b>11,855</b>	<b>26,217</b>	<b>33,530</b>

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