

Play on rural recovery

- MM's 4QFY20 standalone + MVML EBITDA of Rs.12.27bn was ahead of estimates, due to higher-than-expected realization and margin improvement in the farm equipment segment (FES). The EBIT margin in FES rose 146 bps YoY to 17.6%, however, it contracted by 471 bps YoY to 4.1% in the automotive division. The reported PAT was impacted by Rs.36bn provision for impairment in investments in Ssangyong and other international subsidiaries.
- In tractors, MM gained a market share of 1% to 41.2% in FY20. In our view, M&M is well placed to further increase its market share in the domestic tractor segment, as the industry outlook is positive, given the record output of the Rabi crop and a favourable initial prediction of this year's monsoon. M&M's exposure (tractor+ Auto) to rural market at about 65% is one the highest among its peers. These areas are not expected to be as impacted by the on-going COVID-19 disruption as urban ones.
- The company is trying to tighten its capital allocation policy, and investments will be monitored strictly. The company has already impaired investments at Ssangyong in Korea and has shut down the GenZe EV business in USA.
- We value the core business at Rs.389/share (15x FY22E core EPS) and subsidiaries at Rs. 163/share, and recommend Accumulate the stock, with a TP of Rs.552.

Outlook for tractors and LCV is positive

Retail demand is picking up in the tractor segment, and currently 90% of the dealership have reopened for sale. Most plants are operating at >80% utilisation. The overall rural sentiment is positive, due to a record output of Rabi crop and a favorable initial prediction of this year's monsoon. Going forward, we expect the tractor segment to recover faster than many other segments. Tractor demand for non-agriculture use is likely to rise in the next few months, due to ramp up in construction and mining work Cont..

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	90,047	1,38,079	(34.8)	1,21,203	(25.7)
Total Expense	77,773	1,19,401	(34.9)	1,03,315	(24.7)
EBITDA	12,275	18,678	(34.3)	17,888	(31.4)
Depreciation	6,172	5,696	8.3	5,900	4.6
EBIT	6,103	12,982	(53.0)	11,988	(49.1)
Other Income	3,155	2,473	27.6	2,092	50.8
Interest	359	304	18.0	254	41.4
EBT	(26,877)	14,103	(290.6)	7,821	(443.7)
Tax	5,673	4,411	28.6	4,019	41.2
RPAT	(32,550)	9,692	NA	3,802	NA
APAT	3,226	10,740	(70.0)	9,808	(67.1)
			(bps)		(bps)
Gross Margin (%)	35.7	31.7	399	32.7	302
EBITDA Margin (%)	13.6	13.5	10	14.8	(113)
NPM (%)	(36.1)	7.0	NA	3.1	NA
Tax Rate (%)	(21.1)	31.3	NA	51.4	NA
EBIT Margin (%)	6.8	9.4	(262)	9.9	(311)

CMP	Rs 508
Target / Upside	Rs 552 / 9%
BSE Sensex	33,725
NSE Nifty	10,116

Scrip Details

Equity / FV	Rs 5,965mn / Rs 5
Market Cap	Rs 632bn
	USD 8bn
52-week High/Low	Rs 675/Rs 245
Avg. Volume (no)	78,21,830
NSE Symbol	M&M
Bloomberg Code	MM IN

Shareholding Pattern Mar'20(%)

Promoters	18.9
MF/Banks/FIs	28.1
FIIIs	37.9
Public / Others	15.0

Valuation (x)

	FY20A	FY21E	FY22E
P/E	17.8	21.3	15.1
EV/EBITDA	9.8	12.1	9.2
ROE (%)	10.2	8.3	11.0
RoACE (%)	9.5	7.7	10.1

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	4,48,655	3,92,433	4,59,141
EBITDA	63,506	51,016	66,575
PAT	35,509	29,643	41,730
EPS (Rs.)	28.6	23.8	33.6

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Looking beyond the cyclical downturn, we believe the fundamentals in the LCV segment are strong. Also, LCVs should continue to benefit from the increasing emergence of the 'hub and spoke' model.

Delayed recovery in the automotive division

MM is trying to catch up with competition on product range in the SUV segment through new launches and innovative marketing. Rural demand appears this should lead to a pick-up in volume of Scorpio, Bolero, and pick-up trucks, which have a strong presence in rural areas. Gasoline engines on XUV300 have received very good feedback. More than 50% of the volume is for gasoline engines. Margin in the auto division continues to be under pressure, due to negative operating leverage and inability to fully pass on BS-VI costs.

Exhibit 1: Assumption Table

(in '000 units)	FY18	FY19	FY20E	FY21E	FY22E
Total PV	249	255	187	141	183
% YoY	5	2	(27)	(24)	30
LCV	207	238	194	155	174
% YoY	19	15	(18)	(20)	12
MHCV	9	11	5	4	4
% YoY	41	14	(53)	(30)	15
Three wheelers	55	67	62	47	54
% YoY	4	22	(7)	(25)	15
Total Domestic	520	570	448	346	414
% YoY	11	10	(21)	(23)	20
Exports	28	39	28	22	25
% YoY	(24)	37	(28)	(20)	12
Total tractors	319	330	302	292	322
% YoY	21	4	(9)	(3)	10
Sub Total Volume	867	939	778	661	761
% YoY	13	8	(17)	(15)	15
Average Realization (Rs. 000)	548	563	577	594	604
% YoY	1	3	2	3	2

Source: DART

Exhibit 2: SOTP Valuation table

Particular	Per share value
Core business EPS FY22E	389
Subsidiaries	
Tech Mahindra	79
MMFS	30
Mahindra Lifespace	3
Mahindra Holidays	8
Swaraj Engines	3
MCIE	13
Mahindra Logistics	7
Net cash in hand	20
Total valuation for Subs and others with 25% discounts	163
Price (INR)	552

Source: DART

Key conference call highlights

Outlook

- The management expects rural market to do well, due to better farming yield, increasing government spending to improve farmer's income, changes in Essential Commodity Act, changes in APMC rules, and efforts to improve export opportunity for farmers.

Automotive division

- Automotive division's production level rose to 30% of capacity, almost all suppliers are operational and over 90% of the dealers have reopened. The short-term launches expected are as follows: New Thar, W601, Z101, and New Pickup.
- In the compact segment, more than 50% of the gasoline variants were sold under the XUV300 model. However, in the large SUV format, majority of the customers still prefer diesel variants.
- Bolero and Scorpio are experiencing good demand in rural markets, the company has also launched a digital platform to provide end-to-end buying solution

Tractor division

- Tractor division is currently working at 80% of capacity, and 90% of the dealers have reopened. The company gained market share in tractors by 1% to 41.2% in FY20 and LCV segment by 1.2%.
- More than 50HP tractors constituted 6-7% of the overall market, and the management does not expect any major impact on the industry due to emission norms in this category.
- The cash flow of farmers is improving in rural markets, and financing activity has increased in the past few days.

Capex

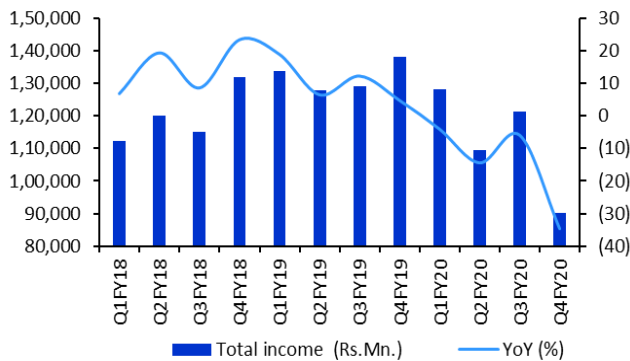
- Capital expenditure in FY21 is likely to be 15% lower than FY20, and the management expects capex to be in the range of Rs.30bn from FY22. Capex for K2 (tractor) and the LCV segment are likely to be completed in FY21.

Others

- MAgNA 's (US division) tractor business grew 7.3% YoY, and the management expects breakeven in FY22. The company is implementing initiatives to cut costs, such as digital marketing and product promotion.
- Mahindra electric reached breakeven in FY20, Treo retail sales was more than 4,000 units during the year.
- In collaboration with Mitsubishi, the company is developing a new platform for the tractor in the range of 13-70HP, which will target four geographies in India and overseas. The company expects to launch first product in next 15-18months.
- The company has taken several strategic measures in FY20, such as cancelling further investment in SsangYong and exit from the GenZe EV business in the USA.

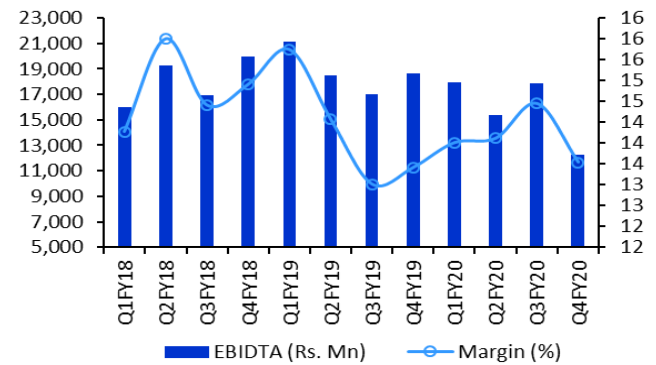
Charts Quarterly

Exhibit 3: M&M+MVML - Revenue de-grew YoY



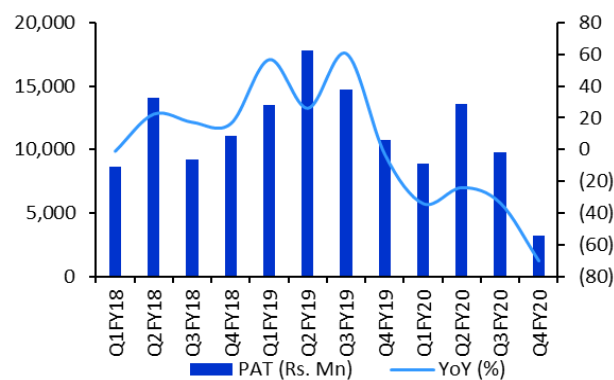
Source: DART, Company

Exhibit 4: M&M+MVML Margin flat YoY



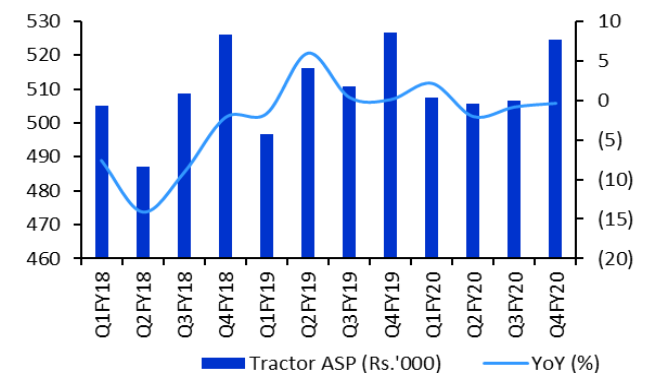
Source: DART, Company

Exhibit 5: Net Profit slid YoY



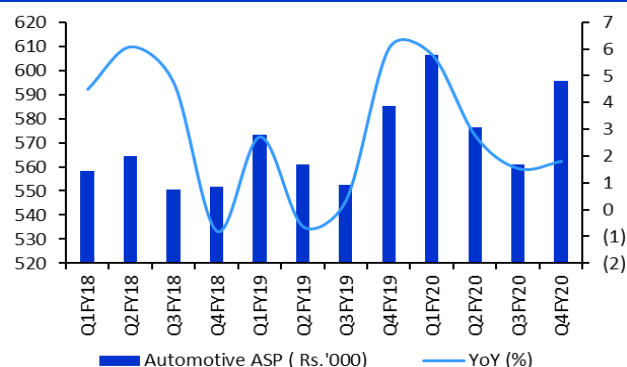
Source: DART, Company

Exhibit 6: FES Realization improve QoQ



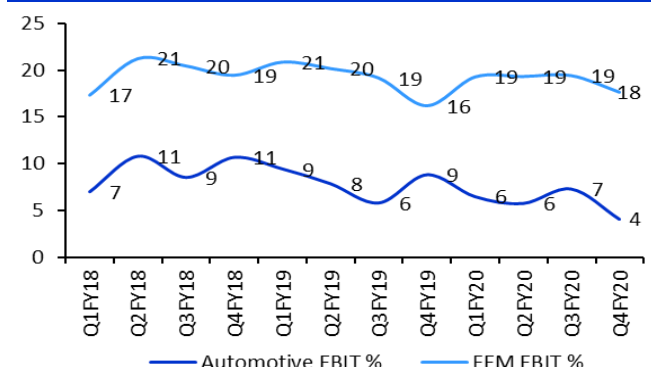
Source: DART, Company

Exhibit 7: Automotive Realization improve YoY

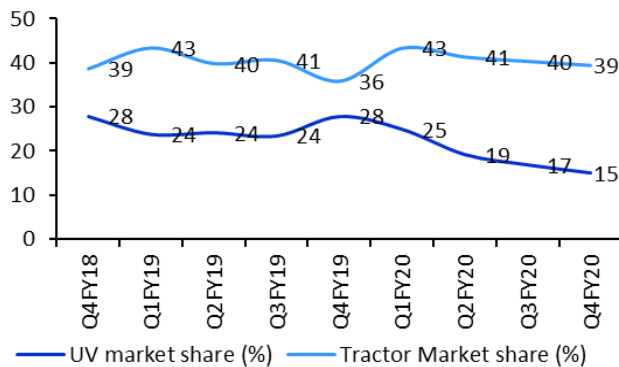


Source: DART, Company

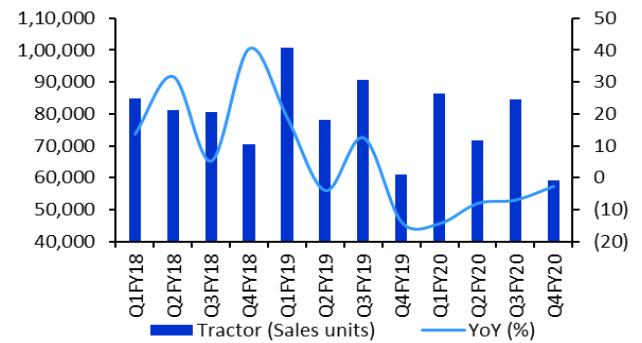
Exhibit 8: Automotive & FEM EBIT margin %



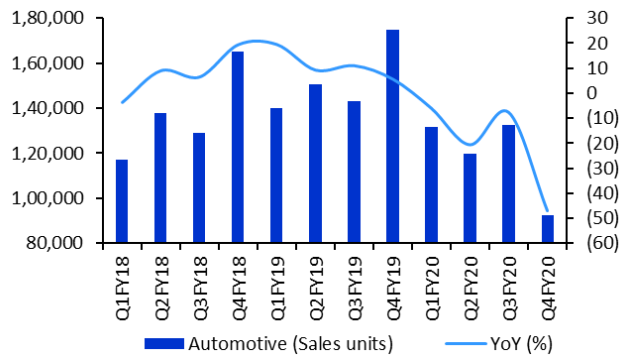
Source: DART, Company

Exhibit 9: UV & Tractor market share (%)


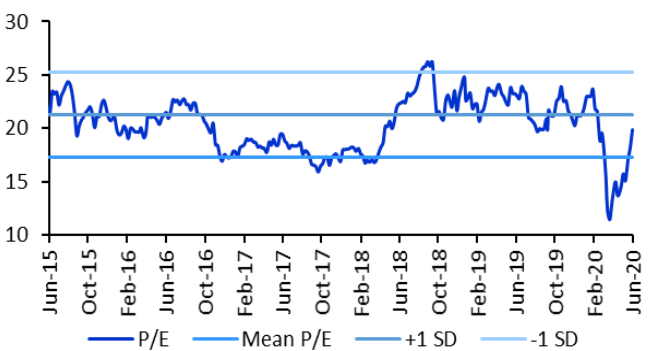
Source: DART, Company

Exhibit 10: Tractor volume de-grew by 3% (YoY)


Source: DART, Company

Exhibit 11: Automotive volume fell by 47% (YoY)


Source: DART, Company

Exhibit 12: PE Band 1 yr forward


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	5,28,482	4,48,655	3,92,433	4,59,141
Total Expense	4,53,182	3,85,150	3,41,417	3,92,566
COGS	3,59,977	2,98,668	2,62,930	3,05,329
Employees Cost	32,830	32,237	27,470	30,762
Other expenses	60,375	54,245	51,016	56,474
EBIDTA	75,301	63,506	51,016	66,575
Depreciation	20,030	23,631	24,475	25,070
EBIT	55,271	39,875	26,542	41,506
Interest	1,467	1,245	1,374	1,284
Other Income	16,303	15,391	14,622	15,791
Exc. / E.O. items	(227)	(28,111)	0	0
EBT	69,879	25,910	39,790	56,014
Tax	15,867	18,513	10,146	14,283
RPAT	54,012	7,397	29,643	41,730
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	54,239	35,509	29,643	41,730

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	5,958	5,965	5,965	5,965
Minority Interest	0	0	0	0
Reserves & Surplus	3,43,979	3,40,326	3,59,402	3,89,322
Net Worth	3,49,937	3,46,291	3,65,367	3,95,287
Total Debt	26,803	31,530	29,530	27,530
Net Deferred Tax Liability	7,896	15,068	15,068	15,068
Total Capital Employed	3,84,636	3,92,889	4,09,965	4,37,885

Applications of Funds

Net Block	1,18,532	1,20,511	1,30,511	1,40,511
CWIP	26,437	48,582	48,582	48,582
Investments	2,06,262	1,75,329	1,83,329	1,93,329
Current Assets, Loans & Advances	1,97,940	1,73,757	1,78,981	2,01,092
Inventories	47,631	40,408	35,588	41,386
Receivables	38,119	29,012	28,306	33,118
Cash and Bank Balances	38,321	42,365	44,146	45,007
Loans and Advances	8,612	6,511	7,162	8,237
Other Current Assets	65,257	55,460	63,779	73,346
Less: Current Liabilities & Provisions	1,64,535	1,25,290	1,31,439	1,45,630
Payables	1,03,607	72,006	77,089	90,193
Other Current Liabilities	60,928	53,284	54,350	55,437
<i>sub total</i>				
Net Current Assets	33,405	48,466	47,543	55,462
Total Assets	3,84,636	3,92,889	4,09,965	4,37,885

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	31.9	33.4	33.0	33.5
EBIDTA Margin	14.2	14.2	13.0	14.5
EBIT Margin	10.5	8.9	6.8	9.0
Tax rate	22.7	71.5	25.5	25.5
Net Profit Margin	10.2	1.6	7.6	9.1
(B) As Percentage of Net Sales (%)				
COGS	68.1	66.6	67.0	66.5
Employee	6.2	7.2	7.0	6.7
Other	11.4	12.1	13.0	12.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	37.7	32.0	19.3	32.3
Inventory days	33	33	33	33
Debtors days	26	24	26	26
Average Cost of Debt	5.0	4.3	4.5	4.5
Payable days	72	59	72	72
Working Capital days	23	39	44	44
FA T/O	4.5	3.7	3.0	3.3
(D) Measures of Investment				
AEPS (Rs)	43.6	28.6	23.8	33.6
CEPS (Rs)	59.7	47.6	43.5	53.7
DPS (Rs)	8.5	2.4	8.5	9.5
Dividend Payout (%)	19.5	8.2	35.6	28.3
BVPS (Rs)	281.5	278.5	293.9	318.0
RoANW (%)	16.5	10.2	8.3	11.0
RoACE (%)	15.3	9.5	7.7	10.1
RoAIC (%)	16.8	11.4	7.4	10.9
(E) Valuation Ratios				
CMP (Rs)	508	508	508	508
P/E	11.7	17.8	21.3	15.1
Mcap (Rs Mn)	6,32,101	6,32,101	6,32,101	6,32,101
MCap/ Sales	1.2	1.4	1.6	1.4
EV	6,20,583	6,21,266	6,17,485	6,14,625
EV/Sales	1.2	1.4	1.6	1.3
EV/EBITDA	8.2	9.8	12.1	9.2
P/BV	1.8	1.8	1.7	1.6
Dividend Yield (%)	1.7	0.5	1.7	1.9
(F) Growth Rate (%)				
Revenue	11.1	(15.1)	(12.5)	17.0
EBITDA	6.9	(15.7)	(19.7)	30.5
EBIT	2.0	(27.9)	(33.4)	56.4
PBT	5.6	(62.9)	53.6	40.8
APAT	29.5	(34.5)	(16.5)	40.8
EPS	29.5	(34.5)	(16.5)	40.8

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	53,920	39,457	58,197	61,023
CFI	(27,720)	(28,994)	(42,475)	(45,070)
CFF	(17,507)	(10,429)	(13,941)	(15,093)
FCFF	18,991	(8,297)	23,722	25,953
Opening Cash	29,242	38,320	42,365	44,146
Closing Cash	38,320	42,365	44,146	45,006

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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