

## Sector: Automobiles

## Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 509</b>	
Price Target: <b>Rs. 583</b>	↑
↑ Upgrade ↔ No change ↓ Downgrade	

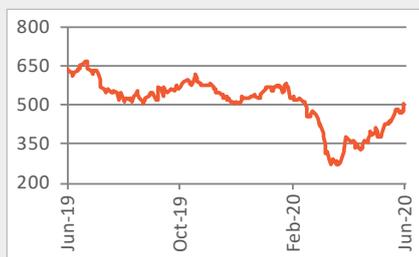
## Company details

Market cap:	Rs. 63,241 cr
52-week high/low:	Rs. 675/246
NSE volume: (No of shares)	56.2 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	100.8 cr

## Shareholding (%)

Promoters	19.9
FII	34.2
DII	24.6
Others	21.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	23.1	18.6	-1.4	-20.6
Relative to Sensex	17.6	19.5	16.2	-6.3

Sharekhan Research, Bloomberg

Mahindra & Mahindra's (MM+MVML) Q4FY2020 operating results were ahead of our as well as street estimates as the company managed to maintain margins despite the steep fall in the topline. Better mix, soft commodity prices, and cost-control measures enabled the company to retain margins in a challenging demand environment. Going ahead, management expects quicker recovery in rural areas, driven by record rabi production, higher MSPs, outlook of a normal monsoon, and increased rural spending by the government. We expect M&M to perform better than other automotive players, given it derives 35% of revenues from the tractor segment (which is a pure rural play) & about half of the automotive volumes from hinterlands. Further, clear capital-allocation strategy of no fund infusion in businesses which have an unclear path of profitability, would reduce losses in subsidiaries and significantly improve the performance. Hence, we retain our Buy rating on the stock. M&M continues to remain our preferred pick in the automotive space.

## Key positives

- M&M maintained its operating profit margin (OPM) on a y-o-y basis despite a steep fall in the topline. Improved product mix and soft commodity prices led to improvement in gross margins, which more than offset the impact of negative operating leverage and higher discounting due to BS6 emission norms.
- M&M's realisation per vehicle improved by 1% y-o-y, driven by better product mix and price hikes. Realisations were better than our as well as street expectations.
- Tractor sales surprised positively in May 2020 (reaching near normal). M&M expects faster recovery in the tractor segment due to strong rural sentiments.
- Capital-allocation strategy of no fund infusion in businesses with an unclear path of profitability would significantly improve overall performance.

## Key negatives

- During the quarter, M&M realised exceptional loss of Rs. 3,577 crore, driven by write-offs in international subsidiaries (majorly Ssangyong Motor Corporation).
- Volumes during Q4FY2020 were under pressure due to slow economic growth and transition from BS4 to BS6 emission norms. Volumes dropped by 36% y-o-y in Q4FY2020, primarily due to 47% drop in automotive volumes.

## Our Call

**Valuations: Raise estimates; Retain Buy with a revised PT of Rs. 583:** M&M's Q4FY2020 results were better than our as well as street expectations as the company maintained margins despite the steep fall in the topline. Further, the pace of recovery in tractors has surprised positively (May wholesales reached near normal) and the company is ramping production in the tractor space. We have raised our FY2022 estimates by about 15% to factor the above. At the CMP, the stock is trading at 12.5x its FY2022 core earnings, which is lower than its long-term historical average of 15x. We retain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 583.

## Key Risks

Prolonged COVID-19 infection could dampen consumer sentiments and impact demand. Further, increased competitive intensity in the utility vehicles segment could affect market share.

Valuation (MM+MVML)	Rs cr				
Particulars	FY18	FY19	FY20E	FY21E	FY22E
Valuation	FY18	FY19	FY20E	FY21E	FY22E
Total Income (Rs. cr)	47,577.4	52,848.2	44,865.5	38,582.3	46,524.7
Growth (%)	15.0%	11.1%	-15.1%	-14.0%	20.6%
EBITDA (Rs. cr)	7,043.4	7,530.1	6,350.6	5,217.4	6,729.5
EBITDA margin (%)	14.8%	14.2%	14.2%	13.5%	14.5%
PAT (Rs cr)	4,189.6	5,423.9	3,550.9	2,876.7	3,814.5
Growth (%)	24.1%	29.5%	-34.5%	-19.0%	32.6%
FD EPS (Rs.)	33.7	43.6	28.6	23.1	30.7
P/E (x)	15.1	11.7	17.8	22.0	16.6
P/B (x)	2.1	1.8	1.7	1.6	1.5
EV/EBITDA (x)	8.1	7.5	9.1	11.3	8.7
ROE (%)	13.7%	15.5%	9.5%	7.3%	9.1%
ROCE (%)	18.0%	18.2%	13.3%	9.3%	11.5%

Source: Company; Sharekhan estimates

**Operating results ahead of estimates; Net profit impacted by write down on subsidiary investment:** M&M's operating results were ahead of our as well as street expectations, driven by better-than-anticipated margins in both the tractor and automotive segments. Revenue declined by 35% y-o-y to Rs. 9,005 crore, driven mainly by 36% drop in volumes. Blended realisation increased by 1% y-o-y, driven by better mix and price hikes (realisations were better than our estimates of 3% drop). OPM improved marginally by 10 bps y-o-y to 13.6% and was ahead of our estimates of 12.5%. M&M maintained its margins on a y-o-y basis despite a steep 35% fall in the topline. Improved product mix (higher share of tractors) and soft commodity prices enabled improvement in gross margins. RM/Sales were down 400 bps y-o-y, which more than offset the impact of negative operating leverage and higher discounting. During the quarter, M&M realised exceptional loss of Rs. 3,577 crore, mainly driven by write-offs in international subsidiaries (majorly Ssangyong Motor Corporation). M&M reported loss of Rs. 3,255 crore during the quarter.

**Tractor segment to recover faster on robust rural sentiments:** M&M stated that rural sentiments have been robust given good rabi harvest and water reservoir levels. Moreover, forecast of a normal monsoon has further buoyed sentiments. Further, M&M stated that the government's spending on the rural segment has been higher, which would also boost sentiments. M&M stated that the tractor segment is likely to witness faster recovery (May 2020 saw wholesales reaching near normal). M&M stated that 90% of tractor dealers have resumed operations and the company has reached 80% capacity utilisation and is planning to further ramp up capacity. M&M deriving about 35% of its revenue from tractors would benefit from fast recovery in the tractor segment.

**Automotive segment volumes to be impacted in FY2021; Expect recovery in FY2022:** The automotive segment is expected to be under pressure in FY2021 due to the economic slowdown on account of COVID-19 and cost increases due to BS6 emission norms. We expect double-digit decline for the automotive segment in FY2021. However, M&M plans to launch three new products in the SUV segment in FY2021 (around festive season). New launches coupled with economic recovery and pent-up demand would lead to recovery in volumes in FY2022

#### Key analyst meet highlights:

- ◆ **Tractor segment update:** M&M stated that about 90% of its tractor dealers have resumed operations, while the plants have reached 80% capacity utilisation. Tractor production would be ramped up further. Demand pull for tractors is strong given robust rural sentiments due to good rabi harvest and water reservoir levels and forecast of normal monsoon.
- ◆ **Automotive segment update:** In the automotive segment, about 80% of dealerships have resumed operations while 100% suppliers are operational. Plants are operating at 30% capacity, which would be ramped up going ahead. M&M stated that about half of its automotive volumes come from rural areas where demand traction is expected to be strong. The company did not provide any volume guidance for the auto segment for FY2021.
- ◆ **New launches:** M&M plans to launch three new SUVs in the auto segment in FY2021. One would be the off-roader, Thar, followed by an SUV each in the B and C segment. M&M would also launch a new pick in the automotive space. In the tractor segment, the company is working on lightweight compact global tractor project (named K2), which would see the launch of four new platforms addressing four geographies (South East Asia, India, US, and Japan). K2 would witness launch of 38 models and would further strengthen the company's position in the tractor space.
- ◆ **Market share:** M&M stated it gained 1% market share in tractors in FY2020, reaching market share of 41.2%. Moreover, the company gained 1.2% market share in LCV (below 3.5 tonne).
- ◆ **Capital allocation:** M&M stated that it would be very focussed on capital allocation and would not infuse funds in businesses that have an unclear path to profitability. In line with this strategy, it stated that it would not invest further in Ssangyong Motor Corporation, Korea, and exited the US scooter business on limited viability of turnaround.
- ◆ **Capex guidance:** M&M stated that it would not materially cut down its FY2021 capex, given the planned new launches in the automotive as well as tractor segment. However, the cumulative capex guidance from FY2022-FY2024 would be scaled down from Rs. 12,000 crore to Rs. 9,000 crore.
- ◆ **JV with Ford:** M&M stated that JV with Ford for utility vehicles would substantially reduce the product development cost and provide lot of synergies. M&M will develop two new products in collaboration with Ford 1) one in the mid SUV or B segment and 2) another in the larger SUV or the C segment.
- ◆ **BS6 transition:** M&M stated that the transition from BS4 to BS6 emission norms has been smooth with all products transitioned to BS6 norms. M&M has launched gasoline engine options across the utility vehicle range in the post BS6 era.
- ◆ **Capital infusion in M&M Financial Services:** M&M will participate in Rs. 3,500 crore right issue of its listed subsidiary, M&M Financial Services, in full extent of the company's rights entitlement. M&M currently has 51.2% stake in the subsidiary and has stated that it would subscribe to additional shares as well as to any unsubscribed portion of the Rights Issue.

## Results (MM+MVML)

Particulars	Rs cr				
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Revenue	9,004.7	13,807.9	-34.8	12,120.3	-25.7
Total Expenses	7,777.3	11,940.1	-34.9	10,331.5	-24.7
EBITDA	1,227.5	1,867.8	-34.3	1,788.8	-31.4
Other income	315.5	247.3	27.6	209.2	50.8
Depreciation	617.2	569.6	8.3	590.0	4.6
Interest	35.9	30.4	18.0	25.4	41.4
PBT	889.9	1,515.1	-41.3	1,382.6	-35.6
Tax	567.3	441.1	28.6	401.9	41.2
Adjusted PAT	322.6	1,074.0	-70.0	980.7	-67.1
Reported PAT	(3,255.0)	969.2	-435.8	380.2	-956.2
EPS (Rs.)	2.6	8.6	-70.0	7.9	-67.1
EBITDA margin (%)	13.6	13.5	10 bps	14.8	(120 bps)

Source: Company; Sharekhan Research

## Segmental

Particulars	Rs cr				
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
<b>Automotive division</b>					
Volumes (units)	92,423	1,74,679	-47.1	1,32,361	-30.2
Revenues	5,505.8	10,221.7	-46.1	7,423.8	-25.8
PBIT	225.3	900.2	-75.0	541.7	-58.4
PBIT Margins (%)	4.1	8.8	(470 bps)	7.3	(320 bps)
<b>Farm Equipment division</b>					
Volumes (units)	59,290	60,878	-2.6	84,455	-29.8
Revenue	3,111.0	3,205.9	-3.0	4,277.8	-27.3
PBIT	548.8	518.7	5.8	830.9	-34.0
PBIT Margin (%)	17.6	16.2	140 bps	19.4	(180 bps)
<b>Others</b>					
Revenue	451.8	469.6	-3.8	475.7	-5.0
PBIT	8.9	7.6	17.9	16.8	-46.8
PBIT Margin (%)	2.0	1.6	40 bps	3.5	(150 bps)

Source: Company; Sharekhan Research

## SOTP

Particulars	per share	Remarks
<b>Core business (MM+MVML)</b>	<b>419</b>	<b>At 15x FY22 earnings</b>
<b>Key Subsidiaries</b>		
Tech Mahindra	121	Bloomberg consensus estimates
Mahindra & Mahindra Financial Services Limited	71	FY22 Book value
Mahindra Lifespace	4	Market cap
Mahindra Holiday Resort	12	Market cap
Mahindra CIE	4	Market cap
Ssangyong	12	Market cap
Mahindra Logistics	6	Market cap
Swaraj Engines	4	Market cap
Value of subsidiaries before discount	235	
<b>After holdings 30% discount</b>	<b>164</b>	
<b>Target Price (Rs.)</b>	<b>583</b>	

Source: Sharekhan Research

**Outlook**

**Tractor segment to recover fast; Automotive volumes to recover in FY2022:** Farm sentiments have been strong due to strong rural sentiments on account of good rabi harvest and water reservoir levels and forecast of normal monsoon. Tractor volumes surprised positively, reaching near normalcy in May 2020. M&M expects faster recovery in the tractor segment and is ramping up production. While M&M automotive volumes would drop in FY2021, we expect volumes to recover in FY2022, driven by new launches, pick-up in economic growth, and pent-up demand.

**Valuation**

**Raise estimates; Retain Buy with a revised PT of Rs. 583:** M&M's Q4FY2020 results were better than our as well as street expectations as the company maintained margins despite steep fall in the topline. Further, the pace of recovery in tractors has surprised positively (May wholesales reached near normal) and the company is ramping production in the tractor space. We have raised our FY2022 estimates by about 15% to factor the above. At the CMP, the stock is trading at 12.5x its FY2022 core earnings, which is lower than its long-term historical average of 15x. We retain our Buy rating on the stock with a revised SOTP-based PT of Rs. 583.

Core business one-year forward P/E (x) band



Source: Sharekhan Research

## About company

M&M is the flagship company of the Mahindra group. M&M core business houses the automotive and the tractor segment. M&M is the only automotive company which is virtually present across all the segments. It is market leader in light commercial vehicles, leading Utility vehicle and 3W player. M&M also manufactures MHCV and is present in 2W space through its investment in Jawa. Apart from a strong player in automotive space, M&M is the market leader in the tractor segment having market share of about 40%. Apart from the core business, M&M is also the promoter/holds controlling interest in companies which are engaged in diverse business under the Mahindra brand (IT services, NBFC, logistics, hospitality, real estate and auto ancillary business).

## Investment theme

M&M is present across the automotive segments ranging from 2W to trucks and is a leading player in both the LCV and Utility vehicles. M&M is market leader in tractors with share of ~ 40%. Going ahead, management expects quicker recovery in rural areas driven by record rabi production, higher MSP's, outlook of a normal monsoon and increased rural spending by Government. We expect M&M to perform better than other automotive players given it derives 35% from tractor segment (which is a pure rural play) and also derives about half of the automotive volumes from the hinterlands. Further, with clear capital allocation strategy of exiting business which have unclear path of profitability would reduce losses in subsidiaries and significantly improve the performance. Hence, we retain Buy rating on the stock; M&M continues to remain our preferred pick in the automotive space. M&M core business P/E multiple of 12.5x is discount to its long-term average.

## Key Risks

Prolonged COVID-19 infection could dampen the consumer sentiments and impact the demand. Further, increased competitive intensity in utility vehicles segment could affect market share.

## Additional Data

### Key management personnel

Anand Mahindra	Executive Chairman
Pawan Goenka	Managing Director
Anish Shah	Deputy Managing Director & Group CFO
Rajesh Jejurikar	Executive Director

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL MGMT & SERVICES	11.38
2	M & M BENEFIT TRUST	6.79
3	First State Investments	4.56
4	MAHINDRA & MAHIN EMP STK OP TRST	4.06
5	SBI Funds Management Pvt Ltd	2.61
6	BlackRock Inc	2.09
7	Vanguard Group Inc	1.71
8	ICICI Prudential Asset Management	1.6
9	Republic of Singapore	1.4
10	Franklin Resources Inc	1.2

Source: Bloomberg

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by BNP PARIBAS

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