

June 14, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	498		420	
Sales (Rs. m)	4,38,655	4,96,969	4,24,696	4,71,572
% Chng.	3.3	5.4		
EBITDA (Rs. m)	50,950	60,435	48,606	53,041
% Chng.	4.8	13.9		
EPS (Rs.)	26.8	31.2	25.7	27.9
% Chng.	4.5	12.1		

### Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	536	455	439	497
EBITDA (Rs. bn)	66	58	51	60
Margin (%)	12.4	12.7	11.6	12.2
PAT (Rs. bn)	48	22	32	37
EPS (Rs.)	40.4	18.4	26.8	31.2
Gr. (%)	18.9	(54.6)	46.2	16.3
DPS (Rs.)	8.5	2.4	10.0	10.0
Yield (%)	1.7	0.5	2.0	2.0
RoE (%)	14.9	6.4	9.0	9.9
RoCE (%)	13.7	9.7	6.9	7.9
EV/Sales (x)	1.1	1.3	1.3	1.2
EV/EBITDA (x)	8.5	9.9	11.3	9.5
PE (x)	12.6	27.7	18.9	16.3
P/BV (x)	1.8	1.8	1.7	1.6

### Key Data

### MAHM.BO | MM IN

52-W High / Low	Rs.675 / Rs.245
Sensex / Nifty	33,781 / 9,973
Market Cap	Rs.632bn/ \$ 8,338m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.5827.78m

### Shareholding Pattern (%)

Promoter's	24.24
Foreign	33.88
Domestic Institution	28.12
Public & Others	13.75
Promoter Pledge (Rs bn)	3.63

### Stock Performance (%)

	1M	6M	12M
Absolute	29.4	(0.6)	(19.5)
Relative	20.2	19.4	(5.3)

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## Reworked capital allocation; execution is key

### Quick Pointers:

- The management re-iterated focus on prudent capital allocation going forward while its execution holds the key.
- Strong rural sentiments (~60% of total volumes), and stable financing to drive demand while operation ramp up is going to be challenging.
- MM to quit GenZe E-2W business while indicating no further investment in SsangYong going forward. Infact it would look to exit the business.

**MM+MVML 4QFY20 performance were operationally better with EBITDA at Rs12.3b (PLe Rs9.5b) due to improved gross margins at 35.7% (PLe 33.8%). We believe while MM to see market share gains in tractor segment due to positive farm sentiments, headwinds in the auto segment continue to persist. With improved rural outlook in near to mid term, we increase our S/A EPS by 4.5%/12.1% as we expect contribution of high margin FES segment to remain elevated. This has resulted in ~100bp uprade in FY22 margins to 12.2%. We maintain Hold with revised SoTP based TP of Rs498 (from Rs420). We value core auto business at 12x (v/s 11x to factor in for superio mix and outlook) plus subsidiary value at 50% holdco discount.**

- Strong operating performance at M&M + MVML:** Revenues declined 35% YoY at Rs90bn (PLe Rs82bn), with OPM at 13.6% (+10bps YoY/ -120bps QoQ, PLe 11.6%). This was led by higher share of FES in sales mix. Auto PBIT margins came in at 4.1% (-470bps YoY/ -320bps QoQ) while tractor PBIT margins at 17.6% (+150bps YoY/ -180bps QoQ). PAT stood at negative Rs32.6bn on account of impairment provision for investments in subsidiaries. Adjusted for one-off items, net profit stood at INR 3.2bn (PLe Rs5.4b).
- Relook at asset allocation policy:** The management has re-iterated its focus on prudent capital allocation policy. It would now support only investments with RoE of 18%. We believe while this framework to pay-off after 2-3 years, MM would need more write-offs will be needed in over this period. Further execution of the policy remains a key as business such as 2Ws, SsangYong, Truck & Bus and Roxor (USA) will need immediate re-assessment.
- Key takeaways from the con-call:** 1) **Outlook:** Strong rural sentiments to drive demand (~60% share of total volumes), while operation ramp up is going to be challenging. 2) **Tractor:** 90% of dealers have started while plants are operating at 80% capacity. 3) **Automotive:** 80% of dealers are operational while plants are operating at 30% capacity. Expect W601, Z101 to launch in FY22. 4) **Global subsidiaries:** 80% of the total loss was contributed by SsangYong and GenZe. GenZe have shut shop while indicating no further investment in SsangYong. 5) **Capex** for FY21 will largely remain same while FY22-24 guidance reduced to Rs90bn (Rs120bn earlier). 6) Mahindra electric has achieved break even during 4QFY20. 7) Net debt at Rs34b as of FY20. Additional borrowings to be availed at low cost for liquidity requirements.

**Exhibit 1: Q4FY20 Result Overview (Rs m)**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Net Revenues</b>	<b>91,437</b>	<b>1,40,352</b>	<b>(34.9)</b>	<b>1,23,453</b>	<b>4,54,878</b>	<b>5,36,140</b>	<b>(15.2)</b>
Raw Materials	61,472	1,00,368	(38.8)	86,492	3,16,126	3,82,565	(17.4)
<i>% of Net Sales</i>	<i>67.2</i>	<i>71.5</i>		<i>70.1</i>	<i>69.5</i>	<i>71.4</i>	
Personnel	6,178	7,094	(12.9)	7,594	28,801	29,802	(3.4)
<i>% of Net Sales</i>	<i>6.8</i>	<i>5.1</i>		<i>6.2</i>	<i>6.3</i>	<i>5.6</i>	
Manufacturing & Other Exp	12,439	16,432	(24.3)	12,872	51,771	57,377	(9.8)
<i>% of Net Sales</i>	<i>13.6</i>	<i>11.7</i>		<i>10.4</i>	<i>11.4</i>	<i>10.7</i>	
Total Expenditure	80,089	1,23,894	(35.4)	1,06,958	3,96,697	4,69,744	(15.6)
<b>EBITDA</b>	<b>11,348</b>	<b>16,458</b>	<b>(31.0)</b>	<b>16,495</b>	<b>58,181</b>	<b>66,396</b>	<b>(12.4)</b>
<i>EBITDA Margin (%)</i>	<i>12.4</i>	<i>11.7</i>	<i>0.7</i>	<i>13.4</i>	<i>12.8</i>	<i>12.4</i>	
Depreciation	5,836	5,325	9.6	5,537	22,226	18,604	19.5
<b>EBIT</b>	<b>5,512</b>	<b>11,132</b>	<b>(50.5)</b>	<b>10,958</b>	<b>35,954</b>	<b>47,792</b>	<b>(24.8)</b>
Interest Expenses	335	281	19.2	224	1,332	1,134	17.5
Non-operating income	3,147	2,368	32.9	2,063	16,678	16,890	(1.3)
Extraordinary Income	-27,805	-1,047	NA	-6,006	-20,140	-297	NA
<b>PBT</b>	<b>-19,480</b>	<b>12,172</b>	<b>NA</b>	<b>6,791</b>	<b>31,160</b>	<b>63,250</b>	<b>(50.7)</b>
Tax-Total	5,544	3,683	50.5	3,725	17,855	15,288	16.8
<i>Tax Rate (%) - Total</i>	<i>-28.5</i>	<i>30.3</i>		<i>54.9</i>	<i>57.3</i>	<i>24.2</i>	
<b>Reported PAT</b>	<b>-25,024</b>	<b>8,489</b>	<b>NA</b>	<b>3,065</b>	<b>13,306</b>	<b>47,962</b>	<b>(72.3)</b>
<b>Adj. PAT</b>	<b>2,781</b>	<b>9,219</b>	<b>(69.8)</b>	<b>9,071</b>	<b>35,557</b>	<b>48,163</b>	<b>(26.2)</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
<b>Sales Volume (nos)</b>	<b>1,51,713</b>	<b>2,35,557</b>	<b>(35.6)</b>	<b>2,16,810</b>	<b>7,77,958</b>	<b>9,39,032</b>	<b>(17.2)</b>
Net Realisation/Vehicle	6,02,699	5,95,829	1.2	5,69,406	5,84,707	5,70,950	2.4
Material cost / vehicle	4,05,183	4,26,089	(4.9)	3,98,932	4,06,353	4,07,403	(0.3)
Gross Profit / vehicle	1,97,515	1,69,739	16.4	1,70,474	1,78,354	1,63,546	9.1
Employee cost /vehicle	40,722	30,114	35.2	35,025	37,021	31,737	16.6
Other expenses / vehicle	81,993	69,759	17.5	59,368	66,547	61,103	8.9
EBITDA/vehicle	74,800	69,866	7.1	76,081	74,786	70,706	5.8
Net Profit/vehicle	18,327	39,138	(53.2)	41,839	45,705	51,290	(10.9)

Source: Company, PL

**Exhibit 3: SOTP valuation**

	FY21E	FY22E
Core EPS (excl. subsidiary dividend)	27.8	32.7
PE attributable (x)	12	12
Value of core business	333	392
Value of subsidiaries	50	50
1. Tech Mahindra	59	59
2. M&M Financial Services	20	20
3. Mahindra Lifespaces	2	2
4. Mahindra Holidays	6	6
5. Ssangyong	7	7
6. Mahindra CIE	2	2
7. CIE Automotive Spain	7	7
8. Mahindra Logistics	4	4
<b>Target price</b>	<b>439</b>	<b>498</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>5,36,140</b>	<b>4,54,878</b>	<b>4,38,655</b>	<b>4,96,969</b>
YoY gr. (%)	10.1	(15.2)	(3.6)	13.3
Cost of Goods Sold	3,82,565	3,16,326	3,05,044	3,47,879
Gross Profit	1,53,575	1,38,552	1,33,611	1,49,091
Margin (%)	28.6	30.5	30.5	30.0
Employee Cost	29,802	28,801	30,241	31,753
Other Expenses	57,377	51,771	52,419	56,903
<b>EBITDA</b>	<b>66,396</b>	<b>57,981</b>	<b>50,950</b>	<b>60,435</b>
YoY gr. (%)	6.7	(12.7)	(12.1)	18.6
Margin (%)	12.4	12.7	11.6	12.2
Depreciation and Amortization	18,604	22,226	24,459	28,713
<b>EBIT</b>	<b>47,792</b>	<b>35,754</b>	<b>26,491</b>	<b>31,722</b>
Margin (%)	8.9	7.9	6.0	6.4
Net Interest	1,134	1,132	902	770
Other Income	16,890	16,678	18,283	20,074
<b>Profit Before Tax</b>	<b>63,250</b>	<b>31,160</b>	<b>43,872</b>	<b>51,026</b>
Margin (%)	11.8	6.9	10.0	10.3
Total Tax	15,290	17,855	11,846	13,777
Effective tax rate (%)	24.2	57.3	27.0	27.0
<b>Profit after tax</b>	<b>47,960</b>	<b>13,306</b>	<b>32,027</b>	<b>37,249</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>48,186</b>	<b>21,905</b>	<b>32,027</b>	<b>37,249</b>
YoY gr. (%)	19.1	(54.5)	46.2	16.3
Margin (%)	9.0	4.8	7.3	7.5
Extra Ord. Income / (Exp)	(225)	(8,600)	-	-
<b>Reported PAT</b>	<b>47,960</b>	<b>13,306</b>	<b>32,027</b>	<b>37,249</b>
YoY gr. (%)	10.1	(72.3)	140.7	16.3
Margin (%)	8.9	2.9	7.3	7.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	47,960	13,306	32,027	37,249
<b>Equity Shares O/s (m)</b>	<b>1,192</b>	<b>1,193</b>	<b>1,193</b>	<b>1,193</b>
<b>EPS (Rs)</b>	<b>40.4</b>	<b>18.4</b>	<b>26.8</b>	<b>31.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,29,854</b>	<b>2,55,208</b>	<b>3,20,303</b>	<b>3,55,303</b>
Tangibles	2,29,854	2,55,208	3,20,303	3,55,303
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,29,036</b>	<b>1,51,262</b>	<b>1,75,722</b>	<b>2,04,435</b>
Tangibles	1,29,036	1,51,262	1,75,722	2,04,435
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,00,818</b>	<b>1,03,946</b>	<b>1,44,581</b>	<b>1,50,868</b>
Tangibles	1,00,818	1,03,946	1,44,581	1,50,868
Intangibles	-	-	-	-
Capital Work In Progress	24,198	40,095	10,000	10,000
Goodwill	-	-	-	-
Non-Current Investments	1,90,321	1,77,485	1,92,485	2,07,485
Net Deferred tax assets	(6,341)	(14,082)	(14,082)	(14,082)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	29,840	21,897	25,000	25,000
Inventories	38,393	34,009	32,796	37,156
Trade receivables	39,463	29,990	28,920	32,765
Cash & Bank Balance	37,317	42,365	29,370	31,010
Other Current Assets	59,513	48,726	48,726	48,726
<b>Total Assets</b>	<b>5,26,971</b>	<b>5,05,021</b>	<b>5,18,156</b>	<b>5,50,121</b>
<b>Equity</b>				
Equity Share Capital	5,958	5,965	5,965	5,965
Other Equity	3,36,135	3,38,713	3,58,810	3,84,129
<b>Total Network</b>	<b>3,42,093</b>	<b>3,44,679</b>	<b>3,64,775</b>	<b>3,90,094</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	24,803	29,320	25,320	21,320
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	96,782	67,858	65,438	74,137
Other current liabilities	56,952	49,082	48,540	50,487
<b>Total Equity &amp; Liabilities</b>	<b>5,26,971</b>	<b>5,05,021</b>	<b>5,18,156</b>	<b>5,50,121</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	63,547	51,300	26,491	31,722
Add. Depreciation	18,604	22,226	24,459	28,713
Add. Interest	(13,184)	(14,327)	18,283	20,074
Less Financial Other Income	16,890	16,678	18,283	20,074
Add. Other	(327)	1,662	-	-
Op. profit before WC changes	68,640	60,862	69,233	80,509
Net Changes-WC	(5,060)	(13,260)	(447)	1,607
Direct tax	(14,341)	(10,823)	(11,846)	(13,777)
<b>Net cash from Op. activities</b>	<b>49,239</b>	<b>36,778</b>	<b>56,941</b>	<b>68,339</b>
Capital expenditures	(25,487)	(25,757)	(53,104)	(50,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(25,487)</b>	<b>(25,757)</b>	<b>(53,104)</b>	<b>(50,000)</b>
Issue of share cap. / premium	-	-	1,933	1,933
Debt changes	(3,725)	3,289	(4,000)	(4,000)
Dividend paid	(10,117)	(11,874)	(11,930)	(11,930)
Interest paid	(1,710)	(1,570)	(2,835)	(2,703)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(15,552)</b>	<b>(10,155)</b>	<b>(16,832)</b>	<b>(16,700)</b>
<b>Net change in cash</b>	<b>8,199</b>	<b>866</b>	<b>(12,995)</b>	<b>1,639</b>
Free Cash Flow	18,923	(2,658)	21,941	33,339

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>1,29,227</b>	<b>1,10,761</b>	<b>1,23,453</b>	<b>91,437</b>
YoY gr. (%)	(4.4)	(14.7)	(5.5)	(34.9)
Raw Material Expenses	91,591	76,571	86,492	61,472
Gross Profit	37,636	34,190	36,961	29,966
Margin (%)	29.1	30.9	29.9	32.8
<b>EBITDA</b>	<b>16,227</b>	<b>14,110</b>	<b>16,495</b>	<b>11,348</b>
YoY gr. (%)	(13.3)	(12.1)	8.7	(31.0)
Margin (%)	12.6	12.7	13.4	12.4
Depreciation / Depletion	5,454	5,399	5,537	5,836
<b>EBIT</b>	<b>10,774</b>	<b>8,711</b>	<b>10,958</b>	<b>5,512</b>
Margin (%)	8.3	7.9	8.9	6.0
Net Interest	271	502	224	335
Other Income	3,191	8,277	2,063	3,147
<b>Profit before Tax</b>	<b>27,364</b>	<b>16,486</b>	<b>6,791</b>	<b>(19,480)</b>
Margin (%)	21.2	14.9	5.5	(21.3)
Total Tax	4,226	4,360	3,725	5,544
Effective tax rate (%)	15.4	26.4	54.9	(28.5)
<b>Profit after Tax</b>	<b>23,138</b>	<b>12,126</b>	<b>3,065</b>	<b>(25,024)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>11,579</b>	<b>12,126</b>	<b>9,071</b>	<b>2,781</b>
YoY gr. (%)	(4.0)	(21.5)	(20.7)	(69.8)
Margin (%)	9.0	10.9	7.3	3.0
Extra Ord. Income / (Exp)	11,559	-	(6,006)	(27,805)
<b>Reported PAT</b>	<b>23,138</b>	<b>12,126</b>	<b>3,065</b>	<b>(25,024)</b>
YoY gr. (%)	89.5	(26.5)	(71.5)	(394.8)
Margin (%)	17.9	10.9	2.5	(27.4)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>23,138</b>	<b>12,126</b>	<b>3,065</b>	<b>(25,024)</b>
Avg. Shares O/s (m)	1,193	1,193	1,193	1,193
<b>EPS (Rs)</b>	<b>9.7</b>	<b>10.2</b>	<b>7.6</b>	<b>2.3</b>

Source: Company Data, PL Research

**Key Financial Metrics**

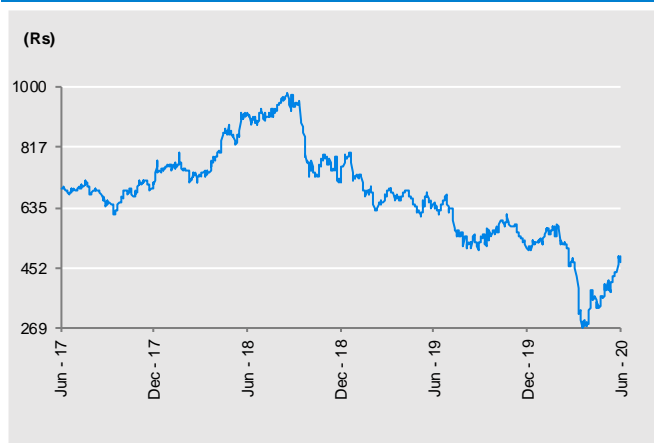
Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	40.4	18.4	26.8	31.2
CEPS	56.1	37.0	47.3	55.3
BVPS	287.1	288.9	305.8	327.0
FCF	15.9	(2.2)	18.4	27.9
DPS	8.5	2.4	10.0	10.0
<b>Return Ratio(%)</b>				
RoCE	13.7	9.7	6.9	7.9
ROIC	12.8	5.0	5.9	6.7
RoE	14.9	6.4	9.0	9.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	(13)	(3)	(3)	(3)
<b>Valuation(x)</b>				
PER	12.6	27.7	18.9	16.3
P/B	1.8	1.8	1.7	1.6
P/CEPS	56.1	37.0	47.3	55.3
EV/EBITDA	8.5	9.9	11.3	9.5
EV/Sales	1.1	1.3	1.3	1.2
Dividend Yield (%)	1.7	0.5	2.0	2.0

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY19	FY20	FY21E	FY22E
Tractor Volumes	3,30,436	3,01,915	2,92,858	3,22,143
Auto volumes	5,97,758	4,70,946	4,17,044	4,52,067

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	Hold	420	381
2	11-Feb-20	Hold	600	524
3	03-Jan-20	Hold	593	533
4	09-Nov-19	Hold	593	582
5	03-Oct-19	Hold	563	563
6	02-Oct-19	Hold	563	557
7	07-Aug-19	Hold	547	518
8	04-Jul-19	BUY	815	672

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	46
2	Bajaj Auto	Hold	2,504	2,556
3	Bharat Forge	Hold	345	246
4	CEAT	Accumulate	899	810
5	Eicher Motors	BUY	17,990	13,742
6	Exide Industries	Accumulate	179	173
7	Hero Motocorp	Accumulate	2,444	2,292
8	Mahindra & Mahindra	Hold	420	381
9	Maruti Suzuki	BUY	5,830	5,036
10	Motherson Sumi Systems	BUY	116	102
11	Tata Motors	Hold	84	75
12	TVS Motors	Hold	318	333

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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