

Mahindra & Mahindra | Auto & Auto Components

Tractors to be the driving force!

LKP

Q4 numbers better than expectations on margin beat

In line with 36% decline in the total volumes, the topline fell by 35%. Volumes at the auto segment fell by 47% driven by 56% fall in the SUV segment. FES segment fell by just 2% as tractor demand was still intact in Q4. Margins surprised the street as they came in 70 bps higher yoy at 12.4% on the back of better product mix which was tilted towards high margin tractors, cost saving initiatives and RM tailwinds. According to management, last 7 days of March (due to COVID related lockdown) resulted in a volume loss of ~15,000 vehicles, out of which ~13,000 was on the tractors side. Despite this, the company increased its market share in tractors by 1% to ~40% and in LCVs by 3%. During the quarter, M&M revisited their capital allocation program in which they exited their loss making EV 2W US subsidiary and decided not to increase their investments in the lackluster Ssangyong business. This led to a one time impairment charge of ₹27.8 bn leading to a reported loss of ₹25 bn. However, if we exclude this charge, then the company reported a profit of ₹2.78 bn. This was still a drop of 71% yoy due to a fall in topline and operating profit.

Tractors buck the trend and poised to post a robust growth in FY 21.

In Q4, the tractors segment posted a small decline of 2%, while posting margins close to 18%. The mood was quite upbeat in Q4, which got renewed post lockdown. Tractor being an essential product from the agri-economy point of view, the dealerships opened quite ahead of other auto dealers. Our channel checks suggested that the demand was quite buoyant in May, as the dealers were able to get rid of most of the inventory they had for two months. The same thought was seconded by the management as they mentioned that the tractor inventory is now is very low at just 10,000 units. The plants are functioning at 80-85% capacity, while 90% of the dealerships are opened. The strong Rabi crop of last year, satisfactory level of water in the reservoirs, expectations of a good monsoon, hike in MSPs of main food grains, GOI's push to the rural economy in the form of the stimulus package will all boost the tractor sales in the ensuing months. M&M being the market leader with a 40% market share and strong presence mainly in west and south stands a great chance to push itself further ahead of its competitors. With non-tractor applications in the FES segment like the rice transplanters, harvesters etc the company is well placed in this segment to ride the wave of growth in the sector. We expect FES segment to grow close to 10% for both FY 21E and FY 22E.

SUVs still down, demand pick up may happen by festive season and launches

SUV segment is finding dearth of demand for its high end SUVs mainly in the urban markets. In rural India still there is some demand for the petrol versions of its Bolero, Scorpio and Pick-ups. Post lockdown, the demand is quite low here, with inventory levels still high at the dealers' ends. The segment is operating at 30% capacity utilization levels and has been the main force behind driving the Q4 numbers down. We expect the overall auto industry to revive by festive season during which SUVs may also see an uptick. The upcoming launch of New Thar and two new SUV platforms W601 (in collaboration with Ford) and one more SUV by end of FY 21 may lead to a good demand. The current demand for M&M is driven by the BS VI petrol version of XUV 300. We expect a 9% dip in auto sales in FY 21 led by a 15% fall in SUVs. In FY 22E, we expect a 7% growth in SUVs as well as Auto segment.

Prudent cost management, capex reduction, stream lined capital allocation-major positives!

In Q4, the company got an advantage of better product mix (higher proportion of the high margin tractors), RM tailwinds and cost cutting program at various levels. Management expects this to yield further benefits going forward. Also the high cost BS VI vehicles and associated price hikes may lead to margin escalation. Furthermore, M&M cut their capex target for FY 22-24 from ₹120 bn to ₹90 bn. They also exited the US 2W business and will refrain from investing in the cash draining, loss making sub Ssangyong. We believe M&M may exit this sub anytime as it is eating into the profits significantly. We appreciate the capital allocation move, as it was our long time concern and all these factors would prove to be major positives for profitability, FCFs and return ratios.

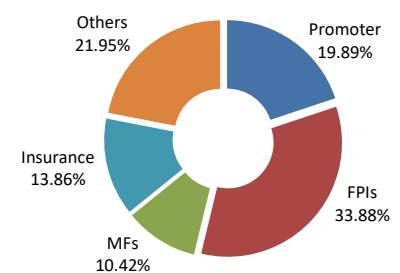
Stock Data

Rating	BUY
Current Market Price(₹)	509
12M Price Target (₹)	589
Potential upside (%)	16
FV (₹)	5
Market Cap Full (₹ bn)	632
52-Week Range (₹)	675 / 246
BSE / NSE Code	500520 / M&M
Bloomberg	MM IN

What's Changed

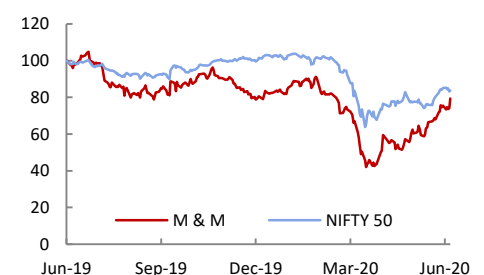
12 month Price Target (₹)	From 664 to 589
FY21E EPS (₹)	From 38 to 28
FY22E EPS (₹)	From 42 to 35

Shareholding Pattern (March 2020)



YE Mar	FY 19	FY 20	FY 21E	FY 22E
Total Sales (₹ bn)	536	455	443	504
EBITDA Margins (%)	12.4	12.7	12.1	13.3
PAT Margins(%)	9.0	7.4	7.6	8.4
EPS (₹)	40.6	28.1	28.4	35.4
P/E (x)	12.6	18.1	17.9	14.4
P/BV (x)	1.8	1.8	1.6	1.5
EV/EBITDA (x)	6.2	7.3	7.8	5.9
ROE (%)	14.1	9.7	9.1	10.5
Dividend yield (%)	1.7	2.0	1.4	1.7

M&M vs Nifty 50



All fig in ₹ mn	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Net Sales	91,437	123,453	-25.9%	140,352	-34.9%
Raw Material Costs	61,472	86,492	-28.9%	100,369	-38.8%
Employee Costs	6,178	7,594	-18.6%	7,094	-12.9%
Other Expenses	12,439	12,872	-3.4%	16,432	-24.3%
EBITDA	11,348	16,495	-31.2%	16,457	-31.0%
EBITDA Margins (%)	12.4%	13.4%	(100 bps)	11.7%	70 bps
Other Income	3,147	2,063	52.6%	2,368	32.9%
Depreciation	5,836	5,537	5.4%	5,325	9.6%
Interest Expenses	335	224	49.4%	281	19.2%
PBT	8,324	12,796	-34.9%	13,219	-37.0%
Tax	5,544	3,725	48.8%	3,684	50.5%
Reported PAT	(25,024)	3,065	NA	8,488	NA
Exceptional Items	(27,805)	(6,006)	NA	(1,047)	NA
Adjusted PAT	2,781	9,071	-69.3NA%	9,535	-70.8%
Adj EPS (₹)	2.35	7.66	-69.3%	8.1	-70.8%

Outlook and valuation

As mentioned above, the tractors segment will be the main driving force for M&M considering the robust demand led by several macro cues. On the SUV side the demand is still low, but we expect festive season and new launches to drive its growth in H2 FY21 and FY22. M&M will continue to be the market leader in SCV segment (which is more or less insulated from the underperformance at the MHCV segment) with a strong focus on its Jeeto, Supro and Maximo brands. We are particularly rejoiced by the fact that M&M is getting its act right on the capital allocation front, where it is diverting its focus from the dragging, non profitable businesses to productive and efficient businesses. This attitude will drive the company's as well as the stock's performance upwards from time to time. We maintain our BUY rating on the stock with a downward revised target of ₹589 (valuing the standalone business at 11x times FY22E earnings and the subsidiaries at ₹200).

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@11x FY 22E EPS)	-	389
M&M Financial Services	Market cap	25%	30
Tech Mahindra	Market cap	20%	128
Mahindra Lifespaces	Market cap	30%	3
Mahindra CIE Automotives	Market cap	30%	15
Mahindra Logistics	Market cap	30%	7
Mahindra Holiday & Resorts	Market cap	30%	6
Swaraj Engines	Market cap	30%	5
Ssangyong	Market cap	30%	7
Subsidiaries Total			200
Total			589

Consolidated Financial

Income Statement

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
Total Revenues	536,140	454,878	443,115	503,876
Raw Material Cost	382,565	316,326	313,282	353,721
Employee Cost	29,802	28,801	26,587	30,233
Other Exp	57,377	51,771	49,629	52,907
EBITDA	66,396	57,981	53,617	67,016
<i>EBITDA Margin(%)</i>	<i>12.4</i>	<i>12.7</i>	<i>12.1</i>	<i>13.3</i>
Other Income	16,890	16,678	18,000	20,000
Depreciation	18,604	22,226	26,022	30,422
Interest	1134	1132	1100	1200
PBT	63,548	51,300	44,495	55,393
<i>PBT Margin(%)</i>	<i>11.9</i>	<i>11.3</i>	<i>10.0</i>	<i>11.0</i>
Tax	15,290	17,855	10,679	13,294
Adj PAT	48,258	33,445	33,816	42,099
Adj PAT Margins (%)	9.0	7.4	7.6	8.4
<i>Exceptional items</i>	<i>-297</i>	<i>-20140</i>	<i>0</i>	<i>0</i>
Reported PAT	47,961	13,305	33,816	42,099
Rep. PAT Margins (%)	8.9	2.9	7.6	8.4

Key Ratios

YE Mar	FY 19	FY 20	FY 21E	FY 22E
Per Share Data (₹)				
Adj. EPS	40.6	28.1	28.4	35.4
CEPS	55.9	29.9	50.3	60.9
BVPS	287.5	289.7	311.0	337.5
DPS	8.5	10.0	7.1	8.8
Growth Ratios(%)				
Total revenues	10.1	-15.2	-2.6	13.7
EBITDA	6.7	-12.7	-7.5	25.0
PAT	23.0	-30.7	1.1	24.5
EPS Growth	23.0	-30.7	1.1	24.5
Valuation Ratios (x)				
PE	12.6	18.1	17.9	14.4
P/CEPS	9.1	17.0	10.1	8.4
P/BV	1.8	1.8	1.6	1.5
EV/Sales	0.8	0.9	0.9	0.8
EV/EBITDA	6.2	7.3	7.8	5.9
Operating Ratios (Days)				
Inventory days	36.6	39.2	42.0	44.0
Receivable Days	24.0	27.0	28.0	28.0
Payables day	87.2	95.0	97.0	99.0
Net Debt/Equity (x)	0.06	0.06	0.05	0.05
Profitability Ratios (%)				
ROE	14.1	9.7	9.1	10.5
Dividend payout	21.0	35.5	25.0	25.0
Dividend yield	1.7	2.0	1.4	1.7

Source: Company, LKP Research

Balance Sheet

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
Equity and Liabilities				
Equity Share Capital	5,958	5,958	5,958	5,958
Reserves & Surplus	336,134	338,713	364,075	395,649
Total Networth	342,092	344,671	370,033	401,607
Total debt	36,536	36,532	36,532	36,532
Deferred tax liabilities	6,341	14,082	14,082	14,082
Current liabilities & Provisions	142,001	109,735	127,133	141,818
Total Liabilities	526,971	505,021	547,780	594,039
Assets				
Fixed assets	125,015	144,041	170,018	180,096
Non current Investments	190,321	177,485	175,485	177,485
Other non current assets	30,924	32,080	32,080	32,080
Current Assets	180,710	151,415	170,197	204,378
Cash and bank(i)	22,379	23,235	33,974	55,903
Bank deposits other than(i)	14,937	19,130	21,130	22,130
Inventories	38,393	34,009	36,049	42,640
Sundry Debtors	39,463	29,990	33,992	38,654
Loan, Advances & others	6,734	5,120	5,120	5,120
Other current assets	73,741	59,061	61,061	62,061
Total Assets	526,971	505,021	547,780	594,039

Cash Flow

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
PBT	63,548	51,300	44,495	55,393
Depreciation	18,604	22,226	26,022	30,422
Interest	1,134	1,132	1,100	1,200
Chng in working capital	(5,060)	(13,260)	9,355	1,432
Tax paid	(14,341)	(10,823)	(10,679)	(13,294)
Other operating activities	(14,645)	(13,797)	0	0
Cash flow from operations (a)	49,240	36,778	70,293	75,154
Capital expenditure	(30,316)	(39,437)	(52,000)	(40,500)
Chng in investments	(17,942)	(13,037)	2,000	(2,000)
Other investing activities	22,774	26,717	(2,000)	(1,000)
Cash flow from investing (b)	(25,485)	(25,757)	(52,000)	(43,500)
Free cash flow (a+b)	23,755	11,021	18,293	31,654
Equity raised/(repaid)	0	0	0	0
Inc/dec in borrowings	(3,725)	3,289	2,000	2,000
Dividend paid (incl. tax)	(10,117)	(11,874)	(8,454)	(10,525)
Other financing activities	(456)	(456)	0	0
Cash flow from financing (c)	(15,552)	(10,155)	(7,554)	(9,725)
Net chng in cash (a+b+c)	8,203	866	10,739	21,929
Closing cash & cash equivalents	22,379	23,235	33,974	55,903

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