

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	MAHM.BO
Bloomberg code	MM IN
Market cap. (US\$ mn)	12,243
6M avg. daily turnover (US\$ mn)	21.0
Issued shares (mn)	621
Target price (Rs)	1,330

Performance (%)	1M	3M	12M
Absolute	7	(3)	7
Relative	5	3	(7)

Valuation Ratios (Standalone)

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	56.2	66.0
+/- (%)	15.8	17.8
PER (x)	22.4	19.0
Dividend/Yield (%)	1.2	1.2
EV/Sales (x)	1.7	1.4
EV/EBITDA (x)	15.1	12.3

Major shareholders (%)

Promoters	26
FII's	43
MF's	3
BFSI's	16
Public & Others	12

Financial highlights (Standalone)

(Rs mn)	Mar 14	Mar 15	YoY (%)	Dec 14	QoQ (%)	FY14	FY15P	YoY (%)	FY16E	YoY (%)	FY17E	YoY (%)
Net sales	110,007	95,570	(13.1)	95,828	(0.3)	405,086	389,454	(3.9)	435,126	11.7	496,767	14.2
EBITDA	9,066	9,005	(0.7)	9,942	(9.4)	47,212	41,734	(11.6)	48,017	15.1	56,404	17.5
EBITDA margin (%)	8.2	9.4	-	10.4	-	11.7	10.7	-	11.0	-	11.4	-
Other income	985	897	(9.0)	843	6.4	7,180	8,489	18.2	9,832	15.8	10,730	9.1
Interest exp/(income)	843	629	(25.4)	435	44.7	2,592	2,143	(17.3)	2,016	(5.9)	1,814	(10.0)
Depreciation	2,909	2,443	(16.0)	2,344	4.3	8,633	9,749	12.9	10,993	12.8	12,504	13.7
PBT	6,299	6,830	8.4	8,007	(14.7)	43,695	38,332	(12.3)	44,840	17.0	52,817	17.8
Reported PAT	8,969	5,506	(38.6)	9,421	(41.6)	37,584	33,211	(11.6)	34,527	4.0	40,669	17.8
Adjusted PAT	8,441	5,142	(39.1)	6,428	(20.0)	37,056	29,854	(19.4)	34,527	15.7	40,669	17.8
Diluted EPS (Rs)	13.7	8.4	-	10.5	-	60.4	48.6	-	56.2	-	66.2	-

Mahindra and Mahindra Maintain Outperformer

Price: Rs 1,260

BSE Index: 27,828

30 May 2015

4QFY15 Result – Showing resilience in challenging times, market response to UV launches and monsoons holds key

Highlights

- Mahindra and Mahindra (M&M) has reported standalone revenue of Rs 95.6 bn, with YoY drop of 13.1% (not comparable as 4QFY14 numbers include full year merger effect of Mahindra Truck and Buses).
- Due to weakness in rural economy, subdued LCV demand and loss of market share in UV segment, overall auto division reported volume drop of ~9.8% YoY. However, in tractor segment, M&M has reported YoY volume drop of 30.3%.
- Due to better product mix, better contribution from allied business such as applitrac and other allied agri business and price hikes taken by the company, average realisation has improved by 3.0% YoY.
- M&M has reported 9.4% as against 8.2% EBITDA margin YoY for the quarter. After one-off costs in the EBITDA, adjusted EBITDA margin works to 10.1% (not comparable as 4QFY14 numbers include full year merger effect of Mahindra Truck and Buses).
- Auto division EBIT margin is 7.2% due to weak demand (higher discounts) and scale. In the farm equipment segment, the EBIT margin has declined by 590 bps YoY to 11.2% due to drop in scale (volume drop of 30.3% YoY and increased discounts and selling expenses).
- Including other income of Rs 896.7 mn and adjusted for one-time gain of Rs 363 mn, M&M has reported standalone PAT of Rs 5.1 bn, with YoY drop of 39.1%.

B&K's view

In near term, M&M will have challenging time for all the key segments i.e. UV, LCV and Tractors. UV segment is expected to be challenging for M&M due to competitive intensity and absence in compact UV segment. LCV segment is expected to be subdued due to subdued consumer demand.

In the tractor segment, considering the contradictory forecast for monsoon, normal monsoon will be big positive for M&M.

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 rural demand in FY16 on (favourable) monsoons.
- Reasonable valuation.

At the current market price of Rs 1,260, M&M trades at 15.1x FY16E revised standalone earnings and 12.4x FY17E revised standalone earnings after considering investment valuations. We maintain our Outperformer rating on the stock with a revised target price of Rs 1,330.

Analyst meet highlights

- For 4QFY15, tractor industry witnessed steepest drop in tractor volumes for M&M in the last 40 quarters of 30% YoY drop. M&M continues to maintain market share at 40% in domestic tractor industry for FY15 (40.6% in FY14). M&M expects 5% growth in tractor volumes for FY16 on favourable monsoon.
- M&M has reiterated plan to launch 9 products (3 new platform products, 3 new refreshers and 3 variants) for automotive division in FY16. M&M has launched upgraded XUV500. New platform launches include two compact SUVs and Small CV. M&M remains on track to launch a new platform, a major refresh and a new variant launch in each of the first three quarters in FY16.
- Management expects 1HFY16 to remain muted for tractor volumes and 2HFY16 is likely to see recovery with low base of 2HFY15, dependent on normal monsoons.
- Despite weakness in demand, M&M has maintained tight control on costs and inventory and prudent cash management. System inventory has been cut by 15,000 tractors and 8,000 automobiles. M&M also has maintained gross margins due to cost reduction initiatives.

SOTP valuation

Company	Valuation method	Per share (Rs)	Multiple	Value (Rs)	Remarks	CMP Date
Mahindra & Mahindra (Standalone)	P/E	60.3	13.0	784	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	29-May-15
Mahindra Holiday & Resorts	CMP	29	0.8	23	20% discount to market value	29-May-15
Swaraj Engines	CMP	6	0.8	4	20% discount to market value	29-May-15
Tech Mahindra	CMP	232	0.8	186	20% discount to market value	29-May-15
Mahindra Lifespace Developers	CMP	16	0.8	13	20% discount to market value	29-May-15
M&M Financial Services	CMP	145	0.8	116	20% discount to market value	29-May-15
CIE Automotive SA+Mahindra CIE	CMP	50	0.8	40	20% discount to market value	29-May-15
SOTP				1,330		

*Current market price

Income Statement (Standalone)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Net sales	405,086	389,454	435,126	496,767
Growth (%)	0.2	(3.9)	11.7	14.2
Operating expenses	(357,873)	(347,982)	(387,110)	(440,363)
Operating profit	47,212	41,472	48,017	56,404
EBITDA	47,212	41,472	48,017	56,404
Growth (%)	0.3	(12.2)	15.8	17.5
Depreciation	(8,633)	(9,749)	(10,993)	(12,504)
Other income	7,180	8,489	9,832	10,730
EBIT	45,759	40,213	46,856	54,631
Finance cost	(2,592)	(2,143)	(2,016)	(1,814)
Exceptional & extraordinary	528	2,993	0	0
Profit before tax	43,695	41,063	44,840	52,817
Tax (current + deferred)	(6,111)	(8,244)	(10,313)	(12,148)
Profit/(Loss) for the period	37,584	32,818	34,527	40,669
Reported Profit / (Loss)	37,584	32,818	34,527	40,669
Adjusted net profit	37,056	29,825	34,527	40,669
Growth (%)	13.6	(19.5)	15.8	17.8

Balance Sheet (Standalone)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Share capital	2,952	2,952	2,952	2,952
Reserves & surplus	183,240	215,058	247,585	286,254
Shareholders' funds	186,191	218,010	250,537	289,206
Non-current liabilities	50,945	46,705	46,381	46,125
Long-term borrowings	37,444	32,590	31,590	30,590
Other non-current liabilities	13,501	14,115	14,791	15,534
Current liabilities	98,224	96,735	107,081	119,350
ST borrowings, Curr maturity	4,072	3,576	2,996	2,996
Other current liabilities	94,152	93,159	104,085	116,354
Total (Equity and Liab.)	335,361	361,450	403,999	454,681
Non-current assets	187,850	210,422	232,048	243,065
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 advances	14,842	14,885	14,933	14,986
Other non-current assets	903	903	903	903
Current assets	147,511	151,028	171,951	211,616
Cash & current investment	69,551	73,720	83,841	112,986
Other current assets	77,960	77,308	88,110	98,630
Total (Assets)	335,361	361,450	403,999	454,681
Total debt	41,516	36,166	34,586	33,586
Capital employed	241,209	268,291	299,914	338,326

Cash Flow Statement (Standalone)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Profit before tax	43,695	41,063	44,840	52,817
Depreciation	8,633	9,749	10,993	12,504
Change in working capital	(107)	(743)	(283)	1,697
Total tax paid	(5,552)	(7,631)	(9,638)	(11,404)
Others	(924)	(2,064)	(3,107)	(3,736)
Cash flow from oper. (a)	45,746	40,373	42,806	51,878
Capital expenditure	(15,883)	(28,108)	(27,607)	(20,607)
Change in investments	(5,470)	(5,417)	(5,468)	(5,471)
Others	3,488	3,961	4,926	5,360
Cash flow from inv. (b)	(17,866)	(29,564)	(28,148)	(20,718)
Free cash flow (a+b)	27,880	10,809	14,657	31,159
Equity raised/(repaid)	(768)	0	0	0
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)	7,272	6,759	6,960
Cash flow from fin. (c)	(39,344)	(8,135)	(5,236)	(4,814)
Net chg. in cash (a+b+c)	(11,464)	2,674	9,421	26,345

Key Ratios (Standalone)

Period end (%)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Adjusted EPS (Rs)	60.4	48.6	56.2	66.2
Growth	13.6	(19.5)	15.8	17.8
CEPS (Rs)	74.4	64.5	74.1	86.6
Book NAV/share (Rs)	303.1	354.9	407.9	470.9
Dividend/share (Rs)	14.0	14.5	15.0	15.0
Dividend payout ratio	26.8	31.7	31.2	26.5
EBITDA margin	11.7	10.6	11.0	11.4
EBIT margin	11.3	10.3	10.8	11.0
Tax rate	14.2	21.7	23.0	23.0
RoCE	19.4	15.8	16.5	17.1
Total debt/Equity (x)	0.2	0.2	0.1	0.1
Net debt/Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Du Pont Analysis - ROE				
Net margin	9.1	7.7	7.9	8.2
Asset turnover (x)	1.2	1.1	1.1	1.2
Leverage factor (x)	1.8	1.7	1.6	1.6
Return on equity	20.1	14.8	14.7	15.1

Valuations (Standalone)

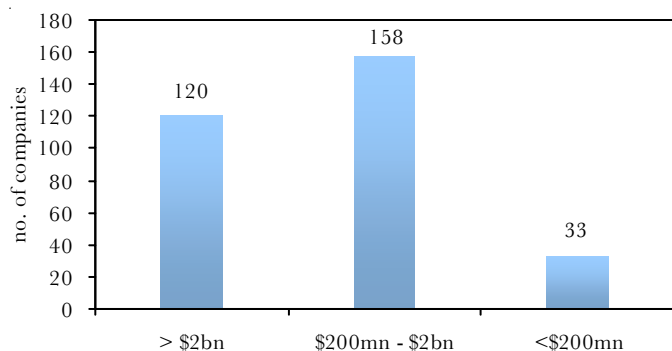
Period end (x)	Mar 14	Mar 15P	Mar 16E	Mar 17E
PER	20.8	25.9	22.4	19.0
PCE	16.9	19.5	17.0	14.5
Price/Book	4.2	3.5	3.1	2.7
Yield (%)	1.1	1.2	1.2	1.2
EV/EBITDA	15.8	17.7	15.1	12.3

Annamalai Jayaraj
annamalai.jayaraj@bksec.com
+91-44-6547 4401

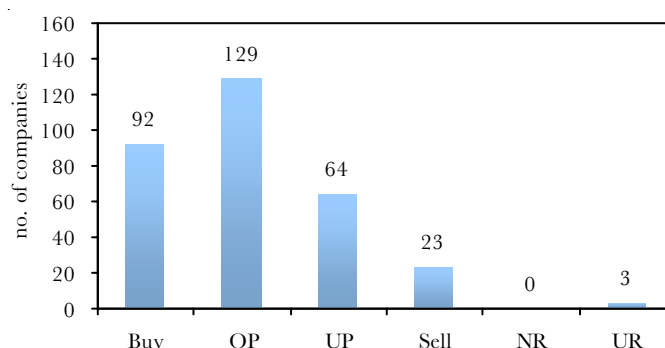
Kirthi Jain
kirthi.jain@bksec.com
+91-44-65474403

B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings.

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

Disclaimer: This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited ("B&K") located outside of the United States (a "non-US Group Company"), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient's analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Disclosures, applying to B&K and the Analyst (together with associates and family members)

Ownership interest in the issuer of the securities mentioned	< 1%
Other financial interest in the issuer	None
Other material conflict of interest	None
Compensation/benefits received from issuer/3 rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	None
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer's turnover)	< 0.1%
Compensation for other services (as percentage of issuer's turnover)	< 0.1%
Analyst service as officer, director or employee of the issuer	None
Involvement in market-making in the issuer's securities	None

Important US Regulatory Disclosures on Subject Companies

1. B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
6. As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036).

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.