

Buy

Mahindra & Mahindra

Industry: Auto and Auto Components

Industry View: Neutral

Result Update

“Riding on the automotive segment”

Q2 FY13 performance surpasses expectations

M&M's Q2 FY13 revenues were robust at Rs96.6bn, a growth of 33.4% yoy, and 4% qoq. Volumes in the quarter grew by 7% yoy and 3% qoq. Auto volumes have grown by 16.3% yoy in the quarter, while FES volumes have declined by 13% yoy during the quarter. M&M's topline was mainly lifted by the extremely impressive growth of 24% in realizations for the third consecutive quarter. This was due to favorable product mix coming from the launch of XUV 500 and the launch of Quanto. The growth in realizations was also in line with the price hikes of about Rs 18,000 (Rs 6,000 taken for offsetting excise duty hike and rest to nullify the RM cost hike) in the quarter on the FES side. On profitability front, EBITDA margins slightly went down to 11.4% from 11.8% qoq and 12% yoy. RM to sales grew yoy to 74.94% from 72.61%, while slightly reducing from 75.1% sequentially. Other expenses however grew to 8.82% from 8.23% qoq. Due to lower FES volumes, margins fell on the FES side to 14.8% from 15.7%, while this fall was somewhat offset by the auto EBIT margins which expanded to 9.4% from 8.8% qoq. Higher depreciation expenses which grew by 15.8% qoq and 42% yoy slightly capped the bottomline growth which would have been even higher due to the other income which grew by 30% yoy and 5x times qoq due to the dividend coming from different subsidiaries. PAT grew by 24% qoq and 22.3% yoy to Rs 9.01bn much above our and street expectations.

Auto segment to continue to yield pricing power to M&M

With the solid response for XUV 500, SUV segment has got a boost in terms of both volumes and margins. The model has been selling 4,500-5,000 units per month and has 15,000 bookings which translates into 3 months waiting period on the model. The recently launched Quanto has been producing 2000 units per month and has a waiting period of 3 months as it has received 6,000 bookings. The launch of XUV 500 in export markets like Australia, South Africa and Chile will further boost volume performance. These new launches have provided M&M not only a fillip to volumes, but a strong pricing power which is evident from the 25% growth in realizations for the last 3 quarters. Also, the EBIT margin for the Auto segment has gone up to 9.4% from 8.8% qoq, thus indicating the re-enforcement of leadership of M&M in the SUV business and an increase in market share. The upcoming launch of sub 4m Verito will be another booster to the auto volumes. Strong sales of Maximo Van and Genio cab along with the LCV versions of them have been doing a great job for M&M since last few quarters. Additionally the upcoming launch of Rexton SUV from the Ssangyong stable by Diwali will boost the JV. The turnaround in Ssangyong at the operating level will further help the JV. We have increased our total auto growth to 17%/14% for FY13/14E.

Stock Data

Current Market Price (₹)	870
Target Price (₹)	1,039
Potential upside (%)	20
Reuters	MAHM.BO
Bloomberg	MM IN

What's Changed

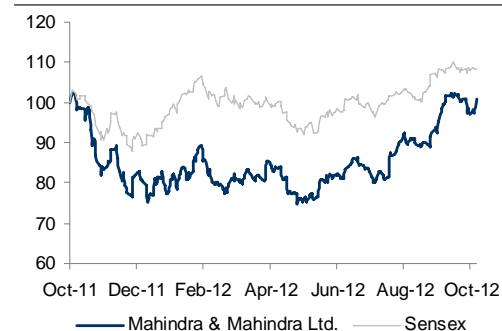
12 month PriceTarget	₹828 to ₹1,039
F2013 EPS	From ₹48 to ₹51
F2014 EPS	From ₹54 to ₹62

Key Data

Market Cap (₹bn)	534
52-Week Range (₹)	879 / 622
Avg. Daily Trading Value (₹mn)	966
Promoters (%)	25
FII Holding (%)	30
DII Holding (%)	19
Public & Others Holding (%)	26

Fiscal YE	FY11	FY12	FY 13E	FY14E
Total sales(₹bn)	234,937	318,536	380,107	457,061
EBITDA margins(%)	14.7	11.8	11.7	12.1
PAT margins(%)	10.8	8.7	8.2	8.3
EPS(₹)	41.4	45.1	50.9	62.0
P/E(x)	21.0	19.3	17.1	13.0
P/BV(x)	5.2	4.4	3.7	2.9
EV/EBITDA(x)	12.9	11.7	9.1	6.8
ROE(%)	24.7	22.8	21.7	22.2
Dividend yield (%)	1.3	1.4	1.5	1.7

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	1	26	1
BSE Relative	1	13	(8)

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FES segment may see an improvement with strong rabi crop

The company has lost its market share in the FES segment, that too mainly in the >40hp segment where M&M has stronghold and the segment overall has seen a strong decline to the tune of 40%. The FES segment for M&M has seen YTD decline of about 7% also due to weak monsoon this year. However, with somewhat late recovery in monsoon, some revival in demand was seen lately along with some hike in kharif prices, thus fuelling expectations of increase in demand for tractors. Also this has triggered hopes of a good rabi crop which fill in for the drop in tractor demand in the first half of FY 13. Considering this, we are still maintaining our tractor volume estimates of 2%/5% for FY13/14E

Improved product mix, price hikes and softening in commodities to improve margins

EBITDA margins in the quarter came at 11.4%, which was a slight drop qoq as well as yoy mainly due to higher RM costs and other expenses. Going forward, there is an expectation of RM costs softening further while other expenses may remain high with promotional expenses related with new launches going up. However, success of high margin products and expectations of FES segment revival may pull up margin performance. The company has taken a price hike of Rs7,000 in October on tractors, which would further help margin performance. We expect FY13E/14E margins to come at 11.7%/12.1% respectively. M&M + MVML margins were much better at 13.8% for the quarter.

Outlook and Valuation

With higher expectations on the volume front on the auto side and improvement expected on the margin front, we have raised our target price to Rs1,039 from Rs 828, and value the company on FY 14E earnings of Rs62 at 14x times arriving at a value of Rs 868 from standalone business and Rs 172 from its various subsidiaries. We maintain our BUY rating on the stock with an upside of 20% from current levels.

Particulars	Basis	Discount	Value per share
M&M	P/E (@ 14x)	-	868
M&M Financial Services	Market cap	30%	60
Tech Mahindra	Market cap	30%	61
Mahindra Lifespaces	Market cap	30%	10
Mahindra UGINE	Market cap	30%	1
Mahindra Forging	Market cap	30%	1
Mahindra Holiday & Resorts	Market cap	30%	21
Swaraj Engines	Market cap	30%	1
Ssangyong	Market cap	30%	18
Total			1039

	Q1 FY11	Q2 FY11	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	Q4 FY12	Q1 FY13	Q2 FY13
Revenues										
Auto	28798.2	33238.8	45177.3	39586.5	38579.4	45177.3	51163.5	66137.1	62786.5	71498.4
FES	22738.6	20849.9	28259.6	27938.5	28614.8	28259.6	32512.7	27610.9	30782.9	26534.4
Other	136.6	348.4	246.1	288.4	205.1	246.1	248.5	195.5	169.5	151
Total	51673.4	54437.1	73683	67813.4	67399.3	73683	83924.7	93943.5	93738.9	98183.8
EBIT										
Auto	3521	5199	4480.9	4181.6	4138.9	4480.9	4178.9	5758.7	5527.6	6717.7
FES	3894.3	3561.3	4325.1	4755.8	4574.1	4325.1	5084.1	4341.7	4824.2	3920.5
Other	23	27.6	20.8	59.5	20.8	20.8	36.1	31.4	39.8	33.6
Total	7438.3	8787.9	8826.8	8996.9	8733.8	8826.8	9299.1	10131.8	10391.6	10671.8
EBIT Margins%										
Auto	12.2%	15.6%	9.9%	10.6%	10.7%	9.9%	8.2%	8.7%	8.8%	9.4%
FES	17.1%	17.1%	15.3%	17.0%	16.0%	15.3%	15.6%	15.7%	15.7%	14.8%
Other	16.8%	7.9%	8.5%	20.6%	10.1%	8.5%	14.5%	16.1%	23.5%	22.3%
Total	14.4%	16.1%	12.0%	13.3%	13.0%	12.0%	11.1%	10.8%	11.1%	10.9%
Volumes										
Auto	74438	91729	95223	107214	101997	121454	124989	134806	126029	141237
FES	50148	45509	58608	59388	60152	57394	65754	52075	59578	49840
Realizations(Rs/unit)										
Auto	386875	362359	474437	369229	378241	371970	409344	490609	498191	506230
FES	453430	458149	482180	470440	475708	492379	494460	530214	516682	532392

Financial Summary (Standalone)

Income statement

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
Total Revenues	234,937	318,536	380,107	457,061
Raw Material Cost	162,639	234,998	285,080	341,424
Employee Cost	14,456	17,018	19,005	22,853
Other Exp	23,789	29,548	31,549	37,479
EBITDA	34,562	37,708	44,473	55,304
<i>EBITDA Margin(%)</i>	<i>14.7</i>	<i>11.8</i>	<i>11.7</i>	<i>12.1</i>
Other Income	3,095	4,658	6,000	6,500
Depreciation	4,139	5,761	6,805	8,262
Interest	-503	1628	1977	2102
PBT	34,021	34,977	41,691	51,440
<i>PBT Margin(%)</i>	<i>14.5</i>	<i>11.0</i>	<i>11.0</i>	<i>11.3</i>
Tax	8,575	7,270	10,423	13,374
Adj PAT	25,446	27,707	31,268	38,066
<i>Adj PAT Margins (%)</i>	<i>10.8</i>	<i>8.7</i>	<i>8.2</i>	<i>8.3</i>
Exceptional items	1175	1083	0	0
Reported PAT	26,621	28,790	31,268	38,066
<i>Rep. PAT Margins (%)</i>	<i>11.3</i>	<i>9.0</i>	<i>8.2</i>	<i>8.3</i>

Key Ratios

YE Mar	FY11	FY12	FY 13E	FY 14E
Per Share Data (Rs)				
Adj. EPS	41.4	45.1	50.9	62.0
CEPS	50.1	56.3	62.0	60.0
BVPS	168.0	198.2	234.4	240.0
DPS	11.5	12.5	13.0	14.5
Growth Ratios(%)				
Total revenues	26.3	35.6	19.3	20.2
EBITDA	16.9	9.1	17.9	24.4
PAT	27.4	8.9	12.9	21.7
EPS Growth	27.4	8.9	12.9	21.7
Valuation Ratios (X)				
PE	21.0	19.3	17.1	13.0
P/CEPS	17.4	15.5	14.0	11.0
P/BV	5.2	4.4	3.7	2.9
EV/Sales	2.0	1.4	1.1	0.8
EV/EBITDA	12.9	11.7	9.1	6.8
Operating Ratios (Days)				
Inventory days	38.0	38.0	38.0	38.0
Receivable Days	20.2	19.0	23.0	24.0
Payables day	80.9	85.0	78.0	75.0
Net Debt/Equity (x)	0.22	0.26	0.29	0.26
Profitability Ratios (%)				
ROE	24.7	22.8	21.7	22.2
Dividend payout	27.7	27.7	25.6	23.6
Dividend yield	1.3	1.4	1.5	1.7

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
Equity and Liabilities				
Equity Share Capital	2,936	2,954	2,954	2,954
Reserves & Surplus	100,198	118,766	140,994	168,889
Total Networth	103,134	121,720	143,948	171,844
Total debt	29,205	38,536	48,831	52,655
Deferred tax liabilities	3,544	5,271	6,000	6,400
Current liabilities and Prov.s	59,514	73,598	85,547	97,011
Total Liabilities	195,397	239,125	284,325	327,910
Assets				
Fixed assets	39,066	50,808	52,048	53,386
Non current Investments	82,054	92,736	102,736	109,736
Other non current assets	19,852	15,670	13,131	11,131
Current Assets	54,427	79,912	116,411	153,656
Cash and Bank	6,146	11,884	46,426	69,195
Inventories	16,942	23,584	29,680	35,546
Sundry Debtors	12,603	19,884	23,952	30,053
Loan, Advances & others	8,379	9,310	11,403	13,712
Other current assets	10,356	15,251	4,951	5,151
Total Assets	195,398	239,125	284,325	327,910

Cash Flow

YEMar(₹mn)	FY11	FY12	FY 13E	FY 14E
PPBT	34,021	34,977	41,691	51,440
Depreciation	4,139	5,761	6,805	8,262
Interest	725	1,628	1,977	2,102
Chng in working capital	2,074	(4,843)	10,082	3,723
Tax paid	(7,725)	(7,432)	(10,423)	(13,374)
Other operating activities	(3,435)	(2,741)	610	38,805
CF from operations (a)	29,798	27,351	50,742	39,518
Capital expenditure	(12,070)	(13,404)	(8,645)	(3,600)
Chng in investments	(29,709)	(10,643)	(10,000)	(7,000)
Other investing activities	4,428	4,682	0	0
CF from investing (b)	(37,350)	(19,365)	(18,645)	(10,600)
Free cash flow (a+b)	(7,552)	7,985	32,096	28,918
Equity raised/(repaid)	87	0	0	0
Inc/dec in borrowings	3,311	6,442	9,693	3,200
Dividend paid (incl. tax)	(6,223)	(8,008)	(9,040)	(10,170)
Other financing activities	(587)	(460)	(459)	(458)
CF from financing (c)	(3,413)	(2,026)	194	(7,428)
Net chng in cash (a+b+c)	(10,965)	5,959	32,290	21,490
Closing cash & cash equiva.	6,142	11,884	46,426	69,195

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