

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	MAHM.BO
Bloomberg code	MM IN
Market cap. (US\$ mn)	11,941
6M avg. daily turnover (US\$ mn)	25.9
Issued shares (mn)	621
Target price (Rs)	1,351

#### Performance (%) 1M 3M 12M

Absolute	(9)	8	37
Relative	(13)	(1)	4

#### Valuation Ratios (Standalone)

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	61.2	74.3
+/- (%)	17.8	21.4
PER (x)	19.5	16.0
PBV (x)	3.1	2.6
Dividend/Yield (%)	1.2	1.2
EV/Sales (x)	1.6	1.4
EV/EBITDA (x)	14.0	11.0

#### Major shareholders (%)

Promoters	26
FII's	39
MF's	2
BFSI's	16
Public & Others	17

#### Financial highlights

(Rs mn)	Dec 13	Dec 14	YoY (%)	Sep 14	QoQ (%)	FY14	FY15E	YoY (%)	FY16E	YoY (%)	FY17E	YoY (%)
Net sales	105,557	95,828	(9.2)	95,437	0.4	405,086	398,459	(1.6)	461,288	15.8	526,790	14.2
EBITDA	13,823	9,942	(28.1)	10,092	(1.5)	47,212	42,464	(10.1)	51,972	22.4	62,820	20.9
EBITDA margin (%)	13.1	10.4	-	10.6	-	11.7	10.7	-	11.3	-	11.9	-
Other income	946	843	(10.9)	4,855	(82.6)	7,180	8,447	17.7	9,832	16.4	10,730	9.1
Interest exp/(income)	633	435	(31.4)	494	(12.1)	2,592	2,239	(13.6)	2,016	(10.0)	1,814	(10.0)
Depreciation	1,948	2,344	20.3	2,483	(5.6)	8,633	10,248	18.7	10,993	7.3	12,504	13.7
PBT	12,188	8,007	(34.3)	11,970	(33.1)	43,695	41,418	(5.2)	48,796	17.8	59,233	21.4
Reported PAT	9,341	9,421	0.9	9,466	(0.5)	37,584	31,891	(15.1)	37,573	17.8	45,609	21.4
Adjusted PAT	9,341	6,428	(31.2)	9,466	(32.1)	37,056	31,891	(13.9)	37,573	17.8	45,609	21.4
Diluted EPS (Rs)	15.2	10.5	-	15.4	-	60.4	51.9	-	61.2	0.0	74.3	-

## Mahindra and Mahindra Maintain Outperformer

Price: Rs 1,192

BSE Index: 29,094

13 February 2015

### 3QFY15 Result – One-time gain boosts reported PAT

- Mahindra and Mahindra (M&M) has reported standalone revenue of Rs 95.8 bn, with YoY drop of 9.2% (Results are not comparable, as 3QFY15 is with merger of Mahindra Truck & Bus Limited).
- Due to weakness in rural economy, subdued LCV demand and loss of market share in UV segment, auto division reported volume drop of ~12.9% YoY. In tractor segment, M&M has reported YoY volume drop of 23.9% due to unseasonal rains, weak farm output realisation and lower crop yields.
- On drop in scale and increase in cost of customer acquisition, M&M has reported 10.4% EBITDA margin for 3QFY15 as against 13.1% YoY.
- Due to scale and increase in discounts, auto division EBIT margin has dropped sharply by 260 bps to 6.9% and farm equipment segment by 340 bps YoY to 14.2%.
- Including other income of Rs **843 mn**, M&M has reported adjusted standalone PAT of Rs 6.4 bn, with YoY drop of 31.2%.
- M&M has recognised a one-time profit of Rs 3.0 bn on share transfer in Mahindra Engineering Service to Tech Mahindra in a share swap arrangement.

### B&K's view

In the near term, UV segment is expected to be challenging for M&M due to weak sentiment, market shift towards petrol vehicles (lesser price difference makes cost of ownership attractive in favour of petrol cars) and competitive intensity. Going forward, on the back of new launches by the company in the UV segment to address the product portfolio gaps, we expect M&M to improve volumes in the UV segment.

For the tractor segment, monsoon forecast is positive for FY16. However, M&M is expected to report drop in tractor volumes in line with the tractor industry in FY15 due to poor farm yields and realisation. Management expects the tractor volumes to recover from 2QFY16.

Despite short-term challenges, we continue to maintain our Outperformer rating for the stock, considering:

- Expected improvement in UV market share on launch of new products in CY15;
- Cost reduction initiatives of the management;
- Expected improvement in tractor demand in FY16 on (favourable) monsoon;
- Reasonable valuation; and
- Performance of key subsidiaries like Tech Mahindra and Mahindra CIE.

Considering the 9MFY15 performance and short-term weakness in the tractor segment, we have downward revised our FY15 and FY16 revenue estimates by 3.5% and 4.0% and PAT estimates for FY15 and FY16 by 5.5% and 7.5%, respectively. We have also introduced our FY17 estimates. At the current market price of Rs 1,192, M&M trades at 10.7x FY16 revised core earnings and 9.0x FY17 revised core earnings after considering investment valuation. We maintain our Outperformer rating with a revised target price of Rs 1,351 on SOTP basis.

### Concall highlights

#### Tractor volumes to recover from 2HFY16

Due to weak crop yield and realisation. In YTD-Jan-15, M&M reported a drop of 9.5% YoY. Management expects volume drop of ~10 YoY % for 4QFY15 and expects tractor industry to recover from 2HFY16. Despite weak demand, management has maintained that inventory is within the normal four weeks level at the dealer end.

#### Launch of 3 new platform products, 3 refreshes and 3 variants in FY16 in the automotive segment

To improve its market share in the UV segment and address the product portfolio gaps, M&M will launch 3 new platform products (2 compact UV and 1 small commercial vehicle), 3 variants and 3 refreshes for existing products. M&M's UV products will be launched in compact UV segment where they do not have significant presence.

#### SOTP valuation

Company	Valuation method	Per share (Rs)	Multiple (x)	Value (Rs)	Remarks	CMP date
Mahindra & Mahindra (Standalone)	P/E	67.2	11.0	739	Revised Core EPS for FY17E	
Mahindra Vehicle Manufacturers Limited	EV/EBITDA		7.0	106	100% subsidiary of MM	
Ssangyong Motor Company	CMP	84	0.7	56	30% discount to market value	13-Feb-15
Mahindra Holiday & Resorts	CMP	29	0.8	23	20% discount to market value	13-Feb-15
Swaraj Engines	CMP	6	0.8	4	20% discount to market value	13-Feb-15
Tech Mahindra	CMP	301	0.8	241	20% discount to market value	13-Feb-15
Mahindra Lifespace Developers	CMP	16	0.8	13	20% discount to market value	13-Feb-15
M&M Financial Services	CMP	145	0.8	116	20% discount to market value	13-Feb-15
CIE Automotive SA+Mahindra CIE	CMP	49	0.8	39	20% discount to market value	13-Feb-15
Mahindra Ugine Steel	CMP	15	0.8	12	20% discount to market value	13-Feb-15
<b>SOTP</b>				<b>1,351</b>		

**Income Statement (Standalone)**

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
<b>Net sales</b>	<b>405,086</b>	<b>398,459</b>	<b>461,288</b>	<b>526,790</b>
Growth (%)	0.2	(1.6)	15.8	14.2
Operating expenses	(357,873)	(355,996)	(409,316)	(463,970)
<b>Operating profit</b>	<b>47,212</b>	<b>42,464</b>	<b>51,972</b>	<b>62,820</b>
<b>EBITDA</b>	<b>47,212</b>	<b>42,464</b>	<b>51,972</b>	<b>62,820</b>
Growth (%)	0.3	(10.1)	22.4	20.9
Depreciation	(8,633)	(10,248)	(10,993)	(12,504)
Other income	7,180	8,447	9,832	10,730
<b>EBIT</b>	<b>45,759</b>	<b>40,664</b>	<b>50,812</b>	<b>61,047</b>
Finance cost	(2,592)	(2,239)	(2,016)	(1,814)
Exceptional & extraordinary	528	2,993	-	-
<b>Profit before tax</b>	<b>43,695</b>	<b>41,418</b>	<b>48,796</b>	<b>59,233</b>
Tax (current + deferred)	(6,111)	(9,526)	(11,223)	(13,624)
<b>P/(L) for the period</b>	<b>37,584</b>	<b>31,891</b>	<b>37,573</b>	<b>45,609</b>
Reported Profit/(Loss)	37,584	31,891	37,573	45,609
Adjusted net profit	37,056	31,891	37,573	45,609
Growth (%)	13.6	(13.9)	17.8	21.4

**Balance Sheet (Standalone)**

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Share capital	2,952	2,952	2,952	2,952
Reserves & surplus	183,240	214,131	249,704	293,313
<b>Shareholders' funds</b>	<b>186,191</b>	<b>217,083</b>	<b>252,656</b>	<b>296,265</b>
<b>Non-current liabilities</b>	<b>50,945</b>	<b>46,705</b>	<b>46,381</b>	<b>46,125</b>
Long-term borrowings	37,444	32,590	31,590	30,590
Other non-current liabilities	13,501	14,115	14,791	15,534
<b>Current liabilities</b>	<b>98,224</b>	<b>98,886</b>	<b>111,537</b>	<b>124,464</b>
ST borrowings, Curr maturity	4,072	3,576	2,996	2,996
Other current liabilities	94,152	95,310	108,541	121,468
<b>Total (Equity and Liab.)</b>	<b>335,361</b>	<b>362,674</b>	<b>410,573</b>	<b>466,853</b>
<b>Non-current assets</b>	<b>187,850</b>	<b>210,422</b>	<b>232,048</b>	<b>243,065</b>
Fixed assets (Net block)	63,121	81,644	98,421	106,687
Non-current Investments	108,984	112,990	117,791	120,489
Long-term loans and adv.	14,842	14,885	14,933	14,986
Other non-current assets	903	903	903	903
<b>Current assets</b>	<b>147,511</b>	<b>152,252</b>	<b>178,525</b>	<b>223,788</b>
Cash & current investment	69,551	72,868	85,952	120,037
Other current assets	77,960	79,384	92,573	103,752
<b>Total (Assets)</b>	<b>335,361</b>	<b>362,674</b>	<b>410,573</b>	<b>466,853</b>
Total debt	41,516	36,166	34,586	33,586
Capital employed	241,209	267,364	302,032	345,386

**Cash Flow Statement (Standalone)**

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Profit before tax	43,695	41,418	48,796	59,233
Depreciation	8,633	10,248	10,993	12,504
Change in working capital	(107)	(669)	(365)	1,696
Total tax paid	(5,552)	(8,912)	(10,548)	(12,880)
Others	(924)	(1,926)	(3,107)	(3,736)
<b>Cash flow from oper. (a)</b>	<b>45,746</b>	<b>40,158</b>	<b>45,769</b>	<b>56,817</b>
Capital expenditure	(15,883)	(28,607)	(27,607)	(20,607)
Change in investments	(5,470)	(5,459)	(5,468)	(5,471)
Others	3,488	3,961	4,926	5,360
<b>Cash flow from inv. (b)</b>	<b>(17,866)</b>	<b>(30,105)</b>	<b>(28,148)</b>	<b>(20,718)</b>
<b>Free cash flow (a+b)</b>	<b>27,880</b>	<b>10,053</b>	<b>17,621</b>	<b>36,099</b>
Equity raised/(repaid)	(768)			
Debt raised/(repaid)	5,857	(5,350)	(1,580)	(1,000)
Dividend (incl. tax)	(18,675)	(10,056)	(10,415)	(10,774)
Others	(25,758)	7,176	6,759	6,960
<b>Cash flow from fin. (c)</b>	<b>(39,344)</b>	<b>(8,231)</b>	<b>(5,236)</b>	<b>(4,814)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(11,464)</b>	<b>1,822</b>	<b>12,384</b>	<b>31,285</b>

**Key Ratios (Standalone)**

Period end (%)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Adjusted EPS (Rs)	60.4	51.9	61.2	74.3
Growth	13.6	(13.9)	17.8	21.4
CEPS (Rs)	74.4	68.6	79.1	94.7
Book NAV/share (Rs)	303.1	353.4	411.4	482.4
Dividend/share (Rs)	14.0	14.5	15.0	15.0
Dividend payout ratio	26.8	32.7	28.7	23.6
EBITDA margin	11.7	10.7	11.3	11.9
EBIT margin	11.3	10.2	11.0	11.6
Tax rate	14.2	23.0	23.0	23.0
RoCE	19.4	16.0	17.8	18.9
Total debt/Equity (x)	0.2	0.2	0.1	0.1
Net debt/Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
<b>Du Pont Analysis - ROE</b>				
Net margin	9.1	8.0	8.1	8.7
Asset turnover (x)	1.2	1.1	1.2	1.2
Leverage factor (x)	1.8	1.7	1.6	1.6
Return on equity	20.1	15.8	16.0	16.6

**Valuations (Standalone)**

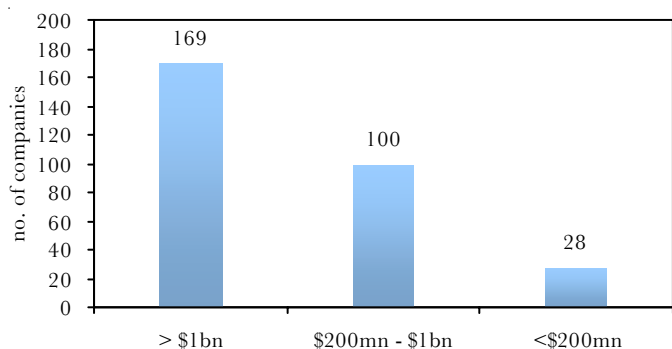
Period end (x)	Mar 14	Mar 15E	Mar 16E	Mar 17E
PER	21.0	24.4	20.7	17.0
PCE	17.0	18.4	16.0	13.4
Price/Book	4.2	3.6	3.1	2.6
Yield (%)	1.1	1.1	1.2	1.2
EV/EBITDA	15.9	17.4	14.0	11.0

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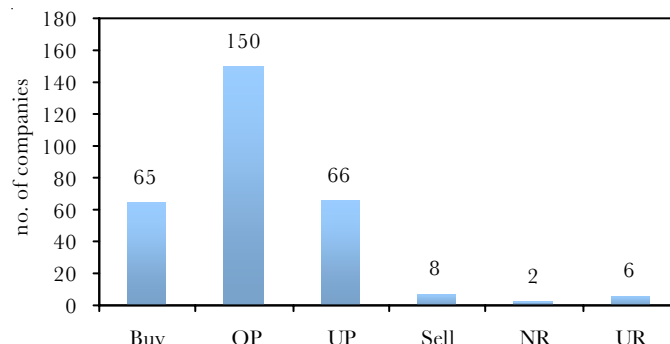
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## B&K Universe Profile

### By Market Cap (US\$ mn)



### By Recommendation



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### B&K Investment Ratings.

	<b>LARGE CAP</b> (Market Cap > USD 2 bn)	<b>MID CAP</b> (Market Cap of USD 200 mn to USD 2 bn)	<b>SMALL CAP</b> (Market Cap < USD 200 mn)
<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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