

Weak demand outlook

11th February 2019

CMP: Rs 650
Target Price: Rs 703
Recommendation: Hold

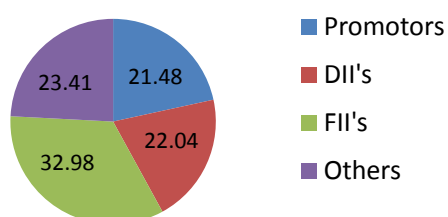
Stock Info

BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	36,395
NSE Nifty	10,888

Market Info

Market Capital	Rs 77,138cr
Equity Capital	Rs 595 cr
6M Avg Trading Volume	2,876,120
52 Wk High / low	Rs 993/645
Face Value	Rs 5

Share Holding Pattern Dec 18



Q3FY19 Highlights Standalone:

Net Revenues stood at Rs 13,070 crore, increase of 13 % YoY.

1,33,508 vehicles were sold in domestic market, YoY growth of 10%.

87,036 tractors were sold in the domestic market, YoY growth of 13%.

Total exports were 12,363 units (Both Vehicles and tractors), YoY growth of 8%.

Q3FY19 Profitability Standalone:

EBITDA stood at Rs 1517 crore vs 1495 crore, increase of 2% YoY.

EBITDA margins stood at 11.6% vs 12.9% YoY and 12.2% QoQ.

PAT stood at Rs 1077 crore vs 1215 crore decrease of 11% YoY.

M&M Q3FY19 Concall Highlights:

- India has performed well in a weak global market.
- Over 9mFY19 material costs increased ~4.0-4.5%. Company was able to pass on 60-70% in both the businesses.
- Steep increase in commodity price (offset marginally due to price hikes). As commodity prices have moderated, company does not expect a significant impact on margin going ahead.
- Management believes the budget does not have anything specific for the auto sector.
- Rabi crop sowing is lower than last year and low reservoir levels in Maharashtra, AP and Telanga are currently concerns.

Auto Segment

- 11% volume growth in Q3 as the company focused on volume growth in this segment.
- Market share grew 0.5% in Q3 in the UV segment.
- LCV growth was 41% in Q3. Looking at 42% full year growth.
- 2-3.5tonne vehicles' growth was 8.5% in Q3 (lower than H1). Looking at 10-12% full year growth.
- M&HCV declined by 8.2% in Q3 (due to new axle loading norms).
- Management expects full year PV industry growth of 4-6%.

Valuation:

Despite reversal of the negative aspects affecting demand such as higher oil prices, commodity costs, tighter liquidity, etc, demand has failed to recover. Management expects sentiments to improve from April. Demand post implementation of BS-VI remains unclear. On the tractor front, management does not expect a double digit growth in FY20 given strong volume growth in the past three years. We value M&M based on SoTP valuations and have a "Hold" rating on the stock. We value the core business at Rs 600 per share, based on PE of 15x of our FY20E EPS of Rs 40. We have valued total investments (listed and unlisted) at Rs 103 per share, with a holding company discount of 25%. Our SoTP value for stock comes at Rs 703 per share.

Financial Snapshot:

Y/E March, (in Rs crore)	FY18	FY19E	FY20E
Net Sales	48,681	53,016	57,787
yoy%	11.2%	8.9%	9.0%
Operating EBIDTA	6,225	6,477	7,073
Operating EBITDA margin %	12.8%	12.2%	12.2%
PAT	4,355	4,424	4,787
yoy%	10.1%	1.6%	8.2%
EPS	37	37	40

Quarterly Update:

Profit and loss for the year ended					
Standalone P&L (in Rs Crore)	Q3FY19	Q2FY19	Q3 FY 18	YoY	QoQ
Total Income from Operations	13070	12989	11577	13%	1%
Total RM Cost	9407	9256	8031	17%	2%
Contribution	3663	3732	3546	3%	-2%
Gross margin%	28%	29%	31%		
Total Expenditure	11553	11410	10082	15%	1%
Op EBITDA	1,517	1,579	1495	2%	-4%
Op EBITDA margin %	11.6%	12.2%	12.9%		
Interest Expense	24.91	27.66	25	1%	-10%
PBT	1280	2070	1583	-19%	-38%
Provision for Taxation	203	447	368	-45%	-55%
Net Profit	1077	1623	1215	-11%	-34%
Effective Tax rate	16%	22%	23%		
Basic EPS	9.1	13.6	10.2	-11%	-34%

Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY18	FY19E	FY20E
Net Sales	48,681	53,016	57,787
YoY%	11	9	9
Other Operating Income	-	-	-
Income from Operations	48,681	53,016	57,787
Materials Consumed	23,262	26,508	28,894
Total Expenditure	42,457	46,539	50,714
Operating EBITDA	6,225	6,477	7,073
Operating EBITDA margin %	12.8	12.2	12.2
Depreciation	1,479	1,853	2,086
Operating EBIT	4,745	4,624	4,988
Other Income	1,035	1,374	1,525
Interest	112	122	123
PBT before Excp Items	5668	5875	6390
Exceptional item	434	400	400
PBT	6102	6275	6790
Tax Expense	1747	1851	2003
Reported Net Profit	4355	4424	4787
YoY%	10	2	8
Effective Tax Rate	29	30	30
Reported EPS	37	37	40

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY18	FY19E	FY20E
Liabilities + Equity			
(a) Share capital	595	595	595
(b) Reserves and surplus	29,699	33,065	36,793
Shareholders' funds	30,294	33,660	37,388
Non-current liab & Prov	3,800	4,596	4,673
Current liabilities	13,447	14,307	15,311
Total - Equity and liabilities	47,540	52,563	57,372
Assets			
Non-current assets			
Fixed assets	11,088	14,253	16,044
Long Term Inv	17,134	17,291	19,022
Loans + Adv + Others	43	47	52
Other non-current assets	2,677	3,125	3,505
Current assets			
Cash & bank balance	2,894	859	923
Other Current Assets	13,704	16,986	17,826
Sub-total - Current assets	16,598	17,845	18,749
Total - Assets	47,540	52,563	57,372

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY18	FY19E	FY20E
Operating Activities			
PBT before Excp Items	5,668	5,875	6,390
Add Depr	1,479	1,853	2,086
Others	(613)	(782)	(782)
Total	6,535	6,946	7,693
Cash Taxes	(1,289)	(1,851)	(2,003)
Changes in Working Cap	1,780	(90)	262
Cash Flow from Operations	7,027	5,004	5,952
Investing Activities			
Other	(2,427)	(1,800)	(1,500)
Capex	(2,683)	(3,165)	(3,790)
Cash Flow from Investing	(5,110)	(4,965)	(5,290)
Financing Activities			
Dividends + Taxes paid	(923)	(928)	(928)
Change in Non Curr Liab	(1,956)	(1,526)	(1,526)
Cash Flow from Financing	(1,033)	(598)	(598)
Opening Cash	538	1,418	859
Changes during year	883	(559)	64
Closing Cash	1,418	859	923

Ratio Analysis

	FY18	FY19E	FY20E
Profitability			
Operating EBITDA%	12.8	12.2	12.2
Operating EBIT%	9.7	8.7	8.6
PAT%	8.9	8.3	8.3
Du Pont ROE breakup			
PAT / Sales	8.9	8.3	8.3
Sales / Avg Total Assets	1.0	1.0	1.0
Avg Total Assets / Avg Eqty	1.6	1.6	1.5
ROE	14.4	13.1	12.8
Other Ratios			
Current Ratio	1.2	1.2	1.2
Long Term Debt / Equity	0.1	0.1	0.1
EPS	37	37	40
DPS	13	15	15
Dividend %	260	300	300
Dividend Payout ratio	15	17	16
P/E	18.6	18.3	17.0
BVPS	254.6	282.9	314.2
P/BV	2.7	2.4	2.2

(*FY18 Closing cash includes bank balances)

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Stock Rating

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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