

**Margin Expansion;FY22 Outlook cautiously positive**

**CMP: Rs 508**

**Rating: BUY**

**Target Price: Rs 621**

**Stock Info**

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (Rs)	5
Equity Capital (Rs mn)	400
Mkt Cap (Rs bn)	606
52w H/L (Rs)	676/245
Avg Yearly Vol (in 000')	4573

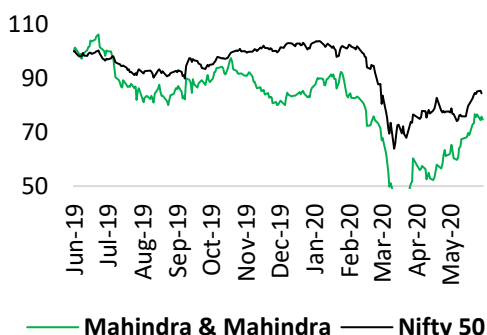
**Shareholding Pattern %**

(As on March, 2020)

Promoters	18.83
Public & Others	81.17

Stock Performance (%)	3m	6m	12m
M&M	21.5	-6.4	-25.2
Nifty	6.4	-17.1	-16.5

**M&M Vs Nifty**



Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

M&M + MVML reported weak operating performance was offset marginally by margin expansion. Net sales stood at Rs. 90,047 mn (-34.8% YoY / -27.1% QoQ). Gross margins expanded by 40 bps to 35.7% driven by commodity cost benefits and cost rationalization measures by the company. EBITDA was at Rs. 12,275 mn (-34.3% YoY / -25.6% QoQ) with margin of 13.6% (+1bps YoY / +3bps QoQ). PAT was at Rs 3,226 (-70% YoY / -64.4% QoQ). PAT after exceptional items was primarily impacted due to write down of investment in Ssangyong and some other international subsidiaries. The total volumes (auto + tractors) de-grew by 35.6% YoY to 1.51L units led by subdued demand. The blended realisation has seen an increase of 36% YoY to Rs 8.02L per unit on account of better product mix. On the Concall, the management indicated quicker recovery in rural areas, driven by record rabi production, higher MSPs, outlook of a normal monsoon, and increased rural spending by the government. 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.

The board also recommended a final dividend of Rs 2.35 per equity share for the financial year 2019-20.

**Concall highlights**

- Management 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.
- 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.
- M&M plans to launch three new SUVs in the auto segment in FY2021. One would be the offroader, 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.
- 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.

**Outlook and valuation**

At CMP of Rs 508, M&M currently trades at FY20 PE of 17.2x. M&M earnings were ahead street estimates as company managed to maintain margins despite the steep fall in the topline. However Prolonged COVID-19 infection could dampen consumer sentiments and impact demand. Further, increased competitive intensity in the utility vehicles segment could affect stock. 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 led by strong margin execution and guidance of further cost-cutting initiatives. At CMP of Rs 508, stock is trading at core PE of 17.5x FY22. We upgrade our rating to Buy from Hold earlier and value it with SOTP valuation for a target price of Rs 621.

## Quarterly results summary (MM + MVML)

Rs Mn	Q4FY20	Q4FY19	Q3FY20	YoY %	QoQ %
Net Sales	90047	138079	123453	-34.8%	-27.1%
Cost of material consumed	57898	94286	86492	-38.6%	-33.1%
Staff Cost	7127	7568	7594	-5.8%	-6.1%
Other expenses	12748	17547	12872	-27.3%	-1.0%
Total expenses	77,773	1,19,401	1,06,958	-34.9%	-27.3%
<b>EBITDA</b>	<b>12,275</b>	<b>18,678</b>	<b>16,495</b>	<b>-34.3%</b>	<b>-25.6%</b>
Depreciation	6172	5696	5537	8.3%	11.5%
EBIT	6,103	12,982	10,958	-53.0%	-44.3%
Interest	359	304	224	18.0%	60.1%
Other Income	3155	2473	2063	27.6%	53.0%
PBT	8,899	15,151	12,796	-41.3%	-30.5%
Tax	5673	4410.9	3725	28.6%	52.3%
<b>PAT</b>	<b>3,226</b>	<b>10,740</b>	<b>9,071</b>	<b>-70.0%</b>	<b>-64.4%</b>
Extraordinary	-35776	-1047	-6006		
<b>Reported PAT</b>	<b>(32,550)</b>	<b>9,692</b>	<b>3,065</b>	<b>-435.8%</b>	<b>-1161.8%</b>
EPS	-21.0	9.0	7.6	-332.4%	-375.8%
Margins	Q4FY20	Q4FY19	Q3FY20	YoY %	QoQ %
Gross margins	35.7%	31.7%	29.9%	40bps	58bps
EBITDA	13.6%	13.5%	13.4%	1bps	3bps
PAT	3.6%	7.8%	7.3%	-42bps	-38bps
Tax Rate	63.7%	29.1%	29.1%	346bps	346bps
Tractor Segment	Q4FY20	Q4FY19	Q3FY20	YoY %	QoQ %
Total Tractors Volume	59,290	60,878	84,455	-2.6%	-29.8%
Total Automotive Volume	92,423	1,74,679	1,32,361	-47.1%	-30.2%
Total Volume (Auto + Farm)	1,51,713	2,35,557	2,16,816	-35.6%	-30.0%
Aveg Relizations (Auto)	8,03,246	5,85,172	5,20,758	37.3%	54.2%
Aveg Relizations (FES)	7,21,506	5,26,607	4,29,989	37.0%	67.8%
Blended realisation	8,02,656	5,89,973	5,07,878	36.0%	58.0%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Listed Subsidiary	Valuation Basis	CMP	M&M stake	% Stake	Mcap (Rs Mn)	Value/share
Tech Mahindra Limited		547	25,15,48,691	26.0	1,37,597	116
Mahindra & Mahindra Financial Services		163	31,62,07,660	51.2	51,573	43
Mahindra Holidays & Resorts		164	8,98,90,615	67.3	14,742	12
Mahindra Lifespace Developers		210	2,64,39,850	51.5	5,564	5
Mahindra CIE Automotive Limited.		98	2,14,17,617	11.4	2,099	2
Ssangyong Motor Company (CMP 1975 KRW x 16 SKW/INR)	CMP	124	11,18,55,108	74.7	13,829	12
CIE Automotive SA (CMP €15.96 x 85.57 Euro/INR)		1,371	95,90,706	7.4	13,152	11
Mahindra EPC Irrigation		144	1,51,44,433	54.6	2,173	2
Swaraj Engines		1,253	40,39,206	34.8	5,061	4
<i>Listed Subsidiaries (Rs mn)</i>					2,45,791	207
<i>Total Subsidiaries (Rs Mn)</i>					2,45,791	207
<b>Sub Valuations Post Discount (35%)</b>			<b>35%</b>		<b>1,59,764</b>	<b>134</b>
<b>Core auto business @ 18x</b>	<b>Core FY22EPS</b>	<b>27</b>				<b>487</b>
<b>Value/Share</b>						<b>621</b>
					<b>CMP</b>	<b>508</b>
					<b>Upside</b>	<b>22%</b>

Source: Company, Arianth Capital Markets

P&L (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	5,28,482	4,48,655	3,77,085	4,54,692
YoY (%)	11.1	(15.1)	(16.0)	20.6
Raw material cost	3,59,977	2,98,668	2,54,532	3,04,189
Employee Cost	32,830	32,237	27,094	32,671
Admin Expenses	60,375	54,245	44,496	53,654
Total expenses	4,53,182	3,85,150	3,26,123	3,90,513
<b>EBIDTA</b>	<b>75,301</b>	<b>63,506</b>	<b>50,962</b>	<b>64,179</b>
(%)	14.2%	14.2%	13.5%	14.1%
Depreciation	20,030	23,631	27,632	35,532
EBIT	55,271	39,875	23,330	32,302
Interest	1,467	1,245	1,520	1,420
Other income	16,303	15,391	13,495	13,012
PBT	70,106	54,021	41,629	52,721
(-) Tax	15,867	18,513	14,266	18,067
Tax/ PBT	22.6	34.3	34.3	34.3
<b>PAT</b>	<b>54,239</b>	<b>35,509</b>	<b>27,363</b>	<b>34,654</b>
YoY (%)	29.5	(34.5)	(22.9)	26.6
PAT(%)	10.3%	7.9%	7.3%	7.6%
Extraordinary	227	28112	0	0
Reported Profit	54,012	7,397	27,363	34,654

B/Sheet (Rs mn)	FY19	FY20	FY21E	FY22E
Equity capital	5,958	5,965	5,965	5,965
Reserves	3,43,979	3,40,326	3,63,269	3,90,967
Net worth	3,49,937	3,46,291	3,69,234	3,96,932
Total Loans	26,803	31,530	29,530	27,530
Def Tax Liability	7,896	15,068	15,068	15,068
<b>Total Liabilities</b>	<b>3,84,636</b>	<b>3,92,889</b>	<b>4,13,832</b>	<b>4,39,530</b>
Gross Block	2,45,023	3,07,168	3,69,313	4,31,458
Less: Acc. depreciation	96,238	1,12,697	1,40,329	1,75,861
Net block	1,48,786	1,94,471	2,28,984	2,55,597
Investments	2,06,262	1,62,668	1,62,782	1,35,535
Inventories	47,631	40,408	37,515	44,834
Debtors	38,119	29,012	28,211	34,017
Cash	38,329	42,365	48,724	54,562
Loans and advances	38,119	26,042	17,534	21,143
Other Current assets	23,864	13,694	15,063	16,569
Current assets	1,86,062	1,51,521	1,47,047	1,71,125
Current liabilities	1,40,319	99,990	1,11,718	1,06,734
Provisions	16,154	15,781	13,264	15,994
Net current assets	29,589	35,750	22,065	48,398
<b>Total Assets</b>	<b>3,84,636</b>	<b>3,92,889</b>	<b>4,13,832</b>	<b>4,39,530</b>

Cash Flow	FY19	FY20	FY21E	FY22E
Net profit	54,012	7,397	27,363	34,654
Depreciation	20,030	23,631	27,632	35,532
Deferred tax	0	0	0	0
Change in W/C	-38,347	-2,124	20,043	-20,494
Operating cash flow	35,695	28,903	75,038	49,692
Capex	-35,406	-40,000	-30,000	-20,000
Investments	23,087	43,594	-114	27,247
Investing cash flow	-12,319	-18,551	-62,259	7,247
Free Cash Flow	288	-11,097	45,038	29,692
Dividend	-11,817	-4,819	-4,420	-6,956
Equity	2,868	-6,224	0	0
Debt	-5,339	4,728	-2,000	-2,000
Financing cash flow	-14,288	-6,316	-6,420	-8,956
Net change in cash	9,087	4,036.30	6,359	5,838
Opening cash	29,242	38,329	42,365	48,724
Closing cash	38,329	42,365	48,724	54,562

Key Ratios	FY19	FY20	FY21E	FY22E
EPS	45.5	29.8	22.9	29.0
P/E (Standalone)	11.2	17.1	22.2	17.5
EV/EBDITA (x)	5.1	6.8	8.3	6.9
Book value	294	290	309	333
P/B (x)	1.7	1.8	1.6	1.5
Subsidiary Valuation	134	134	134	134
EPS (Core EPS)	38.8	28.7	20.8	27.0
P/E (Core)	9.6	13.0	18.0	13.8
EV/EBITDA (Core)	5.3	6.5	8.0	6.2
ROCE	15.3%	9.5%	7.2%	8.5%
ROE	16.6%	10.2%	7.6%	9.0%
<b>Days</b>				
Inventory	41	54	54	54
Debtor	24	27	27	27
Creditor	68	71	70	59

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

### Head Office

#1011, Solitaire Corporate Park  
Building No. 10, 1<sup>st</sup> Floor  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E)  
Mumbai – 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

### Registered Office

Arihant House  
E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

### Stock Rating Scale

BUY  
ACCUMULATE  
HOLD  
NEUTRAL  
REDUCE  
SELL

### Absolute Return

>20%  
12% to 20%  
5% to 12%  
-5% to 5%  
-5% to -12%  
<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880