

August 7, 2019

Q1FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		BUY	
Target Price	547		815	
Sales (Rs. m)	536,553	503,496	540,950	505,652
% Chng.	(0.8)	(0.4)		
EBITDA (Rs. m)	65,884	58,860	69,455	64,555
% Chng.	(5.1)	(8.8)		
EPS (Rs.)	35.8	30.5	46.1	38.3
% Chng.	(22.4)	(20.4)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	487	536	537	503
EBITDA (Rs. bn)	62	66	66	59
Margin (%)	12.8	12.4	12.3	11.7
PAT (Rs. bn)	40	48	43	36
EPS (Rs.)	34.0	40.4	35.8	30.5
Gr. (%)	25.4	18.9	(11.5)	(14.8)
DPS (Rs.)	7.5	8.5	10.0	10.0
Yield (%)	1.4	1.6	1.9	1.9
RoE (%)	14.2	14.9	12.1	9.7
RoCE (%)	15.1	13.7	11.4	8.3
EV/Sales (x)	1.2	1.1	1.1	1.2
EV/EBITDA (x)	9.3	8.7	9.0	10.1
PE (x)	15.2	12.8	14.5	17.0
P/BV (x)	2.0	1.8	1.7	1.6

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.993 / Rs.515
Sensex / Nifty	36,691 / 10,856
Market Cap	Rs.644bn/ \$ 9,098m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.4019.33m

Shareholding Pattern (%)

Promoter's	24.31
Foreign	34.49
Domestic Institution	24.06
Public & Others	17.15
Promoter Pledge (Rs bn)	3.74

Stock Performance (%)

	1M	6M	12M
Absolute	(19.3)	(26.1)	(44.1)
Relative	(13.1)	(25.5)	(42.6)

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Challenges to persist; Downgrade to Hold

MM's 1QFY20 performance exceeded expectations on all grounds, with standalone (S/A) EBITDA margins at 12.6% (PLe: 12%). We believe, not only MM is highly exposed to BS6 transition and related cost increase challenge (with ~90% of its product portfolio is diesel dependent) but also increasing competition in its core forte (UV2 segment due to MG) to also dent auto segment performance. Additionally, with tractor segment contribution is expected to decline over FY20/21, margin profile too is expected to deteriorate with S/A FY20/21 margins at 12.3%/11.7%. With significant correction in valuations, we downgrade the stock to Hold with price target of INR547 (based in 12x Mar'21E core PE plus value of investment in key subsidiaries).

Key upside risk: 1) Higher than expected growth in tractor volumes led by better spread out of monsoon and 2) GST rate cut in key business segments.

- S/A performance above estimates:** Revenues declined 4.4% YoY (-8% QoQ) at Rs129.2b (in-line), led by volume decline of 9.5%. Blended realization grew 5.6% YoY (-0.5% QoQ) to Rs592.7k/unit (PLe: 586.5k/unit). Gross margins came in line at 29%, lower than expected decline in other expense at 10.5% (PLe: 11%) led to EBITDA margins beat at 12.6% (PLe: 11%), contracting 120bp YoY (-90bp QoQ). Adjusting for exceptional gain on sale of share by MM trust worth ~Rs13.6bn, net profit for the company stood at Rs11.6bn, down 4% YoY (PLe of ~Rs9bn).
- M&M + MVML performance:** Revenues fell 4% YoY at Rs128bn, with OPM at 14% (-180bps YoY/ +50bps QoQ). Adj. PAT grew 4.6% YoY to Rs12.9bn.
- S/A segmental performance:** Auto segment realization increased 5.3% YoY (2.9% QoQ) to Rs615k/unit, with margins declining ~200bp YoY and QoQ to 4.7%. These was led by negative operating leverage and product mix impact Farm realization increased 2.2% YoY (-3.6% QoQ) to INR507.5k/unit.
- Ssangyong loss was led by lower revenues** due to lower volumes in its domestic and exports markets. As indicated by the management, along with significant slowdown in Korean markets many exports markets too have witnessed slowed down.
- Key takeaways from the con-call: (1)** The management has guided for flat volume growth in FY20 (residual growth at 6-8%). **(2)** Tractor market share flat at 44.3% YoY. **(3)** Not witnessing any serious issue as dealers are well capitalized. **(4)** RM price declined by ~5% in 1QFY20. Expect benign RM to help margins in coming quarters too. **(5)** Small price increase in both automotive and tractor segment helped realizations growth. **(6)** Auto PBIT margin impacted by higher negative operating leverage and inferior product mix. **(7)** The loss in Ssangyong were led by slowdown in its domestic and exports markets. Ssangyong was EBITDA positive. **(8)** The latest cut in GST on EV should help bring demand from 3W and shared mobility segments. **(9) Peugeot** – Investing money in EV. 2W EV will be made in India and exported to Europe for which first shipment to start soon.

Exhibit 1: Q1FY20 Result Overview (Rs m)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Revenues	129,227	135,199	(4.4)	140,352	536,553	536,140	0.1
Raw Materials	91,591	95,566	(4.2)	100,368	382,026	382,565	(0.1)
<i>% of Net Sales</i>	<i>70.9</i>	<i>70.7</i>		<i>71.5</i>	<i>71.2</i>	<i>71.4</i>	
Personnel	7,841	7,516	4.3	7,094	33,378	29,802	12.0
<i>% of Net Sales</i>	<i>6.1</i>	<i>5.6</i>		<i>5.1</i>	<i>6.2</i>	<i>5.6</i>	
Manufacturing & Other Exp	13,568	13,401	1.2	16,432	55,265	57,377	(3.7)
<i>% of Net Sales</i>	<i>10.5</i>	<i>9.9</i>		<i>11.7</i>	<i>10.3</i>	<i>10.7</i>	
Total Expenditure	113,000	116,483	(3.0)	123,894	470,669	469,744	0.2
EBITDA	16,227	18,716	(13.3)	16,458	65,884	66,396	(0.8)
<i>EBITDA Margin (%)</i>	<i>12.6</i>	<i>13.8</i>	<i>(1.3)</i>	<i>11.7</i>	<i>12.3</i>	<i>12.4</i>	
Depreciation	5,454	3,930	38.8	5,325	22,901	18,604	23.1
EBIT	10,774	14,787	(27.1)	11,132	42,983	47,792	(10.1)
Interest Expenses	271	327	(17.1)	281	1,029	1,134	(9.2)
Non-operating income	3,191	2,650	20.4	2,368	18,101	16,890	7.2
Extraordinary Income	13,671	209		(1,047)	13,671	(297)	(4,698.2)
PBT	27,364	17,318	58.0	12,172	73,725	63,250	16.6
Tax-Total	4,226	5,108	(17.3)	3,683	13,451	15,288	(12.0)
<i>Tax Rate (%) - Total</i>	<i>15.4</i>	<i>29.5</i>	<i>(47.6)</i>	<i>30.3</i>	<i>18.2</i>	<i>24.2</i>	<i>(24.5)</i>
Reported PAT	23,138	12,210	89.5	8,489	60,274	47,962	25.7
Adj. PAT	11,579	12,062	(4.0)	9,219	48,715	48,163	1.1

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Sales Volume (nos)	218,039	240,884	(9.5)	235,557	930,451	939,032	(0.9)
Net Realisation/Vehicle	592,679	561,262	5.6	595,829	576,659	570,950	1.0
Material cost / vehicle	420,068	396,731	5.9	426,089	410,581	407,403	0.8
Gross Profit / vehicle	172,612	164,531	4.9	169,739	166,078	163,546	1.5
Employee cost /vehicle	35,962	31,200	15.3	30,114	35,873	31,737	13.0
Other expenses / vehicle	62,225	55,633	11.9	69,759	59,396	61,103	(2.8)
EBITDA/vehicle	74,424	77,699	(4.2)	69,866	70,809	70,706	0.1
Net Profit/vehicle	53,104	50,076	6.0	39,138	52,356	51,290	2.1

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	486,856	536,140	536,553	503,496
YoY gr. (%)	10.5	10.1	0.1	(6.2)
Cost of Goods Sold	341,347	382,565	382,026	357,482
Gross Profit	145,509	153,575	154,527	146,014
Margin (%)	29.9	28.6	28.8	29.0
Employee Cost	28,409	29,802	33,378	36,049
Other Expenses	54,860	57,377	55,265	51,105
EBITDA	62,240	66,396	65,884	58,860
YoY gr. (%)	37.9	6.7	(0.8)	(10.7)
Margin (%)	12.8	12.4	12.3	11.7
Depreciation and Amortization	14,794	18,604	22,901	25,503
EBIT	47,446	47,792	42,983	33,357
Margin (%)	9.7	8.9	8.0	6.6
Net Interest	1,122	1,134	1,029	1,054
Other Income	10,364	16,890	18,101	18,869
Profit Before Tax	61,024	63,250	46,384	51,172
Margin (%)	12.5	11.8	8.6	10.2
Total Tax	17,464	15,290	13,451	14,840
Effective tax rate (%)	28.6	24.2	29.0	29.0
Profit after tax	43,560	47,960	32,933	36,332
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	40,465	48,186	42,639	36,332
YoY gr. (%)	25.7	19.1	(11.5)	(14.8)
Margin (%)	8.3	9.0	7.9	7.2
Extra Ord. Income / (Exp)	3,095	(225)	(9,706)	-
Reported PAT	43,560	47,960	32,933	36,332
YoY gr. (%)	19.6	10.1	(31.3)	10.3
Margin (%)	8.9	8.9	6.1	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	43,560	47,960	32,933	36,332
Equity Shares O/s (m)	1,190	1,192	1,192	1,192
EPS (Rs)	34.0	40.4	35.8	30.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	182,295	229,854	279,052	314,052
Tangibles	182,295	229,854	279,052	314,052
Intangibles	-	-	-	-
Acc: Dep / Amortization	103,700	129,036	151,937	177,440
Tangibles	103,700	129,036	151,937	177,440
Intangibles	-	-	-	-
Net fixed assets	78,594	100,818	127,115	136,611
Tangibles	78,594	100,818	127,115	136,611
Intangibles	-	-	-	-
Capital Work In Progress	31,287	24,198	10,000	10,000
Goodwill	-	-	-	-
Non-Current Investments	166,455	190,321	205,321	220,321
Net Deferred tax assets	(2,772)	(6,341)	(6,341)	(6,341)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	39,375	29,840	25,000	25,000
Inventories	27,017	38,393	38,422	36,055
Trade receivables	31,730	39,463	39,493	33,107
Cash & Bank Balance	28,937	37,317	27,440	25,515
Other Current Assets	60,591	59,513	59,513	59,513
Total Assets	474,168	526,971	539,419	556,467
Equity				
Equity Share Capital	5,950	5,958	5,958	5,958
Other Equity	296,991	336,135	357,151	381,567
Total Network	302,941	342,093	363,109	387,525
Non-Current Liabilities				
Long Term borrowings	28,644	24,803	24,803	24,803
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	86,034	96,782	88,200	82,767
Other current liabilities	53,777	56,952	56,964	55,031
Total Equity & Liabilities	474,168	526,971	539,419	556,467

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	56,688	63,547	42,983	33,357
Add. Depreciation	14,794	18,604	22,901	25,503
Add. Interest	(8,084)	(13,184)	18,101	18,869
Less Financial Other Income	10,364	16,890	18,101	18,869
Add. Other	1,957	(327)	-	-
Op. profit before WC changes	65,354	68,640	83,985	77,729
Net Changes-WC	17,803	(5,060)	(8,634)	(1,845)
Direct tax	(12,887)	(14,341)	(13,451)	(14,840)
Net cash from Op. activities	70,271	49,239	61,899	61,045
Capital expenditures	(51,104)	(25,487)	(45,160)	(50,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(51,104)	(25,487)	(45,160)	(50,000)
Issue of share cap. / premium	-	-	1,930	1,930
Debt changes	592	(3,725)	-	-
Dividend paid	(9,230)	(10,117)	(12,084)	(12,084)
Interest paid	(1,695)	(1,710)	(1,029)	(1,054)
Others	-	-	-	-
Net cash from Fin. activities	(10,333)	(15,552)	(11,183)	(11,208)
Net change in cash	8,834	8,199	5,556	(163)
Free Cash Flow	43,583	18,923	26,899	26,045

Source: Company Data, PL Research

Key Financial Metrics

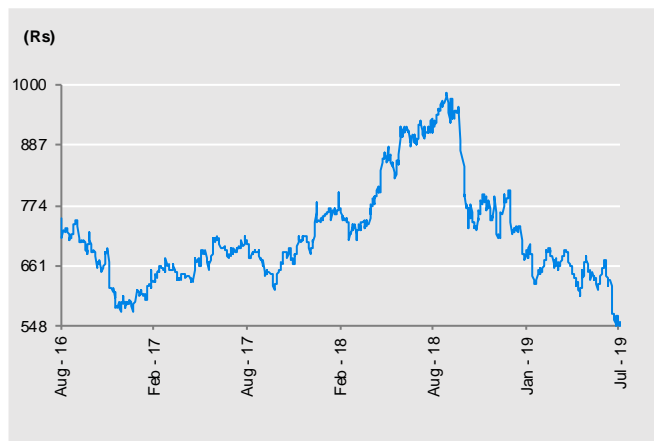
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	34.0	40.4	35.8	30.5
CEPS	46.4	56.1	55.0	51.9
BVPS	254.6	287.1	304.7	325.2
FCF	36.6	15.9	22.6	21.9
DPS	7.5	8.5	10.0	10.0
Return Ratio(%)				
RoCE	15.1	13.7	11.4	8.3
ROIC	13.8	12.8	9.4	6.8
RoE	14.2	14.9	12.1	9.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	(20)	(13)	(7)	(10)
Valuation(x)				
PER	15.2	12.8	14.5	17.0
P/B	2.0	1.8	1.7	1.6
P/CEPS	46.4	56.1	55.0	51.9
EV/EBITDA	9.3	8.7	9.0	10.1
EV/Sales	1.2	1.1	1.1	1.2
Dividend Yield (%)	1.4	1.6	1.9	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	129,886	130,704	140,352	129,227
YoY gr. (%)	6.6	12.9	5.5	(4.4)
Raw Material Expenses	92,561	94,069	100,368	91,591
Gross Profit	37,325	36,634	39,983	37,636
Margin (%)	28.7	28.0	28.5	29.1
EBITDA	16,050	15,172	16,458	16,227
YoY gr. (%)	(7.2)	1.6	(6.2)	(13.3)
Margin (%)	12.4	11.6	11.7	12.6
Depreciation / Depletion	4,614	4,735	5,325	5,454
EBIT	11,436	10,437	11,132	10,774
Margin (%)	8.8	8.0	7.9	8.3
Net Interest	277	249	281	271
Other Income	8,463	3,409	2,368	3,191
Profit before Tax	20,963	12,797	12,172	27,364
Margin (%)	16.1	9.8	8.7	21.2
Total Tax	4,469	2,028	3,683	4,226
Effective tax rate (%)	21.3	15.8	30.3	15.4
Profit after Tax	16,495	10,769	8,489	23,138
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	15,439	11,442	9,219	13,364
YoY gr. (%)	16.0	24.4	(10.2)	10.8
Margin (%)	11.9	8.8	6.6	10.3
Extra Ord. Income / (Exp)	1,055	(673)	(730)	9,774
Reported PAT	16,495	10,769	8,489	23,138
YoY gr. (%)	23.9	(11.4)	(19.8)	89.5
Margin (%)	12.7	8.2	6.0	17.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,495	10,769	8,489	23,138
Avg. Shares O/s (m)	1,192	1,192	1,192	1,192
EPS (Rs)	13.0	9.6	7.7	11.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	815	672
2	29-May-19	BUY	815	672
3	5-Apr-19	BUY	878	658
4	11-Feb-19	BUY	878	682
5	7-Jan-19	BUY	984	730
6	14-Nov-18	BUY	984	770
7	5-Oct-18	BUY	1,058	795
8	4-Sep-18	BUY	1,156	932

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	69
2	Bajaj Auto	Reduce	2,646	2,619
3	Bharat Forge	Hold	513	476
4	CEAT	Reduce	757	803
5	Eicher Motors	Reduce	15,800	16,348
6	Exide Industries	Accumulate	209	181
7	Hero Motocorp	Accumulate	2,529	2,259
8	Mahindra & Mahindra	BUY	815	672
9	Maruti Suzuki	BUY	6,842	5,806
10	Motherson Sumi Systems	Accumulate	131	127
11	Tata Motors	Hold	139	144
12	TVS Motors	Hold	405	380

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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