

Strong Performance!

13th February, 2017

CMP: Rs 1,278
Target Price: Rs 1,382
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	26,818
NSE Nifty	8,804

Market Info	
Market Capital	Rs 80,065cr
Equity Capital	Rs 296cr
Avg Trading Volume	10,91,360
52 Wk High / low	Rs 1,508 / 1,092
Face Value	Rs 5

> Q3FY17 Revenue:

Net Revenue came at Rs 11,628 Crores, a growth of 1.1% on YoY basis. The gross revenue & other income of the combined entity for the quarter ended 31st December 2016 was Rs 11,778 cr as against Rs 11,607 cr in the corresponding quarter of previous year, a growth of 1.5%.

The combined entity has continued its leadership position in both utility vehicle segment & the domestic tractor market. Company has sold 1.25 lakhs units in Q3FY17. The company continued its leadership position in utility vehicles segment market share of 25%. Company has sold 72,363 tractors in domestic market, a YoY growth of 20.8% and it has continued leadership position with an increased market share of 44%. Company has exported 8,017 vehicles and 4,123 tractors.

> Q3FY17 Profitability:

Operating EBITDA margin for Farm equipment segment was up by 17.3% vs. 15.3% on YoY basis. A margin for automotive segment was down to 4.5% vs. 5.7% on YoY basis. Overall EBITDA margins for the quarter stood at 11.8% vs. 11.3% YoY. PAT was at Rs 1112 crores vs. Rs 834 Crores, growth of 33.3% on YoY basis.

> Outlook:

The underlying India story essentially remains positive. India is not only among the world's fastest growing major economies, underpinned by a stable macro-economy with declining inflation and improving fiscal and external balances. Demonetisation has had short-term costs but holds the potential for long-term benefits. The government has embarked on follow-up actions to minimize the costs and maximise the benefits including remonetisation, a prudent budget with continued thrust on agriculture, rural and affordable housing segments and tax cuts for individuals. Thus, growth is likely to return towards end in FY18 following a temporary decline in FY17.

Demonetisation effect:

The demonetisation impacted rural sales more than urban sales. PV was the least affected with about 10% loss in volume in Nov & Dec'17 compared to the first seven months of FY17; the impact on tractor & 2wheeler industry during the same period was about 30%.

> FINANCIALS & ESTIMATES:

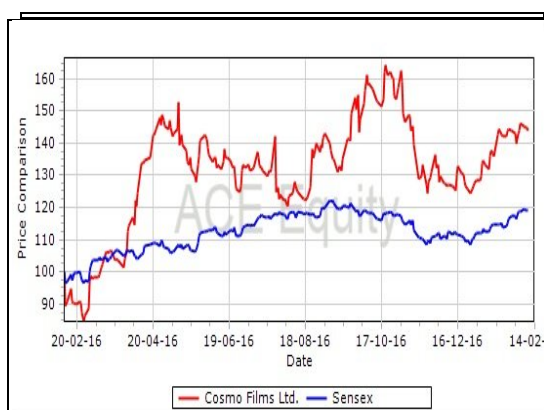
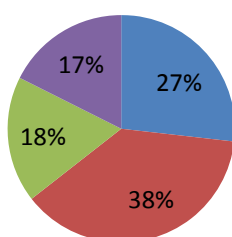
We estimate M&M's Revenue growth at 15% and EBITDA margins to average close to 11.0% for FY18E.

> Valuation:

We value M&M based on SoTP valuations and we have a "HOLD" rating on the stock: We value the core business at Rs951 per share, based on 13 (x) FY18E PE(x) based on EPS of Rs 73. We have valued total investments (listed and unlisted) at Rs 431 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,382 per share.

Shareholding Pattern , Dec 16

■ Promotor ■ FII ■ DII ■ Others



Financial Snpashot:

Y/E March, (in Rs crore)	FY15	FY16	FY17E	FY18E
Net Sales	38,392	40,397	46,219	53,442
yoy%	-3.9%	5.2%	14.4%	15.6%
Operating EBIDTA	4,173	4,570	5,285	5,949
Operating EBITDA margin %	10.7%	11.2%	11.3%	11.0%
PAT	3,321	3,167	3,619	4,328
yoy%	-11.6%	-4.6%	14.3%	19.6%
EPS	56.2	53.5	61.1	73.1

Profit and loss for the year ended,					
Standalone P&L (in Rs Crore)	Q3FY17	Q3FY16	yoy %	Q2FY17	qoq %
Total Income from Operations	11010	11004	0.1%	10609	3.8%
Total RM Cost	7959	7972	-0.2%	7598	4.7%
Contribution	3052	3032		3011	
Gross margin%	27.7	27.6		28.4	
Total Expenditure	9711	9724	-0.1%	9376	3.6%
Op EBITDA	1299	1280	1.5%	1233	5.4%
Op EBITDA margin %	11.8	11.6		11.6	
Other Income	110	87	26.1%	708	-84.4%
Interest Expense	38	47	-19.5%	26	48.3%
PBT before Excp Items	1032	1035	-0.2%	1581	-34.7%
Excp Items (Net)	364	63		0	
PBT	1396	1098	27.2%	1581	-11.7%
Provision for Taxation	284	263	7.9%	418	-32.0%
Net Profit	1112	834	33.3%	1163	-4.4%
Effective Tax rate	20.3	24.0		26.4	
Basic EPS	19	14	33.3%	20	-4.4%
Segment Margins					
Automotive	4.5%	7.7%		5.7%	
Farm Equipment	17.3%	15.3%		17.7%	
Other segments	6.2%	38.4%		6.3%	

Source: Company data Ace Equity, Arihant Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Net Sales	38,392	40,397	46,219	53,442
YoY%	(3.9)	5.2	14.4	15.6
Other Operating Income	554	488	555	641
Income from Operations	38,945	40,885	46,774	54,083
Materials Consumed	20,272	19,373	23,110	26,721
Total Expenditure	34,772	36,315	41,489	48,134
Operating EBITDA	4,173	4,570	5,285	5,949
Operating EBITDA margin %	10.7	11.2	11.3	11.0
Depreciation	975	1,109	1,203	1,150
Operating EBIT	3,199	3,462	4,082	4,799
Other Income	849	855	935	1,082
Interest	214	155	234	152
PBT before Excp Items	3,833	4,161	4,783	5,729
Exceptional item	336	69	50	50
PBT	4,169	4,230	4,833	5,779
Tax Expense	848	1,062	1,214	1,452
Reported Net Profit	3,321	3,167	3,619	4,328
YoY%	(11.6)	(4.6)	14.3	19.6
Effective Tax Rate	20.3	25.1	25.1	25.1
Reported EPS	56.2	53.5	61.1	73.1

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Operating Activities				
PBT before Excp Items	3,833	4,161	4,783	5,729
Add Depr	975	1,109	1,203	1,150
Others	(372)	(303)	(399)	(667)
Total	4,436	4,967	5,588	6,212
Cash Taxes	(847)	(928)	(1,187)	(1,425)
Changes in Working Cap	(370)	1,439	1,181	340
Cash Flow from Operations	3,219	5,479	5,582	5,127
Investing Activities				
Change in investments	(389)	(1,374)	(1,502)	(1,530)
Capex	(2,035)	(2,172)	(1,875)	(1,251)
Cash Flow from Investing	(2,423)	(3,546)	(3,376)	(2,781)
Financing Activities				
Dividends + Taxes paid	(961)	(846)	(805)	(805)
Change in Non Curr Liab	(2,546)	(2,853)	(3,222)	(2,923)
Cash Flow from Financing	(1,585)	(2,007)	(2,417)	(2,118)
Opening Cash	1,706	917	843	631
Changes during year	(788)	(75)	(212)	228
Closing Cash	917	843	631	859

Source: Company data, Arihant Research

(*Closing cash excludes other bank balance.)

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Liabilities + Equity				
(a) Share capital	296	296	296	296
(b) Reserves and surplus	18,959	21,411	24,113	27,524
Shareholders' funds	19,255	21,707	24,409	27,820
Non-current liab & Prov	4,716	4,012	3,391	3,367
Current liabilities	8,974	10,694	9,920	9,836
Total - Equity and liabilities	32,945	36,413	37,720	41,022
Assets				
Non-current assets				
Fixed assets	8,108	9,518	11,393	12,644
Long Term Inv	11,373	11,145	11,200	12,320
Loans + Adv + Others	3,232	4,057	3,781	3,873
Other non-current assets	103	59	73	92
Current assets				
Cash & bank balance	2,065	2,297	1,542	1,813
Other Current Assets	8,063.4	9,336	9,731	10,280
Sub-total - Current assets	10,128	11,634	11,273	12,093
Total - Assets	32,945	36,413	37,720	41,022

Ratio Analysis				
	FY15	FY16	FY17 E	FY18E
Profitability				
Operating EBITDA%	10.7	11.2	11.3	11.0
Operating EBIT%	8.2	8.5	8.7	8.9
PAT%	8.5	7.7	7.7	8.0
Du Pont ROE breakup				
PAT / Sales	8.7	7.8	7.8	8.1
Sales / Avg Total Assets	1.2	1.1	1.2	1.3
Avg Total Assets / Avg Eqty	1.7	1.7	1.5	1.5
ROE	17.2	14.6	14.8	15.6
Other Ratios				
Current Ratio	1.1	1.1	1.1	1.2
Long Term Debt / Equity	0.1	0.1	0.0	0.0
EPS	56.2	53.5	61.1	73.1
DPS	12.0	12.0	13.0	13.0
Dividend %	240.0	240.0	260.0	260.0
Dividend Payout ratio	25.5	26.6	25.3	15.9
P/E	21.1	26.7	23.4	20.0
BVPS	325.6	366.7	412.4	470.0
P/BV	2.6	3.9	3.5	3.1



Arihant Research Desk
For queries:
E. research@arihantcapital.com
T. 022-42254830

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating

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

**Research Analyst
Registration No.****INH000002764****Contact****SMS: 'Arihant' to 56677****Website**www.arihantcapital.com**Email Id**research@arihantcapital.com

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