

Mahindra and Mahindra

BSE SENSEX

33,826

S&P CNX

9,979

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Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USD\$b)	575 / 7.6
52-Week Range (INR)	675 / 246
1, 6, 12 Rel. Per (%)	26/4/-14
12M Avg Val (INR M)	2288

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	451	416	482
EBITDA	55.4	45.5	61.6
Adj. PAT*	35.1	25.9	37.6
Adj. EPS (INR)	29.5	21.7	31.5
EPS Gr. (%)	-31.5	-26.3	45.1
BV/Sh. (INR)	312	322	342

Ratios

RoE (%)	10.1	6.3	8.8
RoCE (%)	9.5	6.1	8.4
Payout (%)	33	58	40

Valuations

P/E (x)	15.7	21.3	14.7
P/BV (x)	1.5	1.4	1.4
Div. Yield (%)	2.2	2.2	2.2
FCF Yield*	2.7	5.8	6.4

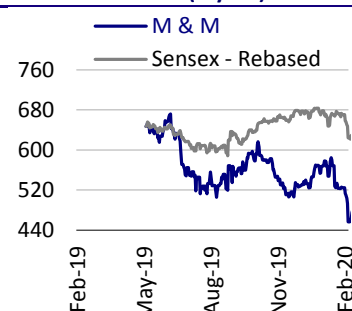
*(incl MVML)

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	18.9	18.9	20.4
DII	26.9	23.2	22.5
FII	41.3	41.4	39.2
Others	12.9	16.6	17.9

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR463
TP: INR576 (+25%)
Buy

A generational shift underway

Best rural proxy | Valuations at discount to 1SD below 5-yr average P/E

- Mahindra & Mahindra's (MM) senior leadership is in midst of a generational shift, at a time when all its key businesses are facing cyclical or structural challenges.
- While the cycle for tractors should turn positive in the near term and for LCVs too in the not so distant future, the new CEO would have to address two major issues – (a) restore its positioning in the fast growing SUV segment, and (b) circumvent the drag of underperforming subsidiaries in the core/non-core businesses.
- We believe MM's valuations reflect the challenges of the Passenger UV business as well as no major changes on capital allocation policy.
- Any positive surprises in the SUV business, positive evolution of the Ford India JV or correction of capital allocation by the new CEO should act as re-rating triggers.

Management change – A generational shift underway

- After a gap of almost 24 years, MM would see a leadership change with both Executive Chairman (Mr. Anand Mahindra) and MD & CEO (Dr. Pawan Goenka) retiring in 2021. Dr. Anish Shah would take over as MD & CEO from 2nd Apr'21, in turn becoming the 5th MD of MM over the last 40 years.
- Dr. Shah's priorities seem clearly set out for the next few years, which includes (a) revisiting capital allocation in subsidiaries (over next 12 months), (b) funding of other group businesses, and (c) evaluating segregation of auto and FES business (over next 3-5 years).
- We believe there are several low hanging fruits in the form of loss-making non-core businesses (Aerospace, Global 2Ws, Retail etc.), which could be divested or closed. The initial signs on capital allocation are positive as is visible from the MM board's decision against investing a further USD406m in Ssangyong in Apr'20; this, despite giving an approval earlier in Feb'20.

Best rural proxy with 2 of 3 core businesses on strong footing

- MM has one of the highest exposures to rural markets (~65% of volumes), which are expected to be less impacted by the on-going impact of the COVID-19 pandemic. According to our estimates, rural markets should contribute ~62% to revenues, 81% to core PAT and ~70% to SOTP in FY22E.
- We have slotted MM's core business into three buckets viz. Tractors, Pick-up UVs and Passenger UVs. Tractors and Pick-up UVs are on strong footing in terms of outlook, MM's competitive positioning as well as industry-level consolidation. However, MM's SUVs business is severely challenged and we do not see any respite for MM in this category in the foreseeable future.

Tractors primed for fastest recovery in Autos | Reforms to potentially drive next phase of farm mechanization

- The Tractor segment is seeing volume recovery since Dec'19, driven by improvement in farm-level indicators such as output prices, lower input prices, higher government spends in rural areas and unusually strong water reservoir

levels. Further, good Rabi crop and expected normal monsoons has further improved the outlook for farm income.

- The supply side getting back in shape post lifting of restrictions (expect normalized production by Aug'20) also augurs well for the Tractor segment's volume recovery from Sep'20.
- We do not expect any material change in either the competitive landscape or MM's positioning in this highly consolidated industry (top-4 player controlling over 80% of the market). We estimate Tractor industry volumes to be flat in FY21E (due to supply-side constraints) and grow 12-14% in FY22E, with MM also growing in line.

MM's positioning in LCVs to further strengthen under BS6

- Looking beyond the cyclical downturn, we believe fundamentals of the LCV segment are strong. Also, LCVs should continue to benefit from the increasing emergence of the 'hub and spoke' model. We estimate the LCV industry to deliver 8-10% CAGR over the next 5 years.
- MM enjoys market share of ~42.5% in the overall LCV segment and ~65% in the 2-3.5 ton LCV segment.
- Under BS6, MM's Pick-up business' competitive positioning should improve v/s SCVs/LCVs due to lower price inflation. While near-term volumes would be impacted due to COVID-19 and BS6 transition, we estimate volume CAGR of 7.5% over FY20-22E.

Competitive intensity in fast-growing SUV segment to stay high, MM remains vulnerable

- While MM is trying to catch up with competition on the products side, we see limited visibility for MM to make a comeback. Over the next 12-18 months, the company has several upgrades and new launches lined-up viz. (a) e-KUV100 (1HFY21), (b) new Thar (1HFY21), (c) new XUV500 (4QFY21), (d) new Scorpio (1QFY22), and (e) e-XUV300 (mid-CY21).
- We have not built in benefits of any imminent launches or material benefit on product development from MM's recent JV with Ford India. We estimate passenger UV volumes to decline ~1% CAGR over FY20-23E.

Valuation and view

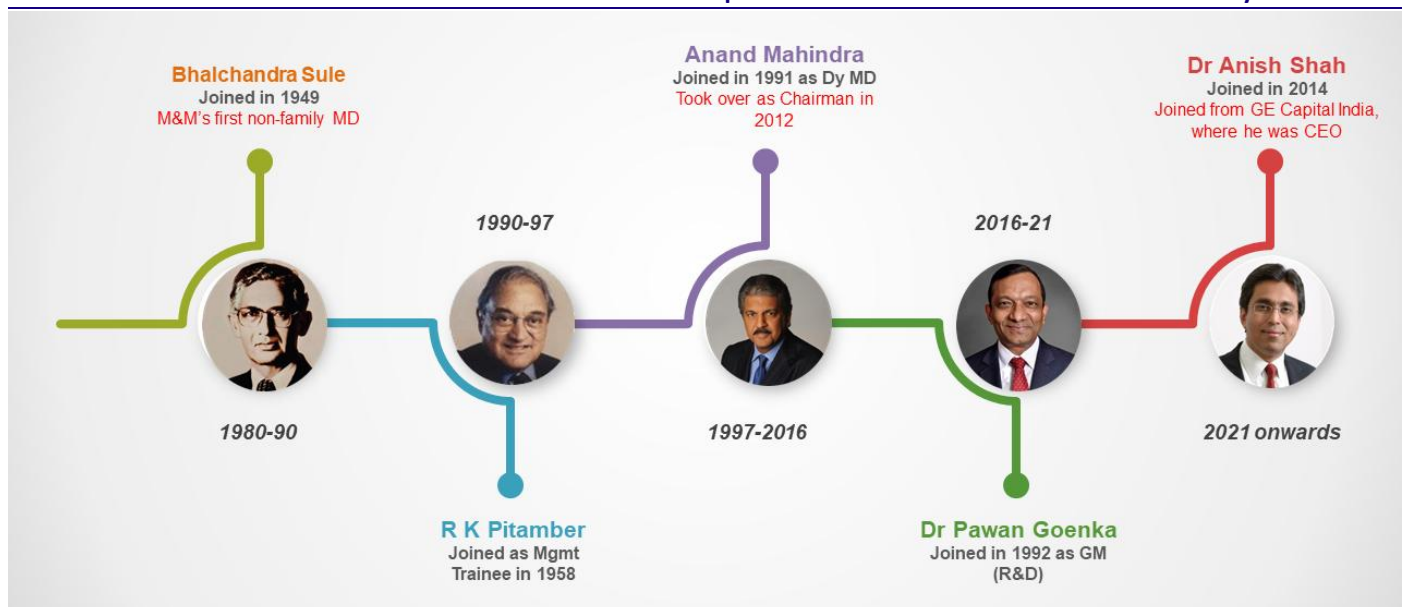
- Despite MM's recent outperformance, valuations are still at substantial discount to its 5-year average (which captures both pain point of deterioration in UV market share and subsidiaries' performance).
- Implied Core P/E for MM is ~15.4x/10.6x FY21/22E Core EPS and 1x/1x Core P/BV, which implies ~25% discount to 1SD below 5-year average P/E and ~30% discount to 1SD below 5-year average P/B.
- We are lowering our EPS for FY21/22E by ~22%/4% to factor in the supply-side issues for Tractors and weaker volumes for Autos in FY21. We are now building in volume growth of 0%/12% for Tractors, -20%/22% for LCVs and -17%/10% for SUVs for FY21/22E.
- Our Jun'22E-based SOTP TP is ~INR576/share – an upside of ~25%. At our TP, implied Core P/E is ~13.6x (v/s 5-year average core P/E of ~15.9x and 10-year average of ~14.3x). Maintain **Buy**.

Who's Dr. Anish Shah?
Prior to joining MM, Dr. Shah was President and CEO of GE Capital India, where he played a key role in many avenues, especially in the turnaround of the company's SBI Card JV. In his 14-year stint with GE Capital, Dr. Shah held leadership positions in the US and other global business units. Dr. Shah holds a PhD in Corporate Governance from Carnegie Mellon's Tepper School of Business. He also has a Master's Degree from Carnegie Mellon and an MBA degree from IIM-Ahmedabad.

Management change – A generational shift underway

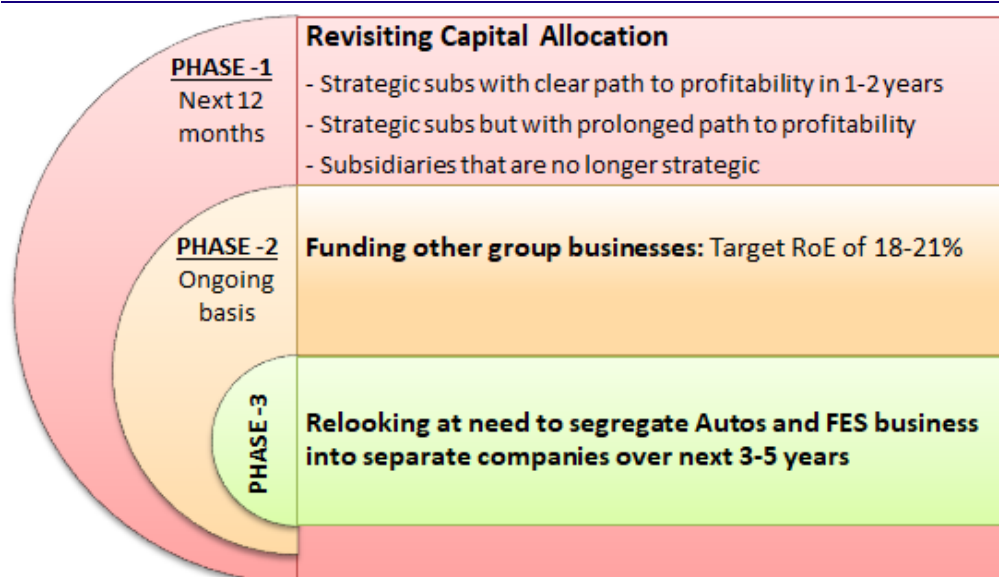
- After a gap of almost 24 years, MM would see a leadership change with both Executive Chairman (Mr. Anand Mahindra) and MD and CEO (Dr. Pawan Goenka) due for retirement in 2021. Dr. Anish Shah would take over as MD and CEO from 2nd Apr'21, in turn becoming the 5th MD of MM in the last 40 years.
- Dr. Shah joined MM in Aug'14 as President, Group Special Projects; thereafter, he took over as the company's Group Strategy Head in Apr'15. In Apr'20, he was appointed as Deputy MD and Group CFO. This makes Dr. Shah probably the first 'quasi-laterally' hired MD in MM's history, as his predecessors have spent multiple decades in the group before taking over as MD.
- The timing of this leadership transition could not have been more challenging; MM is in midst of the perfect storm – highly challenging macros, record-low market share in SUVs, technological changes/disruptions, deteriorating performance of non-core subsidiaries (PAT of MM+MVML > Consol. PAT), etc.
- Since taking over as Deputy MD and Group CFO, Dr. Shah has clearly set out his priority for the next few years, which includes (a) revisiting capital allocation in subsidiaries (over the next 12 months), (b) funding of other group businesses, and (c) evaluating segregation of auto/FES business (over the next 3-5 years).
- We believe there are several low-hanging fruits in the form of loss-making non-core subsidiaries (Aerospace, Global 2Ws, Retails, etc.) that could be divested or closed, which would immensely help reduce the drag on consol. profits.
- Besides low-hanging fruits in non-core businesses, hard decisions are required on under-performing and/or loss-making businesses in core areas like Ssangyong, overseas subsidiaries in Autos and tractors, etc. Also, there is a need to look at non-core businesses, which are not significant or do not have the right to win in MM's area of operations.
- The initial signs on capital allocation are positive as is visible from the MM board's decision against investing a further USD406m in Ssangyong in Apr'20; this, despite giving an approval earlier in Feb'20.

Exhibit 1: Dr. Anish Shah would take over as MD and CEO from Apr'21 – Dr. Shah is the 5th MD of MM in last 40 years



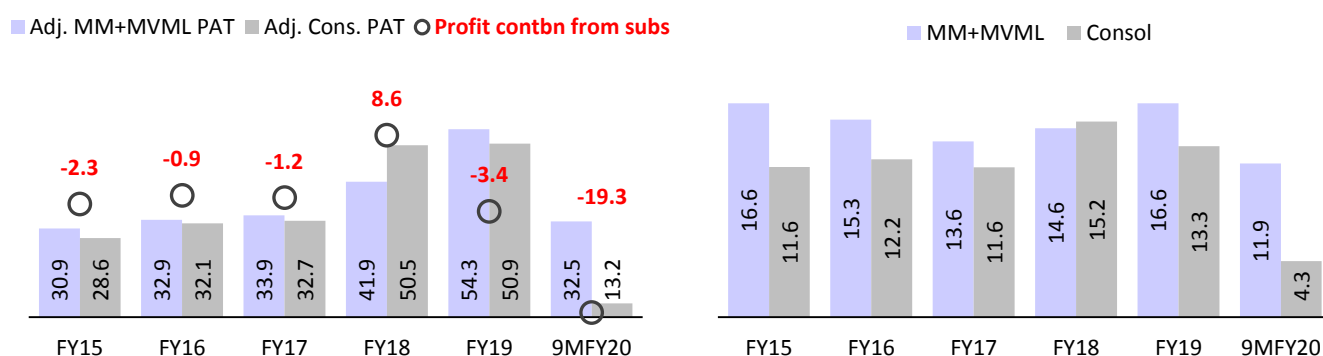
Source: Company, MOFSL

Exhibit 2: Dr. Anish Shah's (new MD from Apr'21) clear set of priorities



Source: MOFSL

Exhibit 3: On aggregate basis, subsidiaries have been a drag on consol. PAT (INR b) and RoEs (%)



Source: Company, MOFSL

Exhibit 4: Classification of all relevant businesses in 5 buckets show scope for rationalization

Core (profitable)	Core (loss making)	Adjacencies	Non-Core (Self sustaining)	Non-Core (Loss making)
<ul style="list-style-type: none"> • Tractors • Autos • Pick-ups/LCV • SUVs • NBFC 	<ul style="list-style-type: none"> • Tractor exports • Agri Implements • Agri • Auto Exports • Ssangyong 	<ul style="list-style-type: none"> • Power back-up • Used cars • Auto Engg. • Steel Processing • Defence 	<ul style="list-style-type: none"> • IT • Hospitality • Real Estate • Logistics • Clean Power 	<ul style="list-style-type: none"> • 2W - Jawa (India) • 2W - Peugeot (Global) • Aerospace • Retail • AMC • Boats

Source: MOFSL

Exhibit 5: Analysis of key subsidiaries suggests several low-hanging fruits to reduce losses

INR Mn	FY19		FY18	
Name of Subsidiary/JV/Associate	Gross Sales	PAT	Gross Sales	PAT
Aerospace	1,357	-3,880	1,060	-3,700
Retail	1,641	-227	1,365	-395
Clean Power	29,001	729	0	0
2Ws - Overseas	10,888	-6,250	1,284	-3,071
2Ws - Domestic	333	-181	9	-12
Defence	3,382	169	0	0
Hospitality	22,389	773	0	0
Logistics	39,132	812	0	0
Real Estate	14,400	1,518	0	0
Steel Processing	19,985	909	0	0
Agri	11,422	-944	4,387	-633
BFSI	105,481	18,415	234	-381
MMFSL	88,098	15,571	0	0
Mahindra Rural Housing Finance Limited	13,840	2,505	0	0
Mahindra Insurance Brokers Limited	3,234	715	0	0
Mahindra Asset Management Company	281	-395	234	-381
Mahindra-BT Investment Company (Mauritius)	28	20	0	0
Key to Color Coding	Core or Supplement to core			
	Non-Core but self sustaining			
	Non-Core & value destructive currently			

Source: Company, MOFSL

Exhibit 6: Core Auto and FES business subsidiaries (excl. MVML) also have several hot spots that need addressing

INR Mn	FY19		FY18		Business
Name of Subsidiary/JV/Associate	Gross Sales	PAT	Gross Sales	PAT	
A] Autos Subsidiaries (Ex MVML)					
Mahindra Heavy Engines Limited	10,792	526	0	0	Autos
Mahindra Trucks and Buses Limited	2,003	26	0	0	Autos
Mahindra North American Technical Center	3,494	-80	454	-907	Autos - Engineering
Mahindra Electric Mobility Limited	2,513	-530	1,294	-1,290	Autos (EV)
Mahindra First Choice Wheels Ltd	2,280	-146	1,426	-319	Autos - Used car dealers
Mahindra First Choice Services Limited	1,136	-355	926	-404	Autos - Used car dealers
Ssangyong Motor Company	226,000	-3,797	213,202	-5,484	Autos - Overseas
M&M South Africa (Proprietary)	6,236	-218	6,364	-17	Autos - Overseas
Mahindra Vehicle Sales and Service Inc.	3,370	-1,269	73	-258	Autos - Overseas
Zoomcar Inc	NA	-263			Autos - Car rentals
Mahindra Automotive North America Inc.	838	-302	0	0	Autos - Overseas
Automobili Pininfarina GmbH	0	-1,009	0	0	Autos - Overseas
Total Autos	258,663	-7,416	223,738	-8,678	
B] Farm Equipment Subsidiaries					
Swaraj Engines	NA	275	0	0	FES - Tractors
Gromax Agri Equipment Limited	1,477	11	0	0	FES - Tractors
Erkunt Sanayi A.S.	5,787	485	0	0	FES - Implements
Erkunt Traktor Sanayii A.S. #	3,434	-468	6,459	-732	FES - Implements
Hisarlar Makina Sanayi ve Ticaret Anonim	2,517	-782	1,483	-1,616	FES - Implements
Mitsubishi Mahindra Agricultural Machinery	NA	-363			FES - Implements
Sampo Rosenlew Oy	NA	-574			FES - Implements
Trringo.com Limited	19	-77	0	0	FES - Others
Mahindra USA Inc.	23,181	-5,493	37,376	224	FES - Tractors USA
Mahindra do Brasil Industrial Ltda	532	-259	474	-128	FES - Tractors
Mahindra Mexico S. de. R. L	342	-219	288	-41	FES - Tractors
Total FES	37,289	-7,463	46,079	-2,294	
Key to Colour Codes	Core business	Strategic but loss making		Adjacent but loss making	

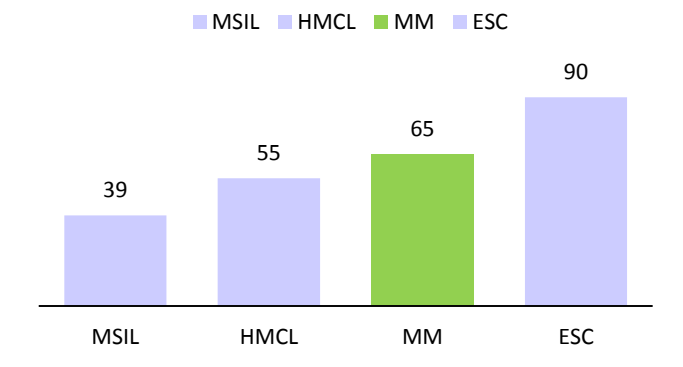
Source: Company, MOFSL

Best proxy on rural – 2 of 3 core businesses on strong footing

- In the Indian auto sector, MM has one of the highest exposures to rural markets (~65% of volumes), which are expected to be less impacted by the on-going impact of the COVID-19 pandemic. Also, MM is relatively better positioned for faster recovery in rural markets due to (a) limited impact on Tractor demand, and (b) its passenger UVs (Bolero, Scorpio, etc.) being highly popular in rural areas.
- According to our estimates, rural markets should contribute ~62% to revenues, 81% to core PAT and ~70% to SOTP in FY22E.
- While MM's strength in the Tractor business is highly appreciated by investors, concerns around its Auto business (due to weakening position in SUVs) exist. MM's SUV segment challenges are garnering disproportionate mindshare of investors, despite it contributing <30% to the top line and <10% to core PAT.

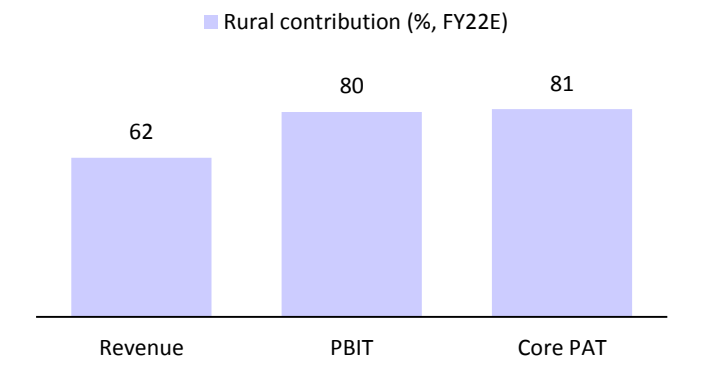
- We have slotted MM's core business into three buckets viz. Tractors, Pick-up UVs and Passenger UVs. Tractors and Pick-up UVs are on strong footing in terms of outlook, MM's competitive positioning as well as industry-level consolidation. However, MM is severely challenged in the SUV segment and we do not see any respite for MM in this category in the foreseeable future.

Exhibit 7: MM – one of the best rural proxies in large caps (% of volumes)...



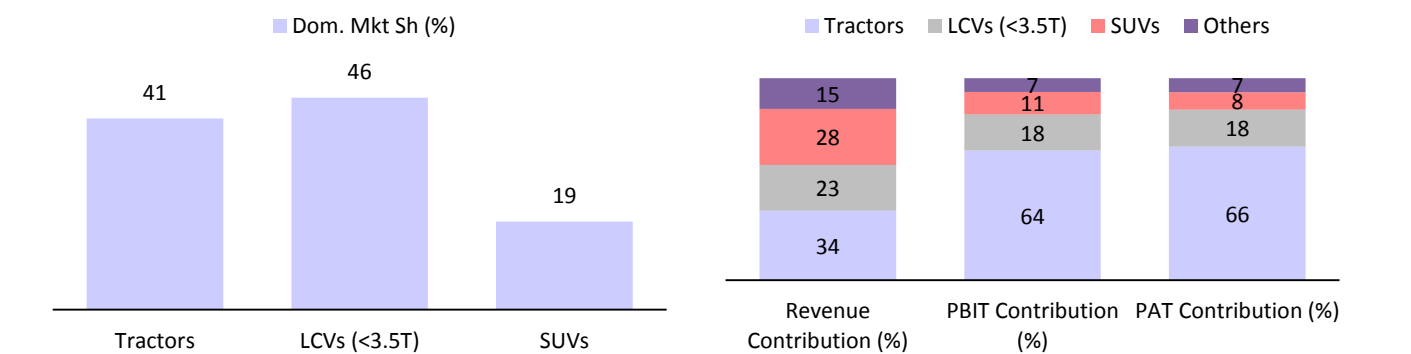
Source: Industry, MOFSL

Exhibit 8: ...with over 80% of core PAT attributable to rural markets



Source: Company, MOFSL

Exhibit 9: Of the 3 core businesses, Tractors and LCVs (<3.5 tons) are on firm footing and contribute ~84% to core PAT



Source: Company, MOFSL

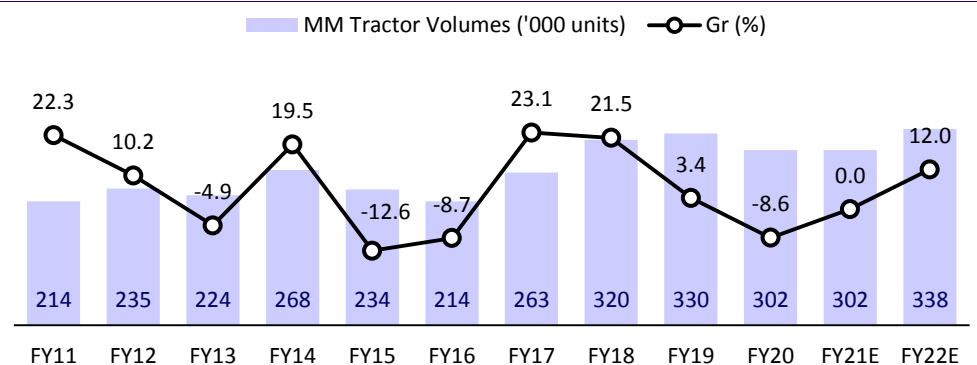
Tractors primed for fastest recovery in Autos | Reforms to potentially drive next phase of farm mechanization

- The Tractor segment is seeing volume recovery since Dec'19, driven by improvement in farm-level indicators such as output prices, lower input prices, higher government spends in rural areas and unusually strong water reservoir levels. However, the COVID-19 related lockdown has put brakes on the recovery due to supply-side disruption.
- Further, good Rabi crop and expected normal monsoons has further improved the outlook for farm income. Also, factors that impacted demand last year viz. low/no subsidy for tractors in certain states and weakness in infra (10-15% of tractor usage), are also showing initial signs of normalization. Thus, supply side getting back in shape post lifting of restrictions (expect normalized production by Aug'20) also augurs well for the Tractor segment's volume recovery from Sep'20.

“Amendments to the Essential Commodities Act and reforms in agricultural marketing and risk mitigation through predictable prices would empower farmers, strengthen agri-food processing linkages, and enable demand-driven value-added agriculture. The reforms would encourage investment in food processing, and together with infrastructure outlays, would contribute in shaping a competitive agri-value chain, reduce wastage, and raise farmer incomes,” said Mr. **Sanjiv Puri**, Chairman, ITC.

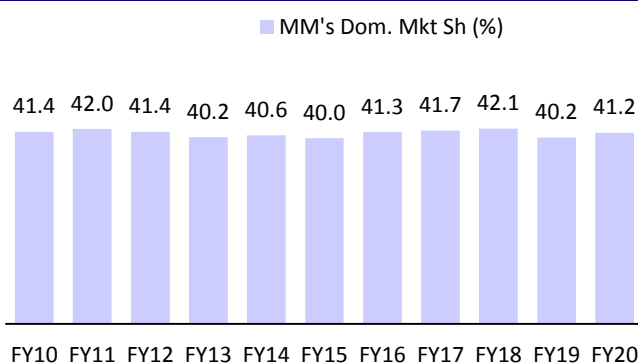
- We do not expect any material change in either the competitive landscape or MM’s positioning in this highly consolidated industry (top-4 player controlling over 80% of the market). We estimate Tractor industry volumes to remain flat in FY21E (due to supply-side constraints) and grow 12-14% in FY22E, with MM also growing in line.
- The recent next-round of reforms for the agricultural segment viz. (a) deregulation of agri-commodities from the Essential Commodities Act, (b) ‘One Nation, One Market’, and (c) allowing private participation, have the potential to transform the Indian agriculture landscape.
- While it’s too early to judge these initiatives, if implemented in the right spirit, it could significantly incentivize farmers to invest in farms. Not only does it augur well for reducing volatility in tractor volumes, but also it is a catalyst to drive higher penetration of implements in India.
- Globally, the implement business is estimated at ~66% of the overall farm equipment industry, whereas in India it is ~15% of the farm equipment industry.
- As non-tractor farm machinery usage evolves in India – from basic implements to more advanced ones – we believe that MM would be its biggest beneficiary due to (a) several global alliances in this segment, and (b) MM’s stronghold over the Indian agriculture ecosystem. Over the next 3-5 years, the agri-implement segment has scope to support growth of MM’s FES business.

Exhibit 10: Tractors volumes – outlook improving, but near-term to be impacted by lockdown



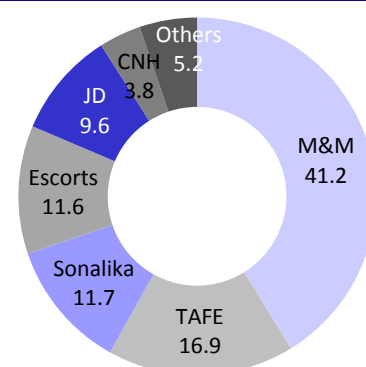
Source: Company, MOFSL

Exhibit 11: MM’s market share stable at 40-42% over a decade...



Source: Industry, MOFSL

Exhibit 12: ...in a highly consolidated market with top-4 players controlling over 80% share



Source: Industry, MOFSL

The Farm Machinery (ex-tractors) segment is at a nascent stage in India considering the fragmented farms and affordability issue. However, if the recently announced farm reforms of 'One Nation, One Market' are executed in the right spirit, it has the potential to unlock farm prosperity, and in turn, provide incentives to farmers to invest in their farms. This should augur well for modernization of the non-tractor farm mechanization space, thus, opening up huge opportunity for players like MM. Due to several global tie-ups in the Farm Machinery space as well as robust presence in farm ecosystem, we believe that MM should be a big beneficiary.

Exhibit 13: Indian farms are tractorized but not mechanized so far...

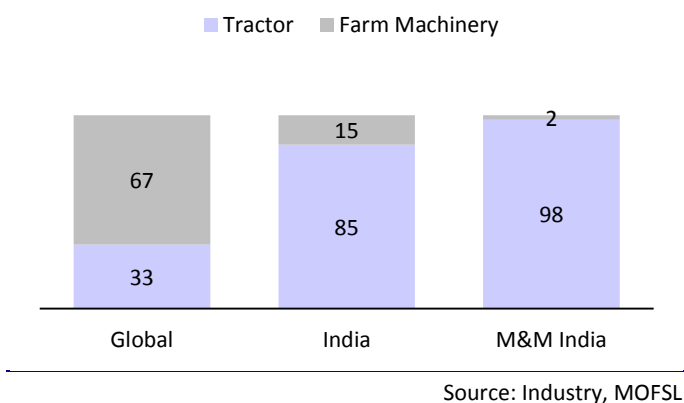


Exhibit 14: ...globally, implements play a big part in farm mechanization

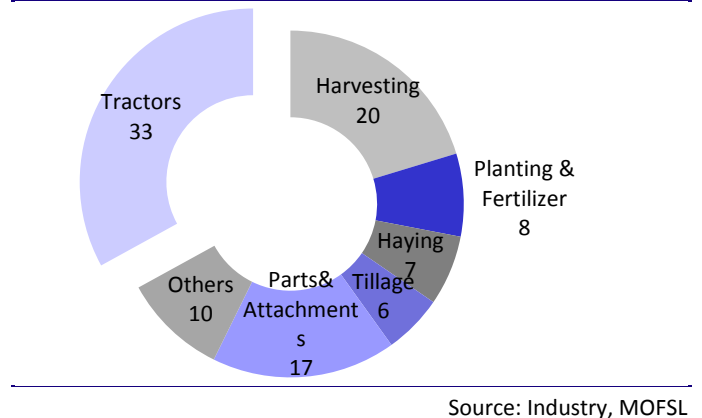


Exhibit 15: MM's India farm machinery revenues have seen strong growth on low base...

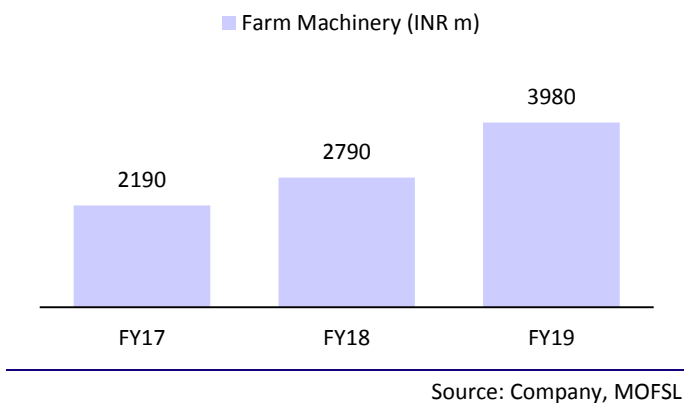


Exhibit 16: ...considering low share of MM in farm machinery segment

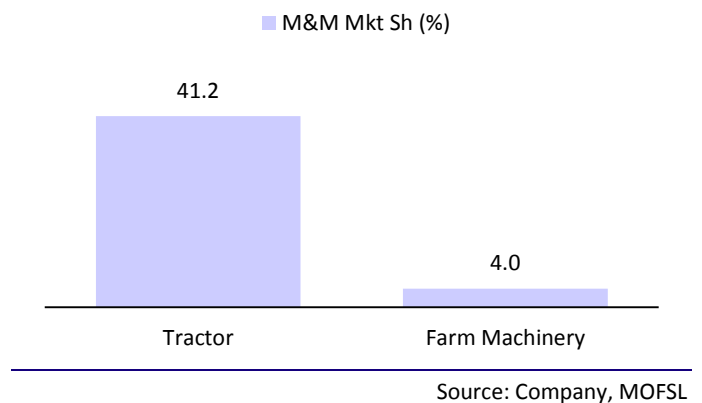
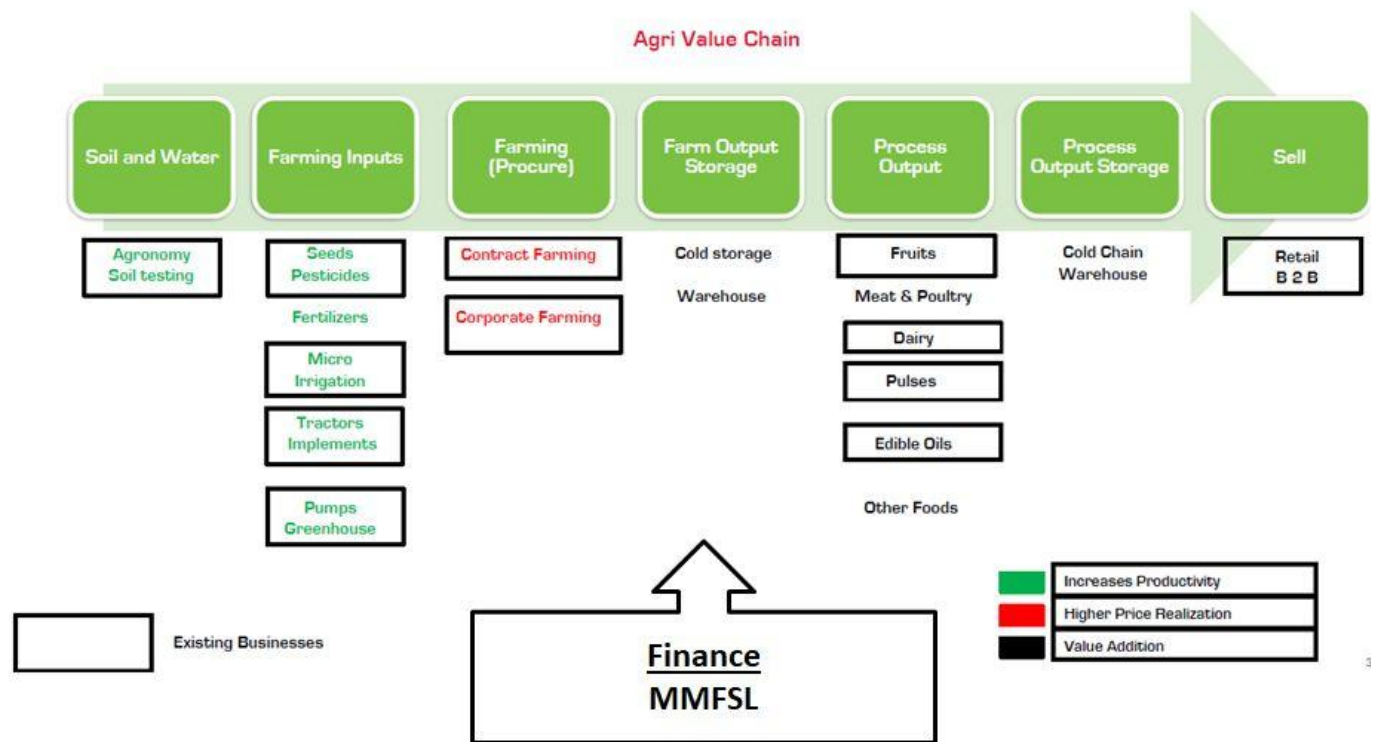
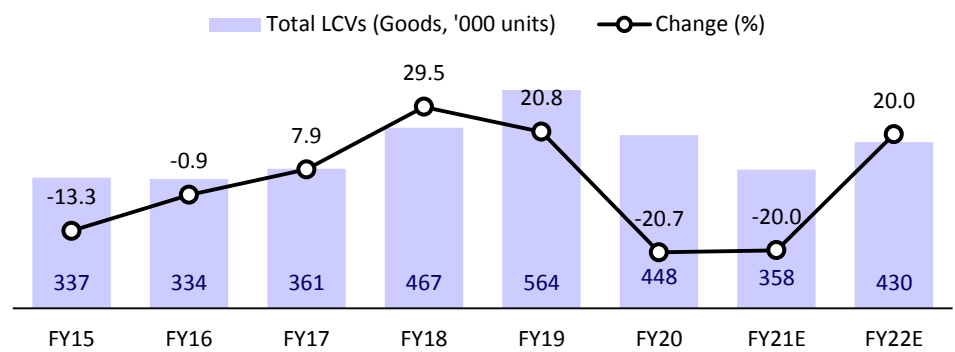


Exhibit 17: MM has one of the strongest presence across farm value chains in India

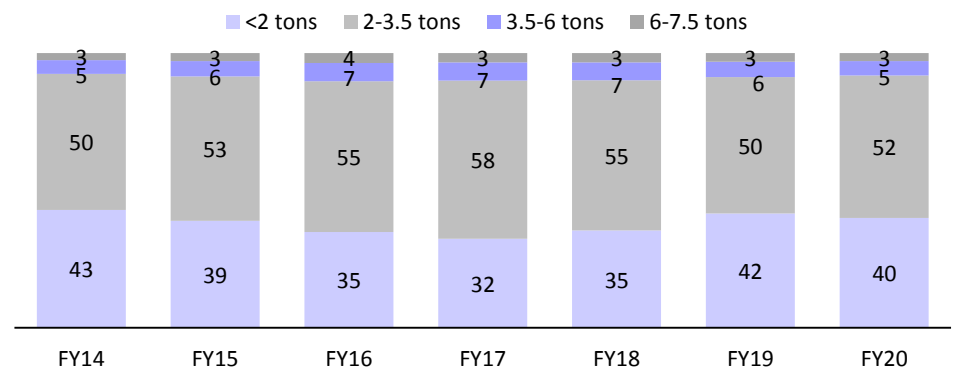
Source: Company, MOFSL

MM's positioning in LCVs to further strengthen under BS6

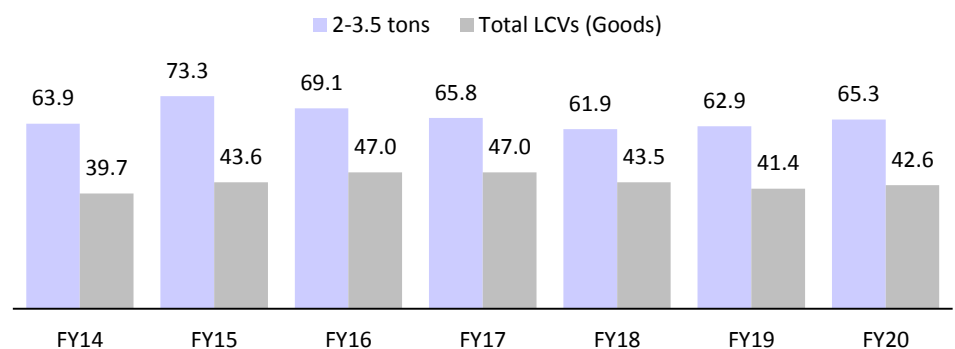
- The LCV industry saw the first year of downcycle in FY20, after delivering ~19% CAGR over FY16-19. The downcycle was led by weak macros, impact of liquidity and increasing risk averseness of financiers and transition to BS6. This situation would further worsen due to the impact of Coronavirus.
- Looking beyond the cyclical downturn, we believe fundamentals of the LCV segment are strong. Also, LCVs should continue benefiting from increasing emergence of the 'hub and spoke' model. We estimate the LCV industry to deliver 8-10% CAGR over the next 5 years.
- MM enjoys market share of ~42.5% in the overall LCV segment and ~65% in the 2-3.5 ton LCV segment. Pick-up trucks offer versatility for the owner/operator as it can operate with ease in varying conditions (hilly terrain, higher payload, etc.).
- Under BS6, MM's Pick-up business' competitive positioning should improve v/s SCVs/LCVs due to lower price inflation. Price increase in Pick-up Trucks would be ~10% whereas in SCVs (<2 tons and contributing 40% to LCV industry) it is expected at 15-20%. While near-term volumes would be impacted due to COVID-19 and BS6 transition, we estimate volume CAGR of 7.5% over FY20-22E.

Exhibit 18: LCV segment is witnessing cyclical slowdown; should recover in FY22E

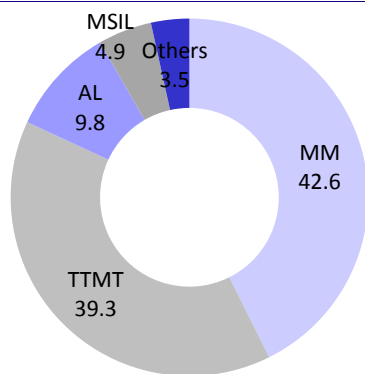
Source: SIAM, MOFSL

Exhibit 19: 2-3.5 ton LCV segment has been gaining share, except for last 2 years of downcycle, due to their versatility

Source: SIAM, MOFSL

Exhibit 20: MM is market leader in LCVs (goods), particularly in 2-3.5 ton segment...

Source: SIAM, MOFSL

Exhibit 21: ...LCV segment is highly consolidated with top-3 players enjoying 90% share

Source: SIAM, MOFSL

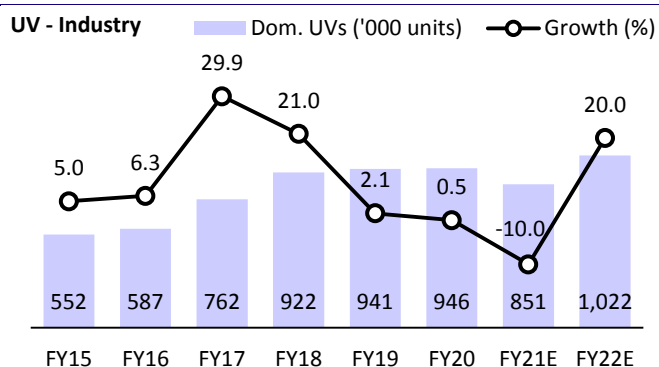
Exhibit 22: MM's competitive positioning to further improve in BS6

On-Road Price (INR '000)	Payload (Kgs)	Diesel		Diff (%)
		BS4	BS6	
Tata Ace Gold	750	495	570	15
Tata Intra V10	1,000	600	670	12
AL Dost+	1,475	680	770	13
M&M Bolero Maxi 1.2T	1,200	675	743	10
M&M Bolero Pick up 1.7T	1700	800	880	10

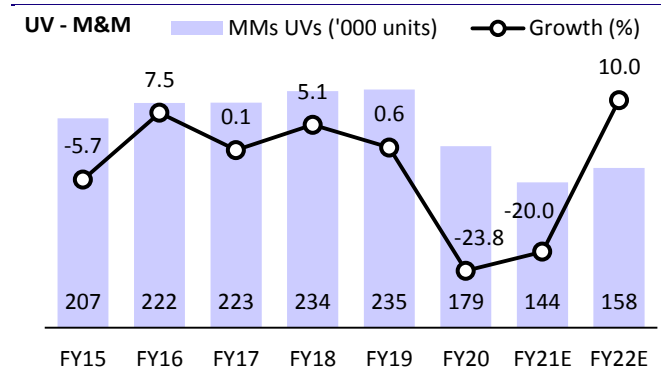
Source: Industry, MOFSL

Competitive intensity in fast-growing SUV segment to stay high, MM remains vulnerable

- Over the last 5-7 years, MM has been playing catch-up in the fast growing SUV segment, as the market has shifted from MM's area of strength (large SUVs) to the new segment of compact SUVs. More importantly, none of its launches in the new segment have met with big success.
- Hence, the passenger UV business of MM has seen continuous dilution in market share (~19% market share of domestic UVs in FY20 v/s ~43% 5 years back) due to substantial increase in competition as well as it lagging competition in its product pipeline.
- While MM is trying to catch up with competition on the products side, we see limited visibility for MM to make a comeback. Over the next 12-18 months, the company has several upgrades and new launches lined-up viz. (a) e-KUV100 (1HFY21), (b) new Thar (1HFY21), (c) new XUV500 (4QFY21), (d) new Scorpio (1QFY22), and (e) e-XUV300 (mid-CY21).
- We have not built in benefits of any imminent launches or any material benefit on product development from MM's recent JV with Ford India. We estimate passenger UV volumes to decline ~1% CAGR over FY20-23E.

Exhibit 23: UV segment volumes for industry in structural uptrend...

Source: Industry, MOFSL

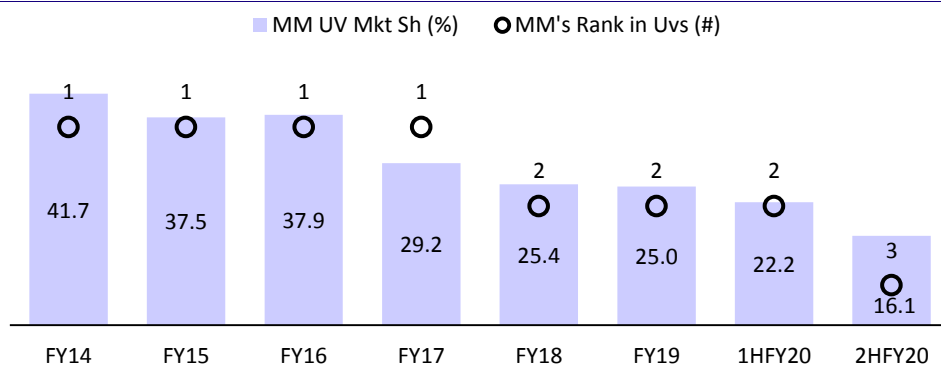
Exhibit 24: ...however, MM's UV volumes impacted by increasing competitive intensity...

Source: Industry, MOFSL

Exhibit 25: None of MM's UV launches in last 5 years met with big success...

Product	Month & Year of launch	Segment	Avg. Monthly Vols in FY20	Segment Mkt Sh (%)
TUV300	Sep-15	Compact SUV	873	2.7
KUV100	Jan-16	Mini SUV	150	NA
Thar *	Jan-16	Compact SUV	300 (1H FY20)	NA
TUV300 Plus	Jun-18	Mid-size SUV	90	NA
Marazzo	Aug-18	Mid-size MPV	1,058	9.9
XUV300	Jan-19	Compact SUV	3,131	9.9

Source: Company, MOFSL

Exhibit 26: ...resulting in sharp decline in UV market share to ~16% by 2HFY20

Source: Company, MOFSL

Exhibit 27: Upcoming launches in SUVs – unrelenting competitive intensity

OEM	Model	Timeline	Segment
Skoda	Karoq Style	1HFY21	Mid-size SUV
Nissan	Magnite	1HFY21	Compact SUV
Toyota	Urban Curiser	1HFY21	Compact SUV
Tata Motors	Gravitas	1HFY21	Mid-size SUV
M&M	e-KUV100	1HFY21	e-SUV Compact
M&M	New Thar	1HFY21	NA
Kia	Sonet	2HCY20	Compact SUV
VW	T-Roc	2HCY20	Compact SUV
MG	Hector Plus	2HCY20	Mid-size SUV
M&M	New XUV500	4QFY21	Mid-size SUV
VW	I.D. Crozz	CY21	e-SUV
VW	Taigun	CY21	Compact SUV
M&M	e-XUV300	CY21	e-SUV Compact
Skoda	Vision IN	CY21	Compact SUV
M&M	New Scorpio	1QFY22	Mid-size SUV

Source: Company, MOFSL

Valuations: Risks adequately priced in; Change in approach to capital allocation to be big re-rating catalyst

- MM's senior management is in midst of a generational shift, at a time when all its key businesses are facing cyclical or structural challenges. While the cycle for tractors should turn positive in the near term and for LCVs too in the not so distant future, the new CEO would have to address two major issues – (a) arrest and restore MM's positioning in the fast growing SUV segment, and (b) circumvent the drag of underperforming subsidiaries in the core/non-core businesses.
- MM's stock has underperformed the NSE Auto Index over the last one year by ~9.6% due to (a) deteriorating market share in UVs, (b) weak outlook for tractors, and (c) deteriorating performance of subsidiaries.
- However, its recent outperformance to the NSE Auto Index (+5.6% in CY20 YTD) is partly led by improving outlook for tractors (in absolute and relative basis to other Auto segments) and partly in the hope of a relook at its capital allocation strategy.
- However, despite the recent outperformance, MM's valuations are still at substantial discount to 5-year average (which captures both pain point of deterioration in UV market share and subsidiaries performance). On Core P/E basis (adjusting for value in subs post holding company discount), implied P/E for MM is ~15.4x/10.6x FY21/22E Core EPS and 1x/1x Core P/BV. This compares with 5-year average Core P/E of ~15.9x and Core P/B of ~1.9x, and implies ~25% discount to 1SD below 5-year average P/E and ~30% discount to 1SD below 5-year average PB.
- We believe that these valuations reflect the challenges in the Passenger UV business as well as no major changes in capital allocation policy. Any positive surprises in the Pick-up UV business, positive evolution of Ford India JV or correction of capital allocation by the new CEO would act as re-rating triggers.
- We are lowering our EPS for FY21/FY22E by ~22%/4% to factor in the supply-side issues for Tractors and weaker volumes for Autos in FY21. We are now building in volume growth of 0%/15% for tractors, -20%/22% for LCVs and -17%/10% for SUVs for FY21/FY22E.
- We value MM on SOTP basis valuing Tractors at ~15x Mar'22E EPS (at ~25% premium to target multiple for ESC), Auto business at ~12.5x EPS (at ~50% discount to target multiple for MSIL) and other businesses at ~10x EPS. Also, we value listed subsidiaries at 40% HoldCo discount at CMP. Our Jun'22E based SOTP TP is ~INR576/share – an upside of ~25%. At our TP, implied core P/E is ~13.6x (v/s 5-year average Core P/E of ~15.9x and 10-year average of ~14.3x). Maintain **Buy**.

Exhibit 28: Revised estimates

INR b	FY21E			FY22E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes ('000 units)	683	745	-8.4	776	817	-5.0
Net Sales	416	454	-8.4	482	502	-4.1
EBITDA (% incl MVML)	12.4	13.5	-110bp	14.3	14.6	-30bp
Net Profit	24	31	-22.0	35	36	-3.9
EPS (INR)	20	26	-22.0	29	31	-3.9
EPS (INR, incl MVML)	21.7	27.8	-21.8	31.5	32.8	-3.9

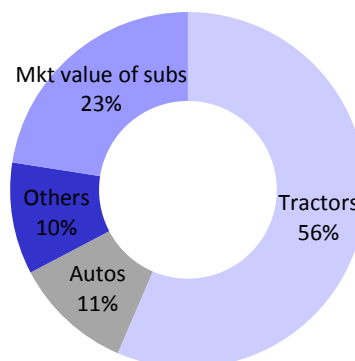
Source: MOFSL

Exhibit 29: MM: Sum-of-the-parts (INR/share)

INR/sh	Target P/E (x)	FY20E	FY21E	FY22E
Tractors	15	271	265	313
Autos	12	109	-8	60
Others	10	50	47	56
Value of Core Business		430	304	430
Value of subs post hold-co	40	127	127	127
- Tech Mahindra		70	70	70
- MMFSL		24	24	24
- Mah. Lifespaces		3	3	3
- Mah. Holidays		8	8	8
- SYMC		5	5	5
- Mah. Logistics		9	9	9
- Others		9	9	9
Fair Value (INR/sh)		557	432	557

Source: MOFSL

Exhibit 30: MM's Tractor business contributes ~56% to the SOTP value



Source: MOFSL

Exhibit 31: M&M: Core P/E trend

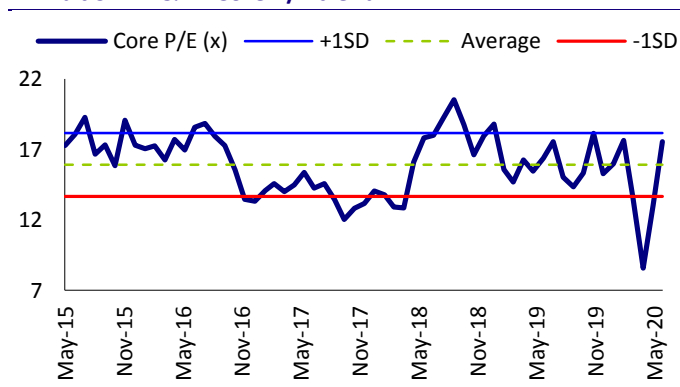
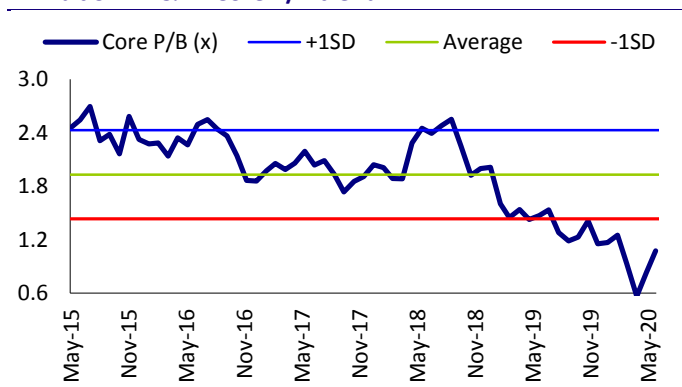


Exhibit 32: M&M: Core P/B trend



Source: Bloomberg, MOFSL

Operating metrics

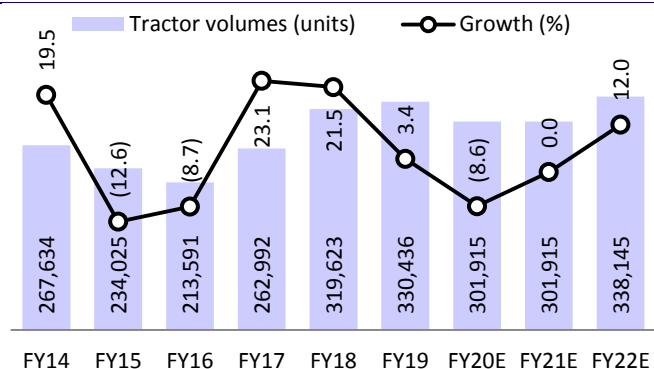
Exhibit 33: Snapshot of Revenue model

000 units	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Tractors	214	263	320	330	302	302	338
Growth (%)	-8.7	23.1	21.5	3.4	-8.6	0.0	12.0
% of total volumes	30.3	34.3	36.8	35.2	38.8	44.2	43.6
Autos							
Pick-up/LCVs (<3.5t)	156	168	200	229	188	150	183
Growth (%)	6.7	7.7	19.1	14.9	-18.1	-20.0	22.0
SUVs	233	223	235	237	179	150	165
Growth (%)	-41.4	-4.4	5.7	0.9	-24.4	-16.6	10.1
3-Ws	55	52	55	67	62	52	56
Growth (%)	-3.2	-4.9	4.4	22.1	-6.8	-17.0	8.0
LCVs (>3.5t)	6	8	8	8	6	4	5
Growth (%)	20.6	18.7	1.6	8.6	-26.5	-35.0	20.0
M&HCVs (MTBL)	6	7	9	11	5	3	4
Growth (%)	63.1	17.7	41.2	14.3	-53.0	-35.0	20.0
Others & Exports	36	47	42	56	35	22	26
Growth (%)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Autos	492	504	549	609	476	381	438
Growth (%)	6.1	2.5	8.9	10.8	-21.8	-20.0	15.0
% of total volumes	69.7	65.7	63.2	64.8	61.2	55.8	56.4
Total volumes ('000 units)	705	767	869	939	778	683	776
Growth (%)	1.3	8.8	12.9	8.1	-17.2	-12.2	13.7
ASP (INR '000/Unit)	571	572	560	571	580	608	621
Growth (%)	5.2	0.3	-2.1	1.9	1.5	5.0	2.0
Net Sales (INR b)	404	441	487	536	451	416	482
Growth (%)	6.6	9.1	10.5	10.1	-15.9	-7.8	15.9

Source: Company, MOFSL

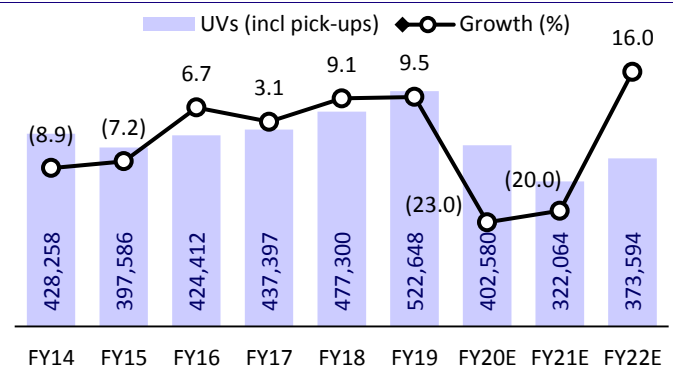
Story in charts

Exhibit 34: Trend in tractor volumes



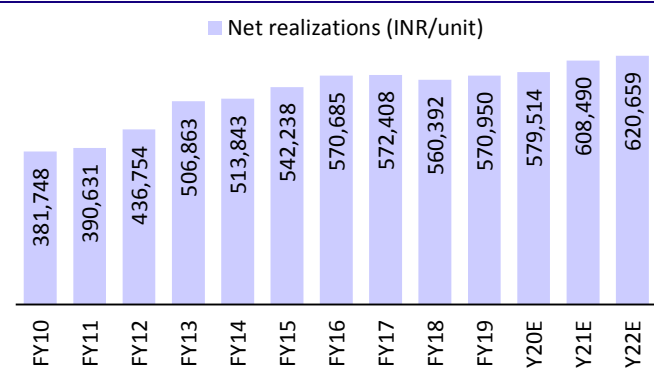
Source: Company, MOFSL

Exhibit 35: New product launches to drive UV sales



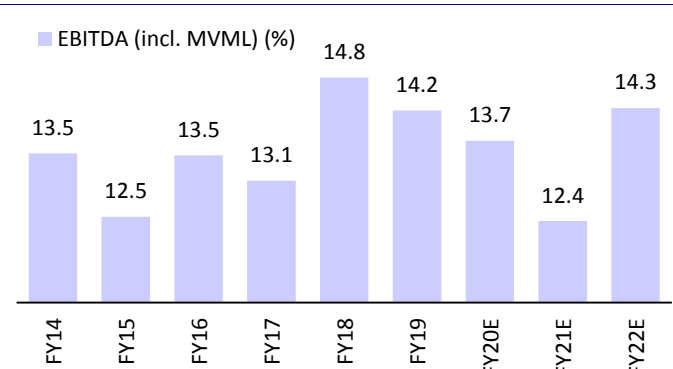
Source: Company, MOFSL

Exhibit 36: Realization trend



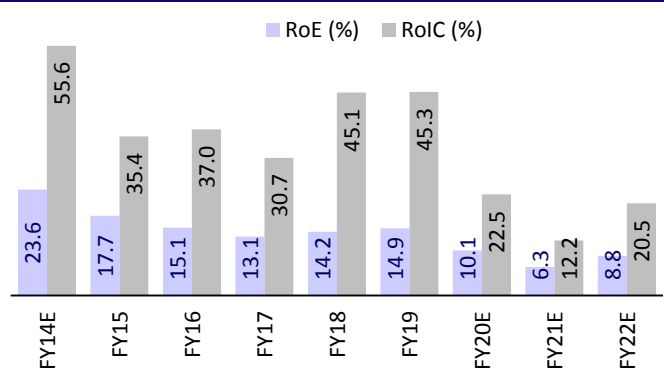
Source: Company, MOFSL

Exhibit 37: Trend in EBITDA margins



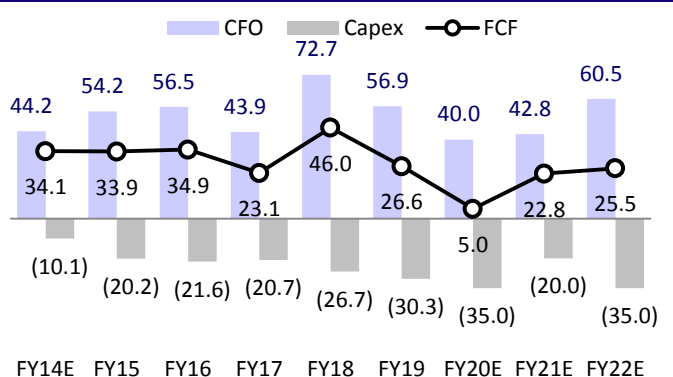
Source: Company, MOFSL

Exhibit 38: Trend in return profile



Source: Company, MOFSL

Exhibit 39: FCF to improve despite high capex plans (INR b)



Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Net Op. Income	4,08,751	4,40,535	4,86,856	5,36,140	450,837	415,552	481,805
Change (%)	6.3	7.8	10.5	10.1	-15.9	-7.8	15.9
Total Expenditure	3,62,551	3,95,388	4,24,615	4,69,744	395,472	370,028	420,174
EBITDA	46,199	45,147	62,240	66,396	55,366	45,524	61,631
Margins (%)	11.3	10.2	12.8	12.4	12.3	11.0	12.8
Margins (% incl MVML)	13.5	13.1	14.8	14.2	13.7	12.4	14.3
Depreciation	10,681	15,264	14,794	18,604	22,047	24,904	27,434
EBIT	35,518	29,883	47,446	47,792	33,319	20,620	34,197
Deferred Revenue Exp.	0	0	0	0	0	0	0
Int. & Finance Charges	1,861	1,596	1,122	1,134	1,116	1,116	1,071
Other Income	8,499	13,455	10,364	16,890	15,733	12,388	13,511
Non-recurring Income	687	5,485	4,336	-297	7,665	0	0
Profit before Tax	42,845	47,226	61,024	63,250	55,601	31,891	46,637
Tax	10,799	10,792	17,464	15,290	13,900	7,973	11,659
Eff. Tax Rate (%)	25.2	22.9	28.6	24.2	25.0	25.0	25.0
Adj. Profit after Tax	31,532	32,203	40,465	48,186	35,952	23,918	34,978
Change (%)	(1.2)	2.1	25.7	19.1	(25.4)	(33.5)	46.2
Adj. PAT (incl MVML)	33,394	35,133	43,202	51,288	35,138	25,900	37,590
Balance Sheet							(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	2,963	2,968	5,950	5,958	5,958	5,958	5,958
Reserves	2,21,269	2,64,888	2,96,991	3,36,135	365,919	377,922	400,983
Net Worth	2,24,232	2,67,856	3,02,941	3,42,093	371,877	383,880	406,941
Deferred tax	-54	2,548	2,772	6,341	6,341	6,341	6,341
Loans	18,436	27,729	28,644	24,803	24,803	24,803	22,803
Capital Employed	2,42,614	2,98,134	3,34,357	3,73,237	403,022	415,024	436,086
Application of Funds							
Gross Fixed Assets	1,39,386	1,54,778	1,82,295	2,23,122	272,320	287,320	322,320
Less: Depreciation	63,426	77,068	1,03,700	1,22,304	144,352	169,256	196,689
Net Fixed Assets	75,960	77,710	78,594	1,00,818	127,968	118,064	125,631
Capital WIP	15,622	20,404	31,287	24,198	10,000	15,000	15,000
Investments	1,35,474	1,79,084	2,05,830	2,20,160	230,321	240,321	252,321
Curr.Assets, L & Adv.	1,23,286	1,25,034	1,58,457	1,81,795	163,295	162,570	176,772
Inventory	26,879	27,580	27,017	38,393	32,284	29,757	34,502
Sundry Debtors	25,116	29,388	31,730	39,463	33,184	27,324	31,680
Cash & Bank Bal.	22,870	16,875	28,937	37,317	32,335	37,437	41,177
Loans & Advances	17,103	5,406	10,182	7,110	5,978	8,539	9,900
Others	31,317	45,784	60,591	59,513	59,513	59,513	59,513
Current Liab. & Prov.	1,07,728	1,04,098	1,39,811	1,53,734	128,562	120,931	133,637
Sundry Creditors	66,780	68,811	86,034	96,782	74,110	68,310	79,201
Other Liabilities	30,300	21,388	38,485	41,236	41,236	41,236	41,236
Provisions	10,648	13,899	15,292	15,716	13,216	11,385	13,200
Net Current Assets	15,558	20,935	18,646	28,061	34,733	41,639	43,135
Application of Funds	2,42,614	2,98,134	3,34,357	3,73,237	403,022	415,024	436,086

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
Fully diluted EPS	26.6	27.1	34.0	40.4	30.2	20.1	29.4
FD EPS (incl MVML)	28.2	29.6	36.3	43.0	29.5	21.7	31.5
Cash EPS	35.6	40.0	46.4	56.1	48.7	41.0	52.4
Book Value per Share	189.2	225.6	254.6	287.1	312.1	322.2	341.5
DPS	6.0	6.5	7.5	8.5	10.0	10.0	10.0
Payout (Incl. Div. Tax) %	26.3	12.3	23.8	24.5	33.2	57.9	39.6
Valuation (x)							
P/E	16.4	15.6	12.7	10.7	15.7	21.3	14.7
Cash P/E	13.0	11.6	10.0	8.3	9.5	11.3	8.8
EV/EBITDA	5.3	5.5	8.2	7.7	9.4	11.3	8.2
EV/Sales	0.6	0.6	1.0	0.9	1.2	1.2	1.1
Price to Book Value	2.4	2.0	1.8	1.6	1.5	1.4	1.4
Dividend Yield (%)	1.3	1.4	1.6	1.8	2.2	2.2	2.2
Profitability Ratios (%)							
RoE	15.1	13.1	14.2	14.9	10.1	6.3	8.8
RoCE	13.4	12.4	13.0	13.9	9.5	6.1	8.4
ROIC	37.0	30.7	45.1	45.3	22.5	12.2	20.5
Turnover Ratios							
Debtors (Days)	23	24	24	27	27	24	24
Inventory (Days)	24	23	20	26	26	26	26
Creditors (Days)	60	57	65	66	60	60	60
Working Capital (Days)	14	17	14	19	28	37	33
Asset Turnover (x)	1.7	1.5	1.5	1.4	1.1	1.0	1.1
Leverage Ratio							
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
(INR M)							
OP/(Loss) before Tax	41,612	41,742	56,688	63,547	33,319	20,620	34,197
Int./Dividends Received	-3,027	-9,800	-8,084	-13,184	15,733	12,388	13,511
Depreciation & Amort.	11,086	15,264	14,794	18,604	22,047	24,904	27,434
Direct Taxes Paid	-9,279	-9,929	-12,887	-14,341	-13,900	-7,973	-11,659
(Inc)/Dec in Wkg. Capital	14,393	-508	17,803	-5,060	-11,653	-1,804	2,244
Other Items		332	1,957	-327			
CF from Oper. Activity	54,785	37,100	70,271	49,239	45,546	48,134	65,727
Extra-ordinary Items	687	5,485	0	0	7,665	0	0
Other Items	0	0	0	0	0	0	0
CF after EO Items	55,473	42,585	70,271	49,239	53,211	48,134	65,727
(Inc)/Dec in FA+CWIP	-21,597	-20,743	-26,688	-30,316	-35,000	-20,000	-35,000
Free Cash Flow	33,876	21,842	43,583	18,923	18,211	28,134	30,727
(Pur)/Sale of Invest.	-13,865	-7,076	-24,416	4,829	-10,160	-10,000	-12,000
CF from Inv. Activity	-35,461	-27,818	-51,104	-25,487	-45,160	-30,000	-47,000
Change in Net Worth	0	0	0	0	1,930	1,930	1,930
Inc/(Dec) in Debt	-9,500	-1,742	592	-3,725	0	0	-2,000
Interest Paid	-2,110	-1,482	-1,695	-1,710	-1,116	-1,116	-1,071
Dividends Paid	-8,461	-8,391	-9,230	-10,117	-12,084	-12,084	-12,084
CF from Fin. Activity	-20,071	-11,615	-10,333	-15,552	-11,270	-11,270	-13,225
Inc/(Dec) in Cash	-747	-2,333	8,834	8,199	-10,884	6,864	5,502
Add: Beginning Balance	20,648	22,870	16,875	28,937	37,317	32,335	37,437
Closing Balance	20,069	20,705	25,876	37,137	26,600	39,367	43,107

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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