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RESULT UPDATE-Q1FY15

MAHINDRA & MAHINDRA

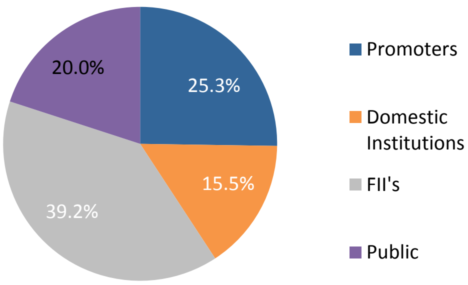
Margins Intact

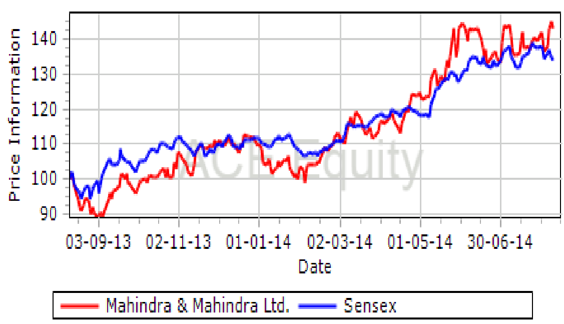
CMP: Rs 1,229
Target Price: Rs 1,324
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	25,329
NSE Nifty	7,569

Market Info	
Market Capital	Rs 72,556cr
Equity Capital	Rs 295cr
Avg Trading Volume	12,93,580
52 Wk High / low	Rs 1,268 / 741
Face Value	Rs 5

M&M Shareholding pattern: June 14





11th August, 2014

> Q1FY15 Net Revenue: Net Revenue at Rs 10,262 crores, a 2.4% growth on YoY basis. In Q1FY15 Utility Vehicle (UV) volumes declined by 8.4% YoY, whereas UV industry has grown by 3.9%. Thus in UV segment M&M market share declined from 46.0% to 40.5%. To arrest the decline in UV segment M&M will introduce 2 new models soon. In LCV segment M&M has grown by 12.1%, whereas industry had de-growth of 14.3%. Thus in LCV segment M&M market share improved to 76% from 58% on YoY basis. Tractor sales for M&M have increased marginally by 0.7%, whereas industry had de-growth of 1.2%. Company put up a strong performance on the export front with 37% growth on YoY basis. Performance of Ssangyong was negatively impacted due to geo-political tensions in Russia, appreciation of Korean won (KRW) and wage hike due to Korea's Supreme Court ruling. Going ahead we believe automotive segment will continue to face strong headwinds and erratic rainfall to have some impact on tractor sales.

> Q1FY15 Operating EBITDA: Operating EBITDA margin for Farm equipment segment continued to remain robust at 16.9% vs. 16.7% on yoy basis. However margins for automotive segment declined to 8% vs. 9.3% on yoy basis. In the UV market where discounts are at a peak to garner market share M&M stayed away from unreasonably high discounts and instead protected its profitability.

> Q1FY15 PAT: PAT was at Rs 882 crores vs. 938 crores (Rs 860 crores if we consider merger of MTBL) on yoy basis.

> OUTLOOK FOR NEXT 2 YEARS: M&M will be launching 5 new products/ variants over next 15 months. Of these, two will be in personal segment and three in the commercial segment. Management continues to sound positive on growth prospects of tractor industry. However, in FY15 tractor sales could be affected by erratic monsoon and would grow only by 5%. Growing competition in UV segment, once dominated by M&M, is the major concern.

> FINANCIALS & ESTIMATES:
We estimate M&M's Revenue growth at a 2 year CAGR of 13.5% and earnings growth at a 2 year CAGR of 14.7%. We estimate M&M's EBITDA margins to average close to ~12.1% in FY15 as well as FY16.

VALUATIONS:
We value M&M based on SoTP valuations and we have a "HOLD" rating on this stock: We value the core business at Rs 1,004 per share, based on 12.0x FY16E PE(x) based on EPS of Rs 83.7. We value total investments (listed and unlisted) at Rs 320 per share, with a holding company discount of 30%. **Our SoTP value for stock comes at Rs 1,324 per share.**

Y/E March, (in Rs crore)	FY13	FY14	FY15E	FY16E
Net Sales	39,903	39,963	44,759	51,473
yoy%	27.1%	0.2%	12.0%	15.0%
Operating EBIDTA	4,709	4,721	5,416	6,228
Operating EBITDA margin %	11.6%	11.7%	12.1%	12.1%
PAT	3,353	3,758	4,297	4,941
yoy%	16.5%	12.1%	11.2%	15.0%
EPS	56.8	63.7	72.8	83.7

Source: Company data, Arihant Research

Q1FY15 Performance:

Standalone P&L (in Rs Crore)	Q1FY15	Q1 FY14	yoy %	Q4 FY14	qoq %
Total Income from Operations	10262	10023	2.4%	11001	18.2%
Total RM Cost	7377	7311	0.9%	8131	19.2%
Contribution	2885	2711		2869	
Gross margin%	28.1	27.1		26.1	
Total Expenditure	8992	8735	2.9%	10094	17.4%
Op EBITDA	1269	1287	-1.4%	907	20.7%
Op EBITDA margin %	12.4	12.8		8.2	
Other Income	190	164	15.4%	98	-73.8%
Interest Expense	59	49	18.7%	84	1.7%
PBT before Excp Items	1152	1222	-5.7%	630	-2.2%
Excp Items (Net)	0	0		53	
PBT	1152	1222	-5.7%	683	-2.2%
Provision for Taxation	271	284	-4.6%	-214	10.9%
Net Profit	882	938	-6.0%	897	-5.6%
Effective Tax rate	23.5%	21.10%		21.10%	
Basic EPS	14.94	15.89	-6.0%	15.19	-5.6%

Segment Margins	Q1FY15	Q1 FY14		Q4 FY14	
Automotive	8.0%	9.3%		2.6%	
Farm Equipment	16.9%	16.7%		17.1%	
Other segments	11.7%	32.8%		33.6%	

Source: Company data, Arihant Research

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Stock Rating

	Absolute Return
Buy	> 20%
Accumulate	12-20%
Hold	5-12%
Neutral	0-5%
Reduce	< 0%