

Mahindra & Mahindra – ADD

Decent performance amidst tough times

Beat in automotive segment, tractor segment disappoints

M&M + MVML performance was better than expected in Q4 FY19 with EBIDTA margin at 13.5% compared to our estimates of 11.9% and PAT coming in at Rs9.7bn v/s our forecast of Rs9bn. EBIT margins in the automotive segment were ahead of forecasts (8.8% v/s 6.5% estimate) whereas tractors segment reported weaker than estimated EBIT margins (16.2% v/s 19% estimate). EBIDTA margins were lower by 160bps yoy owing to continued rise in raw material costs and lower contribution of higher margin tractor segment. Sequentially, OPM improved 32bps owing to sharp jump of 298bps in EBIT margins for the automotive segment as Q3 FY19 had impact of new launch expenses (Marazzo, Alturas). Higher than expected other income was offset by higher than forecasted tax rate and depreciation.

Single digit industry volume growth outlook

For FY20, M&M has guided for an industry volume growth of 3-5% for PVs, 10-12% for CVs and 5% for tractors. The outlook for CVs and PVs is in line with SIAM forecasts. However, considering the recent outcome of general elections, management is hopeful of a relatively better growth. Tractor industry, following three years of strong growth, is expected to slow down especially in H1 FY20 owing to high base effect. Increasing penetration of mechanization will help in the growth of implements business. The automotive segment will see gyrations owing to the implementation of BS VI norms from April 2020. Inventory management will be a key in this phase. Considering this, we expect M&M to report an uninspiring FY19-21E revenue and PAT CAGR of 8.7% and 2.4% respectively. Valuations appear fair at FY21E standalone P/E of 16x. We assign an ADD rating with a 1-year price target of Rs747.

CMP (Rs) 672		12-mts Target (Rs) 747		Upside 11%	
Stock data (As on May 29, 2019)			Sector: Automobiles		
Sensex:	39,502	Stock performance			
52 Week h/l (Rs)	993 / 597				
Market cap (Rs mn)	835,612				
Enterprise value (Rs mn)	1,311,488				
6m Avg t/o (Rs mn):	2,537				
FV (Rs):	5				
Div yield (%):	1.1				
Bloomberg code:	MM IS	Shareholding pattern (As of Mar'19 end)			
BSE code:	500520	Promoter 21.6%			
NSE code:	M&M	FII+DII 59.9%			
		Others 18.5%			

Exhibit 1: Result table (M&M + MVML)

(Rs mn)	Q4 FY19	Q4 FY18	% yoy	Q3 FY19	% qoq
Net sales	138,079	131,888	4.7	128,925	7.1
OPM (%)	13.5	15.1	-160 bps	13.2	32 bps
Depreciation	(5,696)	(4,390)	29.7	(5,054)	12.7
Interest	(304)	(499)	(39.0)	(353)	(13.8)
Other income	2,473	1,659	49.0	3,423	(27.8)
Extra ordinary items	(1,047)	479	(318.8)	(800)	30.9
PBT	14,103	17,199	(18.0)	14,245	(1.0)
Tax	(4,411)	(5,650)	(21.9)	(285)	1,445.5
Effective tax rate (%)	31.3	32.9		2.0	
Adjusted PAT	9,692	11,549	(16.1)	13,960	(30.6)
Adj. PAT margin (%)	7.0	8.8	-174 bps	10.8	-381 bps

Source: Company, YES Sec – Research

Exhibit 2: Segmental analysis (M&M + MVML)

Revenue (Rs mn)	Q4 FY19	Q4 FY18	% yoy	Q3 FY19	% qoq
Automotive	102,217	91,049	12.3	79,148	29.1
Farm equipments	32,059	37,161	(13.7)	46,338	(30.8)
Others	4,696	5,543	(15.3)	4,448	5.6
Total	138,972	133,752	3.9	129,934	7.0

EBIT (Rs mn)	Q4 FY19	Q4 FY18	% yoy	Q3 FY19	% qoq
Automotive	9,002	9,713	(7.3)	4,608	95.4
Farm equipments	5,187	7,234	(28.3)	8,881	(41.6)
Others	76	237	(68.0)	141	(46.2)
Total	14,265	17,184	(17.0)	13,630	4.7

EBIT Margin (%)	Q4 FY19	Q4 FY18	bps yoy	Q3 FY19	bps qoq
Automotive	8.8	10.7	(186)	5.8	298
Farm equipments	16.2	19.5	(329)	19.2	(299)
Others	1.6	4.3	(266)	3.2	(155)
Total	10.3	12.8	(258)	10.5	(23)

Volumes	Q4 FY19	Q4 FY18	% yoy	Q3 FY19	% qoq
Automotive	174,679	165,252	5.7	143,272	21.9
Farm equipments	60,878	70,635	(13.8)	90,729	(32.9)

Realizations	Q4 FY19	Q4 FY18	% yoy	Q3 FY19	% qoq
Automotive	585,172	550,968	6.2	552,428	5.9
Farm equipments	526,607	526,095	0.1	510,732	3.1

Source: Company, YES Sec - Research

Exhibit 3: Cost analysis (M&M + MVML)

As a % of net sales	Q4 FY19	Q4 FY18	bps yoy	Q3 FY19	bps qoq
Material costs	68.3	66.2	213	69.2	(89)
Personnel Costs	5.5	6.0	(50)	6.6	(113)
Other overheads	12.7	12.7	(4)	11.0	170
Total costs	86.5	84.9	160	86.8	(32)

Source: Company, YES Sec - Research

Key takeaways from the analyst meet

- ✓ Five things to watch for in FY20
 - Policies of new government: strong mandate will allow the government to implement measures to drive consumption growth. Expect a good budget.
 - Availability for finance - has been a challenge, expect RBI to take liquidity easing measures, expect 25-50bps reduction in interest costs in FY20
 - Monsoons - base case is slightly below normal
 - Trade protectionism and sanctions - 35% of revenues come from exports, management does not expect material impact of the ongoing trade war situation
 - BS VI transition - not a technology challenge any more, however, forecasting BS IV demand and inventory management would be the key
- ✓ Strategy for the near term - Maintain UV leadership, leveraging the launch of Furio in CV portfolio, Treo - currently present only in one geographic location - will go pan India, build digital platforms and manage OPM through operating leverage and cost cutting
- ✓ BS VI - the company is fully ready as it has been exporting Euro VI products in international markets. While the smaller diesel engine

vehicles will see some pressure, larger diesel engines (1.5l and 2.0l) will not see material impact. The company has developed 1.2l and 1.5l gasoline engines and is in the process of developing 2.0 litre engine. Engine manufacturing capacities along with vendors is fungible between the fuel variants.

- ✓ Alliance with Ford continues to progress well. The CSUV will be the first product which will have two-third commonality between the two entities. Also, M&M will be supplying gasoline engines to Ford.
- ✓ In the farm equipment segment, the company has an inventory of 5-6 weeks, only moderately higher than its usual levels. However, the company believes that the inventory in the industry is at least three weeks more.
- ✓ Over the medium term, the company is confident that the tractor sales in the country will grow at 8-10% driven by 1) increased government spend on irrigation, Horticulture growing at faster pace as compared to food grains (where multiple cropping, higher yields, higher realisations and lower degree of mechanization will drive growth) and shortage of labour.
- ✓ Global farm equipment business is likely to see strong traction over the medium term as the company has taken corrective actions in FY19, particularly so in its US subsidiary. Turkey subsidiary is witnessing strong growth in exports.
- ✓ For the next three years, the company has lined up a capex of Rs180bn of which Rs120bn will be spent on capacity additions and product development whereas remaining will be spent on investments.
- ✓ The board of directors have approved the merger of MVML with M&M with effect from April 01, 2019.

Exhibit 4: Valuation summary (Standalone)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	470,960	494,450	536,140	590,336	633,740
yoy growth (%)	15.2	5.0	8.4	10.1	7.4
Operating profit	47,693	62,240	66,396	72,893	75,208
OPM (%)	10.1	12.6	12.4	12.3	11.9
Pre-exceptional PAT	34,072	39,224	48,258	49,478	50,311
Reported PAT	39,557	43,560	47,960	49,478	50,311
yoy growth (%)	24.9	10.1	10.1	3.2	1.7
EPS (Rs)	28.7	33.0	40.5	41.5	42.2
P/E (x)	23.4	20.4	16.6	16.2	15.9
Price/Book (x)	3.1	2.6	2.3	2.2	2.0
EV/EBITDA (x)	17.1	12.9	12.0	10.8	10.4
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
RoE (%)	14.2	14.0	15.0	13.9	13.2
RoCE (%)	16.9	18.1	18.0	17.8	17.0

Source: Company, YES Sec - Research

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ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

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