

Stagnant Performance!

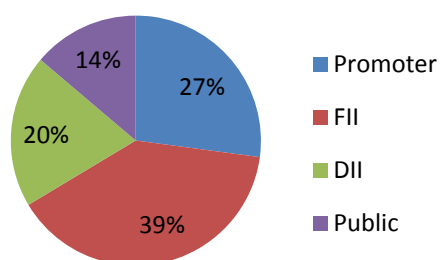
1st June, 2016

CMP: Rs 1,333
Target Price: Rs 1,404
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
BSE Sensex	26,709
NSE Nifty	8,174

Market Info	
Market Capital	Rs 82,276cr
Equity Capital	Rs 296cr
Avg Trading Volume	16,61,420
52 Wk High / low	Rs 1,441 / 1,092
Face Value	Rs 5

Shareholding Pattern , Mar 16



> Q4FY16 Revenue:

Net Revenue came at Rs 10,666 Crores, a growth of 13.3% on YoY basis. The gross revenue & other income of the combined entity for the quarter ended 31st March 2016 was Rs 11,689 cr as against Rs 10,176 cr in the corresponding quarter of previous year, a growth of 14.9%.

The combined entity has continued its leadership position in both utility vehicle segment & the domestic tractor market with a market share of 41% & 39.2% respectively. In the utility vehicle segment, the company sold a total of 69,082 vehicles in Q4 FY2016. The combined entity launched its much awaited compact SUV, KUV100. The company continued its leadership position in the pick-up (<3.5 GVW) segment market share of 49%. The combined entity sold 41,129 tractors in Q4 FY2016 in the domestic market registering a growth of 15.8% on Q-o-Q. In the current quarter the combined entity exported 9,501 vehicles and 2,286 tractors respectively.

> Q4FY16 Profitability:

Operating EBITDA margin for Farm equipment segment was up at 12.9% vs. 11.2% on YoY basis. Margins for automotive segment decreased to 6.6% vs. 7.2% on YoY basis. Overall EBITDA margins for the company quarter stood at 9.7% vs. 9.4% YoY. PAT was at Rs 584 crores vs. Rs 551 Crores on YoY basis. Excluding exceptional items the net profit after tax for the quarter was Rs 578 cr Vs Rs 515 cr, a growth of 12.36% YoY.

> Outlook:

In the current quarter the passenger vehicle market grew by 2.5%, with the utility vehicle segment growing by 15.2%, on back of new launches and urban demand. The MHCV goods segment continued to grow on back of replacement demand, improvement in industrial activity and movement in infrastructure projects. For Q4 2016, sentiment in rural India however, continued to remain subdued. After five consecutive quarters of de-growth the tractor industry witnessed a growth of 7.9% in Q4 FY2016. This was primarily due to marginally higher rabi food grain production and lower industry base. Going ahead a good monsoon will be a key enable in reviving the demand for tractors. The IMD and Skymet have both forecasted above normal monsoon which bodes well for the industry.

> FINANCIALS & ESTIMATES:

We estimate M&M's Revenue growth at 14.4% and earnings growth at 9.0% in FY17E. We estimate M&M's EBITDA margins to average close to 11.3% for FY17E.

> Valuation:

We value M&M based on SoTP valuations and we have a "HOLD" rating on the stock: We value the core business at Rs987 per share, based on 17 (x) FY17E PE(x) based on EPS of Rs 58. We have valued total investments (listed and unlisted) at Rs 417 per share, with a holding company discount of 30%. Our SoTP value for stock comes at Rs 1,404 per share.



Financial Snpashot:

Y/E March, (in Rs crore)	FY14	FY15	FY16	FY17E
Net Sales	39,963	38,392	40,397	46,219
yoy%	0.2%	-3.9%	5.2%	14.4%
Operating EBIDTA	4,721	4,173	4,570	5,285
Operating EBITDA margin %	11.7%	10.7%	11.2%	11.3%
PAT	3,758	3,321	3,167	3,437
yoy%	12.1%	-11.6%	-4.6%	8.5%
EPS	63.7	56.2	53.5	58.1

Q3FY16 Performance:					
Standalone P&L (in Rs Crore)	Q4FY16	Q4FY15	yoy %	Q3FY16	qoq %
Total Income from Operations	10801	9557	13.0%	11008	-1.9%
Total RM Cost	7966	6861	16.1%	7977	-0.1%
Contribution	2835	2696		3032	
Gross margin%	26.2	28.2		27.5	
Total Expenditure	9752	8657	12.7%	9766	-0.1%
Op EBITDA	1049	901	16.5%	1242	-15.6%
Op EBITDA margin %	9.7	9.4		11.3	
Other Income	112	90	24.6%	89	26.1%
Interest Expense	38	63	-39.3%	40	-3.9%
PBT before Excp Items	792	683	16.0%	995	-20.4%
Excp Items (Net)	6	36		63	
PBT	798	719	11.0%	1058	-24.6%
Provision for Taxation	215	169	27.1%	250	-14.2%
Net Profit	584	551	6.0%	808	-27.8%
Effective Tax rate	26.9	23.5		23.6	
Basic EPS	10	9.3	5.9%	14	-27.8%
Segment Margins					
Automotive	6.6%	7.2%		7.7%	
Farm Equipment	12.9%	11.2%		15.3%	
Other segments	-29.1%	8.4%		38.4%	

Source: Company data Ace Equity, Arianth Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
Net Sales	39,963	38,392	40,397	46,219
YoY%	0.2	(3.9)	5.2	14.4
Other Operating Income	545	554	488	555
Income from Operations	40,509	38,945	40,885	46,774
Materials Consumed	21,630	20,272	19,373	23,110
Total Expenditure	35,787	34,772	36,315	41,489
Operating EBITDA	4,721	4,173	4,570	5,285
Operating EBITDA margin %	11.7	10.7	11.2	11.3
Depreciation	863	975	1,109	1,447
Operating EBIT	3,858	3,199	3,462	3,839
Other Income	718	849	855	935
Interest	259	214	155	234
PBT before Excp Items	4,317	3,833	4,161	4,540
Exceptional item	53	336	69	50
PBT	4,369	4,169	4,230	4,590
Tax Expense	611	848	1,062	1,153
Reported Net Profit	3,758	3,321	3,167	3,437
YoY%	12.1	(11.6)	(4.6)	8.5
Effective Tax Rate	14.0	20.3	25.1	25.1
Reported EPS	63.7	56.2	53.5	58.1

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
Operating Activities				
PBT before Excp Items	4,317	3,833	4,161	4,540
Add Depr	863	975	1,109	1,447
Others	(346)	(372)	(603)	(713)
Total	4,834	4,436	4,667	5,274
Cash Taxes	(894)	(847)	(1,062)	(1,126)
Changes in Working Cap	(213)	(370)	(303)	(1,320)
Cash Flow from Operations	3,728	3,219	3,302	2,828
Investing Activities				
Change in investments	(703)	(389)	283	119
Capex	(1,704)	(2,035)	(1,867)	(1,941)
Cash Flow from Investing	(2,407)	(2,423)	(1,584)	(1,822)
Financing Activities				
Dividends + Taxes paid	(894)	(961)	(1,774)	(1,605)
Change in Non Curr Liab	(1,717)	(2,546)	(3,259)	(2,907)
Cash Flow from Financing	(824)	(1,585)	(1,486)	(1,302)
Opening Cash	1,164	1,706	917	1,149
Changes during year	497	(788)	232	(297)
Closing Cash	1,706	917	1,149	853

Source: Company data, Arihant Research

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
Liabilities + Equity				
(a) Share capital	295	296	296	296
(b) Reserves and surplus	16,496	18,959	21,411	26,077
Shareholders' funds	16,791	19,255	21,707	26,373
Non-current liab & Prov	5,731	4,716	4,011	3,391
Current liabilities	8,767	8,974	10,694	11,611
Total - Equity and liabilities	31,289	32,945	36,412	41,375
Assets				
Non-current assets				
Fixed assets	7,105	8,108	9,518	11,460
Long Term Inv	9,788	11,373	11,145	12,816
Loans + Adv + Others	3,018	3,232	4,057	4,484
Other non-current assets	89	103	59	73
Current assets				
Cash	2,950	2,065	2,297	2,001
Other Current Assets	8,338.5	8,063.4	9,336.2	10,541.5
Sub-total - Current assets	11,289	10,128	11,633	12,542
Total - Assets	31,289	32,945	36,412	41,375

Ratio Analysis				
	FY14	FY15	FY16	FY17 E
Profitability				
Operating EBITDA%	11.7	10.7	11.2	11.3
Operating EBIT%	9.5	8.2	8.5	8.2
PAT%	9.3	8.5	7.7	7.3
ROAE%	41.2	31.7	26.8	24.1
Du Pont ROAE breakup				
PAT / Sales	9.4	8.7	7.8	7.4
Sales / Avg Total Assets	1.3	1.2	1.1	1.1
Avg Total Assets / Avg Eqty	1.9	1.7	1.7	1.6
ROE	22.4	17.2	14.6	13.0
Other Ratios				
Current Ratio	1.3	1.1	1.1	1.1
Long Term Debt / Equity	0.2	0.1	0.1	0.0
EPS	63.7	56.2	53.5	58.1
DPS	14.0	12.0	12.0	13.0
Dividend %	280.0	240.0	240.0	260.0
Dividend Payout ratio	25.7	25.5	26.6	26.7
P/E	15.4	21.1	24.9	23.0
BVPS	284.4	325.6	366.7	445.6
P/BV	3.0	2.6	3.6	3.0



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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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