

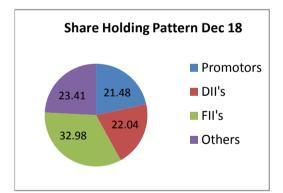
Weak demand outlook

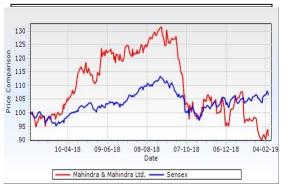
11th February 2019

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

Stock Info				
BSE Group	А			
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				





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%	

Balance Sheet, Year Ending March



Profit and Loss Account, Year Ending March

Nex Sales	Particulars, in Rs crore	FY18	FY19E	FY20E	Particulars, in Rs crore	FY18	FY19E	FY20E
Other Operating Income	Net Sales	48,681	53,016	57,787	Liabilities + Equity			
Macerials Consumed 48,88 53,018 53,787 Shareholders funds 30,224 33,660 37,385 37,787 Materials Consumed 42,467 46,539 50,774 Current labilities 13,447 14,347 15,311 Coperating EBITOA 52,55 6,477 7,073 Cotal Ecquity and liabilities 47,540 52,553 57,372 Coperating EBITOA margin % 12,8 12,2 12,2 Coperating EBITOA margin % 12,8 12,2 12,2 Coperating EBITOA margin % 1,873 2,086 Assets Ass	YoY%	11	9	9	(a) Share capital	595	595	595
Materials Consumed 23,262 26,508 28,894 Non-current liab & Prov 3,800 4,596 4,673 10,415 10,4147 14,307 15,311 10,5111	Other Operating Income	-	-	-	(b) Reserves and surplus	29,699	33,065	36,793
Total Expenditure	Income from Operations	48,681	53,016	57,787	Shareholders' funds	30,294	33,660	37,388
Operating EBITDA 6,225 6,477 7,073 Total - Equity and liabilities 47,540 \$2,633 \$7,372 Operating EBITDA margin % 12,28 12,28 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 12,22 13,24 10,04 12,23 10,04 12,23 10,04 12,23 10,04 12,23 10,04 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,23 10,06 12,134 12,04 12,02 12,00 12,0	Materials Consumed	23,262	26,508	28,894	Non-current liab & Prov	3,800	4,596	4,673
Operating EBITDA margin % 12.8 12.2 12.2 12.2 12.2 12.2 12.2 Depreciation 1,479 1,833 2,086 Assets Other income 1,035 4,762 4,288 Non-current assets 1 1 1 1 1 1,021 10.0 1 1,044 1,042 1 1,042 1 1,042 1 1,042 1,032 1,062 1 1,042 1,042 1	Total Expenditure	42,457	46,539	50,714	Current liabilities	13,447	14,307	15,311
Depreciation	Operating EBITDA	6,225	6,477	7,073	Total - Equity and liabilities	47,540	52,563	57,372
Operating EBIT 4,745 4,624 4,988 Non-current assets 1,088 1,253 16,044 Other (nome) 1,035 1,374 1,325 Fised assets 11,088 14,253 16,044 Interest 112 122 123 10g Term Inv 17,174 17,291 19,022 P8T before Excp Items 3568 5875 6390 Connection of the Control of Section of S	Operating EBITDA margin %	12.8	12.2	12.2				
Dither Income 1,035	Depreciation	1,479	1,853	2,086	Assets			
Meterest 112	Operating EBIT	4,745	4,624	4,988	Non-current assets			
PBT before Excp Items	Other Income	1,035	1,374	1,525	Fixed assets	11,088	14,253	16,044
Case Place Prila	Interest	112	122	123	Long Term Inv	17,134	17,291	19,022
PBT	PBT before Excp Items	5668	5875	6390	Loans + Adv + Others	43	47	52
Tax Expense 1747	Exceptional item	434	400	400	Other non-current assets	2,677	3,125	3,505
Cherrous	РВТ	6102	6275	6790	Current assets			
No	Tax Expense	1747	1851	2003	Cash & bank balance	2,894	859	923
Effective Tax Rate 29 30 30 Total - Assets 47,540 52,563 57,372 Reported EPS 37 37 40 Ratio Analysis Farticulars, in Rs crore F718 FY19E FY20E Operating Activities Profitability PBT before Excp Items 5,668 5,875 6,990 Operating EBITDA% 12.8 12.2 12.2 Add Depr 1,479 1,853 2,086 Operating EBITDA% 12.8 12.2 12.2 Others (613) (782) (782) April (782) (783) 8.3 8.3 Others (6,535) 6,946 7,693 4799 477 / 59les 8.9 8.3 8.3 Cash Taxes (1,289) (1,851) (2,003) Du Pont ROE breakup 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Reported Net Profit	4355	4424	4787	Other Current Assets	13,704	16,986	17,826
Reported EPS 37 37 40 Cash Flow Statement, Year Ending March Ratio Analysis Fyrical March Fyring Fyrical Fyrical Fyr	YoY%	10	2	8	Sub-total - Current assets	16,598	17,845	18,749
Particulars, in Rs crore FY18 FY19E FY20E Profitability	Effective Tax Rate	29	30	30	Total - Assets	47,540	52,563	57,372
Particulars, in Rs crore FY18 FY19E FY20E Profitability	Reported EPS	37	37	40				
Operating Activities Profitability PBT before Excp Items 5,668 5,875 6,390 Operating EBITDA% 12.8 12.2 12.2 Add Depr 1,479 1,853 2,086 Operating EBITW 9.7 8.7 8.6 Others (613) (782) (782) PAT% 8.9 8.3 8.3 Total 6,535 6,946 7,693 7.027	Cash Flow St	atement, Year End	ling March			Ratio Analysis		
PBT before Excp Items 5,668 5,875 6,390 Operating EBITDA% 12.8 12.2 12.2 Add Depr 1,479 1,853 2,086 Operating EBITDA% 9.7 8.7 8.6 Others (613) (782) (782) PATW 8.9 8.3 8.3 Total 6,535 6,946 7,693 Operating EBITDA% 9.9 8.3 8.3 Cash Taxes (1,289) (1,851) (2,003) Du Pont ROE breakup Images in Working Cap 1,780 90 262 PAT / Sales 8.9 8.3 8.3 Cash Flow from Operations 7,027 5,004 5,952 Sales / Avg Total Assets 1.0 1.0 1.0 Linvesting Activities ROE 14.4 13.1 12.8 12.8 Other (2,427) (1,800) (1,500) Other Ratios 1.2 1.2 1.2 Cash Flow from Investing (5,10) (4,965) (5,290) Current Ratio 1.2 1.2 1.2	Particulars, in Rs crore	FY18	FY19E	FY20E		FY18	FY19E	FY20E
Add Depr 1,479 1,853 2,086 Operating EBIT% 9.7 8.7 8.6 Others (613) (782) (782) (782) (782) PAT% 8.9 8.9 8.3 8.3 PAT% SATE PAT	Operating Activities				Profitability			
Others (613) (782) (782) (782) (782) PAT% 8.9 8.3 8.3 Total 6,535 6,946 7,693 7,693 7,693 7,693 7,693 7,693 7,693 7,693 7,693 7,693 8.9 8.3 8.3 8.3 Cash Taxes (1,289) 1,780 (90) 262 PAT / Sales 8.9 8.3 8.3 Cash Flow from Operations 7,027 5,004 5,952 Sales / Avg Total Assets 1.0 1.0 1.0 Avg Total Assets / Avg Eqty 1.6 1.6 1.5 Investing Activities 8.9 8.3 8.3 Other Call Assets / Avg Total Assets 1.0 1.0 1.0 Avg Total Assets / Avg Eqty 1.6 1.6 1.5 Avg Total Assets / Avg Eqty 1.6 1.6 1.5 Other Ratios 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	PBT before Excp Items	5,668	5,875	6,390	Operating EBITDA%	12.8	12.2	12.2
Total 6,535 6,946 7,693 Cash Taxes (1,289) (1,851) (2,003) Du Pont ROE breakup ————————————————————————————————————	Add Depr	1,479	1,853	2,086	Operating EBIT%	9.7	8.7	8.6
Cash Taxes (1,289) (1,851) (2,003) Du Pont ROE breakup Changes in Working Cap 1,780 (90) 262 PAT / Sales 8.9 8.3 8.3 Cash Flow from Operations 7,027 5,004 5,952 Sales / Avg Total Assets 1.0 1.0 1.0 Losh Flow from Operations 7,027 5,004 5,952 Sales / Avg Total Assets 1.0 1.0 1.0 Avg Total Assets / Avg Eqty 1.6 1.6 1.5 1.5 1.5 1.5 1.5 1.6 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.5 1.0 1.0 1.0 1.0 1.0 1.2	Others	(613)	(782)	(782)	PAT%	8.9	8.3	8.3
Changes in Working Cap 1,780 (90) 262 PAT / Sales 8.9 8.3 8.3 Cash Flow from Operations 7,027 5,004 5,952 Sales / Avg Total Assets 1.0 1.0 1.0 Losting Activities ROE 14.4 13.1 12.8 Other (2,427) (1,800) (1,500) Capex (2,683) (3,165) (3,790) Other Ratios 1.2 1.2 1.2 Cash Flow from Investing (5,110) (4,965) (5,290) Current Ratio 1.2 1.2 1.2 Financing Activities EPS 37 37 40 Dividends + Taxes paid (923) (928) (928) DPS 13 15 15 Change in Non Curr Liab (1,956) (1,526) (1,526) Dividend % 260 300 300 Cash Flow from Financing 1,033 (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418	Total	6,535	6,946	7,693				
Cash Flow from Operations 7,027 5,004 5,952 Sales / Avg Total Assets 1.0 1.0 1.0 Investing Activities ROE 14.4 13.1 12.8 Other (2,427) (1,800) (1,500) Capex (2,683) (3,165) (3,790) Other Ratios Image: Company of the Ratios Image: Company of	Cash Taxes	(1,289)	(1,851)	(2,003)	Du Pont ROE breakup			
Avg Total Assets / Avg Eqty 1.6 1.6 1.5	Changes in Working Cap	1,780	(90)	262	PAT / Sales	8.9	8.3	8.3
Investing Activities	Cash Flow from Operations	7,027	5,004	5,952	Sales / Avg Total Assets	1.0	1.0	1.0
Other (2,427) (1,800) (1,500) Capex (2,683) (3,165) (3,790) Other Ratios Image: Cash Flow from Investing (5,110) (4,965) (5,290) Current Ratio 1.2 </td <td></td> <td></td> <td></td> <td></td> <td>Avg Total Assets / Avg Eqty</td> <td>1.6</td> <td>1.6</td> <td>1.5</td>					Avg Total Assets / Avg Eqty	1.6	1.6	1.5
Capex (2,683) (3,165) (3,790) Other Ratios Carrent Ratio 1.2 <td>Investing Activities</td> <td></td> <td></td> <td></td> <td>ROE</td> <td>14.4</td> <td>13.1</td> <td>12.8</td>	Investing Activities				ROE	14.4	13.1	12.8
Cash Flow from Investing (5,110) (4,965) (5,290) Current Ratio 1.2 1.2 1.2 1.2 Financing Activities EPS 37 37 40 Dividends + Taxes paid (923) (928) (928) DPS 13 15 15 Change in Non Curr Liab (1,956) (1,526) (1,526) Dividend % 260 300 300 Cash Flow from Financing (1,033) (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Other	(2,427)	(1,800)	(1,500)				
Financing Activities EPS 37 37 40 Dividends + Taxes paid (923) (928) (928) DPS 13 15 15 Change in Non Curr Liab (1,956) (1,526) (1,526) Dividend % 260 300 300 Cash Flow from Financing (1,033) (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Capex	(2,683)	(3,165)	(3,790)	Other Ratios			
Financing Activities EPS 37 37 40 Dividends + Taxes paid (923) (928) (928) DPS 13 15 15 Change in Non Curr Liab (1,956) (1,526) (1,526) Dividend % 260 300 300 Cash Flow from Financing (1,033) (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Cash Flow from Investing	(5,110)	(4,965)	(5,290)	Current Ratio	1.2	1.2	1.2
Dividends + Taxes paid (923) (928) (928) DPS 13 15 15 Change in Non Curr Liab (1,956) (1,526) (1,526) Dividend % 260 300 300 Cash Flow from Financing (1,033) (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2					Long Term Debt / Equity	0.1	0.1	0.1
Change in Non Curr Liab (1,956) (1,526) (1,526) Dividend % 260 300 300 Cash Flow from Financing (1,033) (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Financing Activities				EPS	37	37	40
Cash Flow from Financing (1,033) (598) (598) Dividend Payout ratio 15 17 16 Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Dividends + Taxes paid	(923)	(928)	(928)	DPS	13	15	15
Opening Cash 538 1,418 859 P/E 18.6 18.3 17.0 Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Change in Non Curr Liab	(1,956)	(1,526)	(1,526)	Dividend %	260	300	300
Changes during year 883 (559) 64 BVPS 254.6 282.9 314.2	Cash Flow from Financing	(1,033)	(598)	(598)	Dividend Payout ratio	15	17	16
	Opening Cash	538	1,418	859	P/E	18.6	18.3	17.0
Closing Cash 1,418 859 923 P/BV 2.7 2.4 2.2	Changes during year	883	(559)	64	BVPS	254.6	282.9	314.2
	Closing Cash	1,418	859	923	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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