

Retail Equity Research

Mahindra & Mahindra Limited

Automobile

BSE CODE: 500520 NSE CODE: M&M
Bloomberg CODE: MM:IN SENSEX: 37,271

HOLD

12M Investment period Rating as per Large Cap
CMP Rs 546 TARGET Rs 555 RETURN 2% ↑
(Closing: 11-09-19)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↔

Challenging quarter on low industry demand

- Q1FY20 consolidated revenue came in flat YoY at Rs. 26,041cr with automotive segment declining 3.6% YoY on weaker volumes (domestic -5.2% YoY and exports -19.8%). Farm equipment segment revenue also dropped 8.7% YoY on lower volumes (domestic -14.8% YoY and exports +1.2% YoY).
- EBITDA fell 13.1% YoY to Rs. 3,433cr and EBIT fell 28.1% YoY, primarily on sluggish automotive sales, higher provisioning in financial segment and weak performance from SsangYong.
- The macroeconomic conditions remain subdued, even though there are a few positive expectations such as upcoming festive season. We retain our rating of HOLD with a revised lower price target of Rs. 555 based on 12.5x FY21E EPS.

Volumes impacted on weak sentiments

Q1FY20 consolidated revenue remained flat YoY at Rs. 26,041cr amid industry slowdown. While company benefitted from increased revenue for financial services segment (+15.4% YoY to Rs. 2,822cr), revenue for automotive segment (-3.6% YoY to Rs. 13,548cr) dragged down the overall revenue on sluggish sales volume in both domestic (-5.2% YoY to 124k units) and exports market (-19.8% YoY to 7,511 units). Farm equipment segment revenue also fell 8.7% to Rs. 6,078cr, with domestic tractor sales declining 14.8% YoY (however the market share increased 750bps QoQ to 43.3%) and export sales improving marginally by 1.2%. The main reasons for the slowdown in sales can be attributed to firstly, stricter norms for vehicle financing, especially for NBFCs. Secondly, the loan to value ratio declined from ~90% to 80% for cars in the last 12 to 18 months. Thirdly, general sentiments deteriorated as both rural and government spending declined. The company's Korean subsidiary, Ssangyong also witnessed sharp decline in both domestic and export sales.

Profitability impacted by automotive and finance segments

In Q1FY20, EBITDA at the group level declined 13.1% YoY to Rs. 3,433cr primarily on benign commodity prices this quarter. EBIT witnessed even steeper fall of 28.1% YoY to Rs. 2,192cr, owing to higher D&A expenses. In addition to the sluggish sales in automotive segment, profitability was impacted by higher provisioning in the financial segment coupled with the impact of losses from SsangYong as the demand in the Korean market also declined. Resultantly, reported profit after tax fell 46.5% YoY to Rs. 914cr.

Key concall highlights

- Resilient performance in the passenger vehicle segment as the company sales fell only 1.9% YoY relative to the industry decline of 14-15%
- Inventory levels with the dealers under control for both automotive and tractor segments
- Expectation of demand pick up with upcoming festive season, adequate monsoon, pre-buying for BS VI, along with lower pressure on pricing with softening of commodity prices

Valuation

We believe, company remains susceptible to the current industry slowdown and subdued consumer sentiments. We lower price target to Rs. 555 based on 12.5x FY21E EPS and reiterate our HOLD rating.

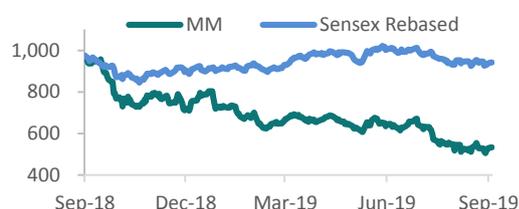
Company Data

Market Cap (cr)	Rs. 66,244
Enterprise Value (cr)	Rs. 119,937
Outstanding Shares (cr)	124.3
Free Float	78.0%
Dividend Yield	1.6%
52 week high	Rs. 978
52 week low	Rs. 503
6m average volume	343,204
Beta	1.4
Face value	Rs. 5

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	21.6	21.5	19.9
FII's	33.0	31.3	34.5
MFs/Insti	26.8	28.3	28.7
Public	9.3	9.8	9.7
Others	9.3	9.1	7.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-17.7%	-20.5%	-43.2%
Absolute Sensex	-6.6%	1.3%	-2.0%
Relative Return*	-11.0%	-21.8%	-41.1%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	104,721	105,993	106,353
Growth (%)	13.7	1.2	0.3
EBITDA	15,207	15,689	16,284
EBITDA Margin (%)	14.5	14.8	15.3
Adj. PAT	5,091	4,660	4,917
Growth (%)	4.3	-8.5	5.5
Adj. EPS	46.6	41.9	44.2
Growth (%)	4.2	-10.1	5.5
P/E	14.1	12.7	12.0
P/B	1.8	1.4	1.2
EV/EBITDA	8.2	7.2	6.9
ROE (%)	13.3	11.0	10.3
D/E	1.1	1.0	0.9

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. Cr.	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	26,041	26,062	(0.1)	27,159	(4.1)
EBITDA	3,433	3,952	(13.1)	3,991	(14.0)
EBITDA margins	13.2	15.2	(200bps)	14.7	(150bps)
Depreciation	1,241	902	37.5	1,087	14.1
EBIT	2,192	3,050	(28.1)	2,903	(24.5)
Interest	1,425	1,094	30.2	1,439	(1.0)
Other Income	535	510	5.0	269	99.3
Exceptional Items	139	349	(60.3)	(28)	n.m.
PBT	1,442	2,815	(48.8)	1,706	(15.5)
Tax	548	930	(41.1)	790	(30.7)
Share of profit from Associate	287	311	(7.7)	243	18.0
Minority Interest	(19)	178	n.m.	222	n.m.
Reported PAT	914	1,707	(46.5)	693	31.8
Adjustments	(139)	(349)	60.3	28	n.m.
Adjusted PAT	775	1,358	(42.9)	721	7.4
No. of shares	111.1	109.1	-	108.9	-
EPS (Rs.)	7.0	12.4	(44.0)	6.6	5.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue			105,993	106,353		
EBITDA			16,394	16,137		
Margins (%)			15.5	15.2		
Adj. PAT			5,139	4,911		
EPS			47.1	45.0		

PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	83,773	92,094	104,721	105,993	106,353
% change	20.0	9.9	13.7	1.2	0.3
EBITDA	10,864	13,226	15,207	15,689	16,284
% change	12.3	21.7	15.0	3.2	3.8
Depreciation	2,942	3,280	3,991	4,467	4,885
EBIT	7,922	9,946	11,216	11,222	11,399
Interest	3,648	3,987	5,021	5,899	5,839
Other Income	2,077	4,366	2,676	2,686	2,647
PBT	6,350	10,326	8,871	8,009	8,207
% change	49.8	62.6	(14.1)	(9.7)	2.5
Tax	2,300	2,368	2,854	2,577	2,640
Tax Rate (%)	36.2	22.9	32.2	32.2	32.2
Reported PAT	3,698	7,510	5,315	4,799	4,917
Adj*	(447)	(2,628)	(224)	(139)	-
Adj PAT	3,251	4,882	5,091	4,660	4,917
% change	1.4	50.2	4.3	(8.5)	5.5
No. of shares (cr)	54.4	109.1	109.2	111.1	111.1
Adj EPS (Rs)	59.7	44.8	46.6	41.9	44.2
% change	1.1	(25.1)	4.2	(10.1)	5.5
DPS (Rs)	13.0	7.5	8.5	7.5	7.7
CEPS (Rs)	113.8	74.8	83.2	82.1	88.2

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	6,640	10,790	9,306	9,266	9,802
Non-cash adj.	(7,167)	(13,147)	(14,502)	1,217	1,451
Changes in W.C	594	3,039	849	(174)	(2)
C.F. Operation	66	682	(4,347)	10,309	11,251
Capital exp.	(4,964)	(5,791)	(7,198)	(7,429)	(7,454)
Change in inv.	(1,242)	197	(685)	(603)	(552)
Other invest.CF	522	126	715	88	87
C.F - Investment	(5,684)	(5,468)	(7,168)	(7,944)	(7,919)
Issue of equity	12	1,337	13	-	-
Issue/repay debt	7,258	6,461	15,037	(401)	(722)
Dividends paid	(936)	(963)	(1,134)	(1,057)	(932)
Other finance.CF	(443)	(521)	(723)	(850)	(841)
C.F - Finance	5,892	6,315	13,194	(2,308)	(2,496)
Chg. in cash	274	1,528	1,678	57	836
Closing cash	4,654	6,548	8,735	8,792	9,628

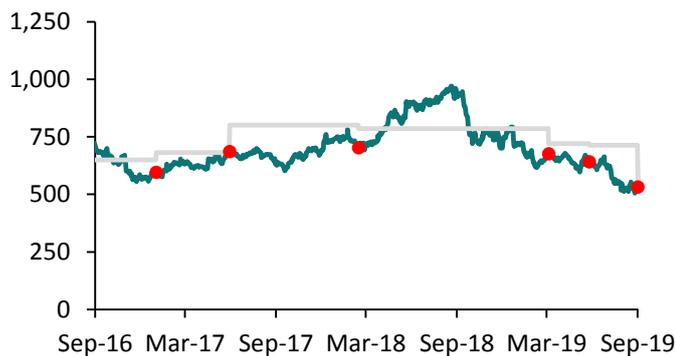
BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	4,654	6,548	8,735	8,792	9,628
Accounts Receivable	7,199	8,490	9,291	9,403	9,435
Inventories	8,886	9,336	12,200	12,115	12,156
Other Cur. Assets	28,147	34,703	39,180	39,817	40,205
Investments	9,872	10,668	12,161	12,609	13,006
Gross Fixed Assets	42,145	48,079	51,420	58,850	66,304
Net Fixed Assets	17,976	20,820	22,227	24,840	27,042
CWIP	1,888	1,815	2,454	2,454	2,454
Intangible Assets	5,073	7,816	9,061	9,410	9,777
Def. Tax (Net)	907	842	1,503	1,357	1,390
Other Assets	30,223	36,174	46,579	47,434	48,407
Total Assets	114,826	137,211	163,392	168,232	173,503
Current Liabilities	29,759	37,824	48,202	48,721	49,440
Provisions	3,313	3,786	4,101	4,203	4,308
Debt Funds	40,281	45,135	54,067	53,666	52,944
Other Liabilities	5,377	5,441	8,677	8,922	9,458
Equity Capital	271	543	544	544	544
Reserves & Surplus	29,467	36,232	39,439	43,182	47,167
Shareholder's Fund	29,738	36,775	39,983	43,726	47,711
Minority Interest	6,357	8,250	8,361	8,994	9,643
Total Liabilities	114,826	137,211	163,392	168,232	173,503
BVPS (Rs)	546	337	366	393	429

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	13.0	14.4	14.5	14.8	15.3
EBIT margin (%)	9.5	10.8	10.7	10.6	10.7
Net profit mgn. (%)	4.4	8.2	5.1	4.5	4.6
ROE (%)	12.4	20.4	13.3	11.0	10.3
ROCE (%)	10.4	11.0	11.0	10.5	10.3
W.C & Liquidity					
Receivables (days)	30.9	33.2	31.9	31.9	31.9
Inventory (days)	63.9	62.8	72.8	72.8	72.8
Payables (days)	111.8	123.0	125.2	125.2	125.2
Current ratio (x)	1.2	1.2	1.2	1.2	1.2
Quick ratio (x)	0.4	0.4	0.4	0.4	0.4
Turnover & Leverage					
Gross asset T.O (x)	4.0	2.0	2.1	1.9	1.7
Total asset T.O (x)	0.8	0.7	0.7	0.6	0.6
Int. covge. ratio (x)	2.2	2.5	2.2	1.9	2.0
Adj. debt/equity (x)	1.1	1.0	1.1	1.0	0.9
Valuation					
EV/Sales (x)	0.9	1.4	1.2	1.1	1.1
EV/EBITDA (x)	7.1	9.6	8.2	7.2	6.9
P/E (x)	10.8	16.5	14.1	12.7	12.0
P/BV (x)	1.2	2.2	1.8	1.4	1.2

Recommendation Summary



Dates	Rating	Target
1-Jun-15	HOLD	653
15-Jul-16	HOLD	650
11-Jan-17	BUY	682
8-Jun-17	BUY	801
23-Feb-18	HOLD	785
14-Mar-19	HOLD	720
4-Jun-19	HOLD	714
12-Sep-19	HOLD	555

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Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as 'Buy' and 'Reduce' as Sell.

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