

# 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.

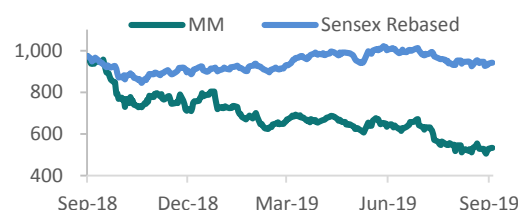
### Company Data

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)
<b>EBITDA</b>	<b>3,433</b>	<b>3,952</b>	(13.1)	<b>3,991</b>	(14.0)
EBITDA margins	13.2	15.2	(200bps)	14.7	(150bps)
Depreciation	1,241	902	37.5	1,087	14.1
<b>EBIT</b>	<b>2,192</b>	<b>3,050</b>	(28.1)	<b>2,903</b>	(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.
<b>PBT</b>	<b>1,442</b>	<b>2,815</b>	(48.8)	<b>1,706</b>	(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.
<b>Reported PAT</b>	<b>914</b>	<b>1,707</b>	(46.5)	<b>693</b>	31.8
Adjustments	(139)	(349)	60.3	28	n.m.
<b>Adjusted PAT</b>	<b>775</b>	<b>1,358</b>	(42.9)	<b>721</b>	7.4
No. of shares	111.1	109.1	-	108.9	-
<b>EPS (Rs.)</b>	<b>7.0</b>	<b>12.4</b>	(44.0)	<b>6.6</b>	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
<b>Revenue</b>	<b>83,773</b>	<b>92,094</b>	<b>104,721</b>	<b>105,993</b>	<b>106,353</b>
% change	20.0	9.9	13.7	1.2	0.3
<b>EBITDA</b>	<b>10,864</b>	<b>13,226</b>	<b>15,207</b>	<b>15,689</b>	<b>16,284</b>
% change	12.3	21.7	15.0	3.2	3.8
Depreciation	2,942	3,280	3,991	4,467	4,885
<b>EBIT</b>	<b>7,922</b>	<b>9,946</b>	<b>11,216</b>	<b>11,222</b>	<b>11,399</b>
Interest	3,648	3,987	5,021	5,899	5,839
Other Income	2,077	4,366	2,676	2,686	2,647
<b>PBT</b>	<b>6,350</b>	<b>10,326</b>	<b>8,871</b>	<b>8,009</b>	<b>8,207</b>
% 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
<b>Reported PAT</b>	<b>3,698</b>	<b>7,510</b>	<b>5,315</b>	<b>4,799</b>	<b>4,917</b>
Adj*	(447)	(2,628)	(224)	(139)	-
<b>Adj PAT</b>	<b>3,251</b>	<b>4,882</b>	<b>5,091</b>	<b>4,660</b>	<b>4,917</b>
% 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
<b>Adj EPS (Rs)</b>	<b>59.7</b>	<b>44.8</b>	<b>46.6</b>	<b>41.9</b>	<b>44.2</b>
% 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
<b>Net inc. + Depn.</b>	<b>6,640</b>	<b>10,790</b>	<b>9,306</b>	<b>9,266</b>	<b>9,802</b>
Non-cash adj.	(7,167)	(13,147)	(14,502)	1,217	1,451
Changes in W.C	594	3,039	849	(174)	(2)
<b>C.F. Operation</b>	<b>66</b>	<b>682</b>	<b>(4,347)</b>	<b>10,309</b>	<b>11,251</b>
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
<b>C.F - Investment</b>	<b>(5,684)</b>	<b>(5,468)</b>	<b>(7,168)</b>	<b>(7,944)</b>	<b>(7,919)</b>
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)
<b>C.F - Finance</b>	<b>5,892</b>	<b>6,315</b>	<b>13,194</b>	<b>(2,308)</b>	<b>(2,496)</b>
Chg. in cash	274	1,528	1,678	57	836
Closing cash	4,654	6,548	8,735	8,792	9,628

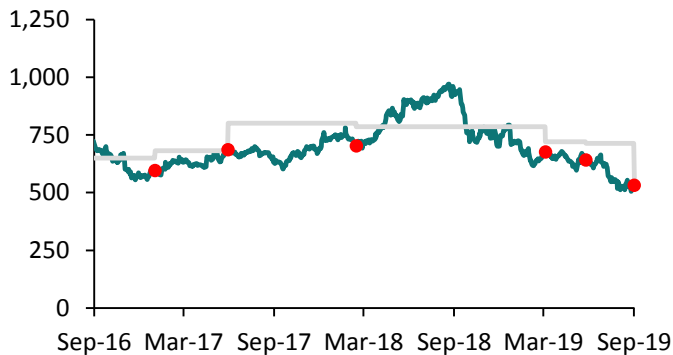
## BALANCE SHEET

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
<b>Total Assets</b>	<b>114,826</b>	<b>137,211</b>	<b>163,392</b>	<b>168,232</b>	<b>173,503</b>
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
<b>Total Liabilities</b>	<b>114,826</b>	<b>137,211</b>	<b>163,392</b>	<b>168,232</b>	<b>173,503</b>
<b>BVPS (Rs)</b>	<b>546</b>	<b>337</b>	<b>366</b>	<b>393</b>	<b>429</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
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
<b>W.C &amp; Liquidity</b>					
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
<b>Turnover &amp; Leverage</b>					
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
<b>Valuation</b>					
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

## General Disclosures and Disclaimers

### 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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

## General Disclosures and Disclaimers

### CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

**DISTRIBUTION OF REPORTS:** This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

**GENERAL REPRESENTATION:** The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

**RISK DISCLOSURE:** GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes



the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

**FUNDAMENTAL DISCLAIMER:** We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

**JURISDICTION:** The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

**REGULATORY DISCLOSURES:** GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership\*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Saji John, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customer-care@geojit.com](mailto:customer-care@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226