

# Mahindra & Mahindra (MM IN)

## Good performance, but challenges persist

INDIA | AUTOMOBILES | Quarterly Update

15 February 2016

### Top takeaways from Q3FY16

- ✗ Revenues trailed our estimates by 6%. FES realisations dropped 9% due to weak market conditions leading to a 6% revenue miss.
- ✓ EBITDA margin (adjusted for one-offs of Rs1bn) was strong at 14.5% (PC: 14.3%, consensus 13%). Adjusted EBITDA missed our estimates by 5% but was 6% ahead of consensus.
- Adjusted PAT grew by 38% yoy to Rs9.2bn, missed estimates by 9%.

**Key highlights:** Strong operating performance with M&M+MVML reporting stellar margin of 14.5%. While we expect FY17 to be a better year with new launches in the market driving overall UV volumes and M&M's tractor business bottoming out due to a low base, we don't see a sharp tractor recovery and expect UVs to face immense competition. We are worried that M&M doesn't have any new launches in the pipeline, as almost all OEMs have new offerings in UVs (Maruti's *Vitara Brezza* is the most awaited one).

### Conference call takeaways

- Quarter included Rs 1bn worth of total one-time expenses – bonus provisions Rs 220mn, exchange provision for loan revaluation Rs320mn, and other one-offs like diminution of assets
- ✓ Reduced inventory by 19,000 tractors in Q3 – over a month's sale. This led to a production decline and pressure on FES margins
- ✓ Total 18,000 bookings for *KUV100*– in terms of production capacity, booked until April
- ✓ *KUV100*'s current capacity (200 units/day, 5,000 a month) will expand to 300 units/day or 7,500/month by August; 45% sales are for the petrol variant, 55% diesel
- ✓ Took a 1.7% price hike in the automotive segment (from Q3 till date)
- ✓ Management is very happy with its current product line up. Believes it is the most refreshed and strongest among competition. No major launches in the pipeline for now.
- ✓ Still debating if *XUV500* coupe should be actually produced and launched. If it decides to do so, it will still take atleast three years to launch
- ✗ Rural slowdown and improved road conditions in rural areas are impacting Bolero volumes – customers are open to other non-rugged options as well

**Outlook and valuation:** Near-term could look good due to tractor growth (on low base) and UV growth (on new launches). However, long-term pressures are evident with the tractor segment seeing cut-throat competition and no new launches in UVs. We tweak our estimates and downgrade to Neutral with a SOTP-based target price of Rs 1,320 (Rs1,452 earlier). We value the standalone business at Rs990 (15x FY17 earnings) and subsidiaries at Rs330 (20% discount to current valuations).

### Neutral(Downgrade)

CMP RS 1229/TARGET RS 1320 (+7%)

#### COMPANY DATA

O/S SHARES (MN) :	621
MARKET CAP (RSBN) :	779
MARKET CAP (USDBN) :	11.9
52 - WK HI/LO (RS) :	1441 / 1095
LIQUIDITY 3M (USDMN) :	24.7
PAR VALUE (RS) :	5

#### SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	25.6	25.7	25.7
FII / NRI :	37.5	37.8	38.7
FI / MF :	18.2	18.3	17.6
NON PRO :	2.4	2.4	2.3
PUBLIC & OTHERS :	10.7	10.5	10.3

#### Key Financials

Rsmn	FY16E	FY17E	FY18E
Net Sales	383,840	426,543	479,632
EBITDA	52,586	59,716	67,148
Net Profit	33,776	39,069	44,298
EPS, Rs	57.1	66.0	74.9
PER, x	21.5	18.6	16.4
EV/EBITDA, x	14.0	12.1	10.5
PBV, x	3.3	2.9	2.6
ROE, %	15.2	15.6	15.8
Debt/Equity (%)	9.6	7.2	5.5

#### CHANGE IN ESTIMATES

Rsmn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	383,840	426,543	-1.6%	-3.8%
EBITDA	52,586	59,716	12.8%	7.8%
Core PAT	33,776	39,069	-2.4%	-6.4%
EPS (Rs)	57.1	66.0	-2.4%	-6.4%

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(RsMn)	Q3FY16	Q3FY15	yoy growth %	Q2FY16	qoq growth %	vs. expectations %	Comments
Net sales	104,656	92,603	13%	87,937	19%	-6%	Revenues trails estimates due to lower FES realisations
EBITDA (Adj.)	15,138	10,797	40%	11,626	30%	-5%	EBITDA 5% below our estimate but 6% ahead of street
EBITDA Margin	14.5%	11.7%	281 bps	13.2%	124 bps	18 bps	EBITDA margins beats consensus by 150bps
Net Profit (Adj)	9,205	6,674	38%	9,781	-6%	-9%	
Net Margin	8.8%	7.2%	159 bps	11.1%	-233 bps	-23 bps	

#### Segmental Analysis

Auto Revenues	69,173	58,176	19%	59,893	15%	
Auto EBIT	7,054	4,830	46%	5,864	20%	
Auto Margins	10.2%	8.3%	190 bps	9.8%	41 bps	
FES Revenues	35,823	34,722	3%	28,442	26%	
FES EBIT	5,483	4,947	11%	4,651	18%	
FES Margins	15.3%	14.2%	106 bps	16.4%	-105 bps	

## Financials

### Income Statement

Y/E Mar, Rsmn	FY15	FY16e	FY17e	FY18e
<b>Net sales</b>	<b>374,683</b>	<b>383,840</b>	<b>426,543</b>	<b>479,632</b>
Growth, %	(3)	2	11	12
Other Operating income	0	0	0	0
Total income	374,683	383,840	426,543	479,632
Raw material expenses	-257,269	-261,011	-287,916	-323,752
Employee expenses	-24,936	-26,869	-29,858	-33,574
Other Operating expenses	-46,445	-43,374	-49,052	-55,158
<b>EBITDA (Core)</b>	<b>46,033</b>	<b>52,586</b>	<b>59,716</b>	<b>67,148</b>
Growth, %	(12.3)	14.2	13.6	12.4
Margin, %	12.3	13.7	14.0	14.0
Depreciation	(10,980)	(12,606)	(13,666)	(14,441)
<b>EBIT</b>	<b>35,053</b>	<b>39,980</b>	<b>46,050</b>	<b>52,708</b>
Growth, %	(20.1)	14.1	15.2	14.5
Margin, %	9.4	10.4	10.8	11.0
Other Non-Operating Income	8,201	7,791	8,570	8,827
<b>Pre-tax profit</b>	<b>43,572</b>	<b>45,643</b>	<b>52,796</b>	<b>59,863</b>
Tax provided	-9,339	-11,867	-13,727	-15,564
<b>Profit after tax</b>	<b>34,233</b>	<b>33,776</b>	<b>39,069</b>	<b>44,298</b>
Others (Minorities, Associates)	0	0	0	0
<b>Net Profit</b>	<b>34,233</b>	<b>33,776</b>	<b>39,069</b>	<b>44,298</b>
Growth, %	(25.1)	9.4	15.7	13.4
<b>Net Profit (adjusted)</b>	<b>30,876</b>	<b>33,776</b>	<b>39,069</b>	<b>44,298</b>
Unadj. shares (m)	592	592	592	592
Wtdavg shares (m)	592	592	592	592

### Balance Sheet

Y/E Mar, Rsmn	FY15	FY16e	FY17e	FY18e
Cash & bank	21,053	11,738	21,500	36,994
Debtors	24,241	24,833	27,596	31,031
Inventory	28,152	28,840	32,048	36,037
Loans & advances	0	0	0	0
Total current assets	88,503	81,973	99,363	124,102
Investments	161,159	169,216	177,677	186,561
Gross fixed assets	165,414	195,414	220,414	245,414
Less: Depreciation	-64,607	-77,214	-90,879	-105,320
Net fixed assets	100,807	118,200	129,534	140,094
<b>Total assets</b>	<b>350,468</b>	<b>369,390</b>	<b>406,575</b>	<b>450,757</b>
Current liabilities	97,117	99,725	110,819	124,613
Non-current liabilities	54,581	47,252	45,994	45,374
Total liabilities	151,698	146,977	156,813	169,987
Paid-up capital	2,958	2,958	2,958	2,958
Reserves & surplus	195,812	219,455	246,804	277,813
Shareholders' equity	198,770	222,413	249,762	280,770
<b>Total equity &amp; liabilities</b>	<b>350,468</b>	<b>369,390</b>	<b>406,575</b>	<b>450,757</b>

Source: Company, PhillipCapital India Research Estimates

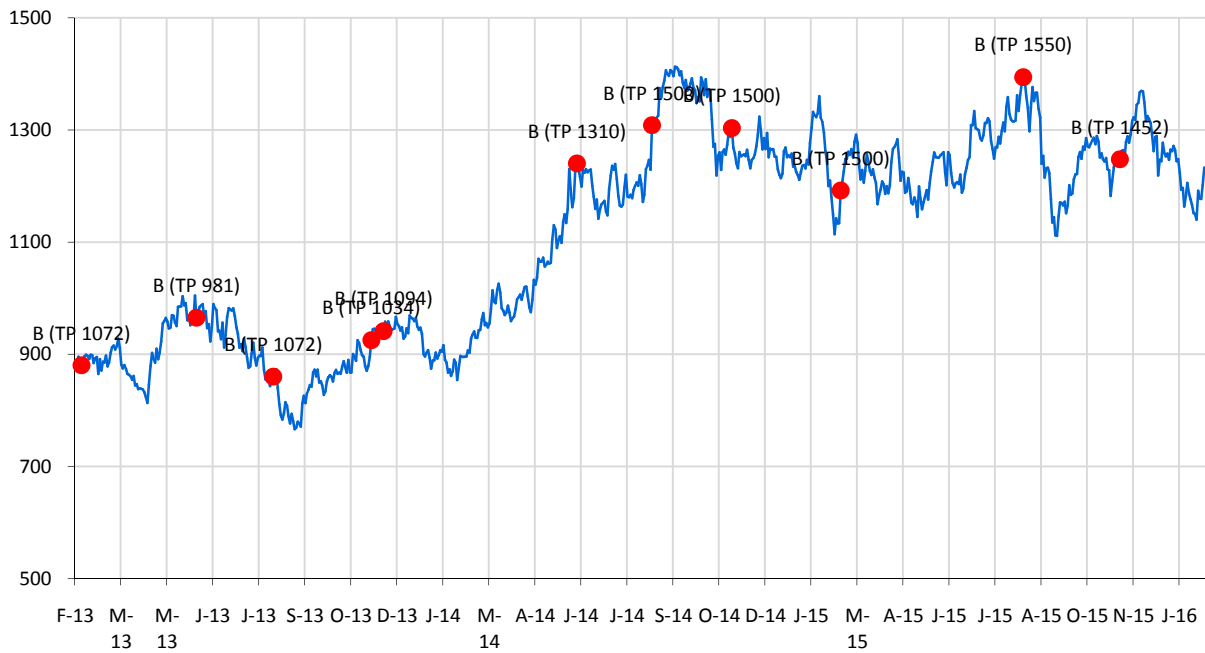
### Cash Flow

Y/E Mar, Rsmn	FY15	FY16e	FY17e	FY18e
Pre-tax profit	40,215	45,643	52,796	59,863
Depreciation	10,980	12,606	13,666	14,441
Chg in working capital	6,960	-178	3,467	4,548
Total tax paid	-8,342	-11,867	-13,727	-15,564
Other operating activities	-1,805	-5,663	-6,746	-7,155
<b>Cash flow from operating activities</b>	<b>48,008</b>	<b>40,541</b>	<b>49,456</b>	<b>56,132</b>
Capital expenditure	-21,232	-30,000	-25,000	-25,000
Other investing activities	-11,718	1,518	2,041	2,035
<b>Cash flow from investing activities</b>	<b>-32,950</b>	<b>-28,482</b>	<b>-22,959</b>	<b>-22,965</b>
Free cash flow	15,058	12,059	26,497	33,167
Debt raised/(repaid)	-12,696	-9,115	-3,190	-2,712
Other financing activities	-11,726	-12,260	-13,544	-14,962
<b>Cash flow from financing activities</b>	<b>-24,422</b>	<b>-21,375</b>	<b>-16,735</b>	<b>-17,673</b>
Net chg in cash	-9,363	-9,315	9,762	15,494

### Valuation Ratios

	FY15	FY16e	FY17e	FY18e
<b>Per Share data</b>				
EPS (INR)	52.2	57.1	66.0	74.9
Growth, %	(25.2)	9.4	15.7	13.4
Book NAV/share (INR)	336.0	376.0	422.2	474.7
FDEPS (INR)	52.2	57.1	66.0	74.9
CEPS (INR)	65.1	78.4	89.2	99.3
CFPS (INR)	78.1	66.0	81.7	93.3
DPS (INR)	(17.4)	(17.1)	(19.8)	(22.5)
<b>Return ratios</b>				
Return on assets (%)	10.0	9.4	10.1	10.3
Return on equity (%)	15.5	15.2	15.6	15.8
Return on capital employed (%)	13.9	12.9	13.8	14.2
<b>Turnover ratios</b>				
Asset turnover (x)	6.5	5.7	5.4	5.6
Sales/Total assets (x)	1.1	1.1	1.1	1.1
Sales/Net FA (x)	3.9	3.5	3.4	3.6
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Fixed capital/Sales (x)	0.4	0.5	0.5	0.5
Receivable days	23.6	23.6	23.6	23.6
Inventory days	27.4	27.4	27.4	27.4
Payable days	64.8	65.9	66.1	66.1
Working capital days	(28.9)	(28.0)	(28.2)	(28.5)
<b>Liquidity ratios</b>				
Current ratio (x)	0.9	0.8	0.9	1.0
Quick ratio (x)	0.6	0.5	0.6	0.7
Interest cover (x)	11.5	18.8	25.3	31.5
Total debt/Equity (%)	15.3	9.6	7.2	5.5
Net debt/Equity (%)	4.7	4.3	(1.4)	(7.7)
<b>Valuation</b>				
PER (x)	23.5	21.5	18.6	16.4
PEG (x) - y-o-y growth	(0.9)	2.3	1.2	1.2
Price/Book (x)	3.7	3.3	2.9	2.6
Yield (%)	(1.4)	(1.4)	(1.6)	(1.8)
EV/Net sales (x)	2.0	1.9	1.7	1.5
EV/EBITDA (x)	16.0	14.0	12.1	10.5
EV/EBIT (x)	21.0	18.4	15.7	13.4

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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