

Volume recovery;FY22 Outlook cautiously positive

CMP: Rs 600

Rating: BUY

Target Price: Rs 718

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)	5,965
Mkt Cap (Rs mn)	7,16,361
52w H/L (Rs)	626/245
Avg Yearly Vol (in 000')	5283

Shareholding Pattern %

(As on June, 2020)

Promoters	19.6
Public & Others	80.4

Stock Performance (%)	3m	6m	12m
M&M	53.9	13.6	15.8
Nifty	21.3	-6.7	3.3

M&M Vs Nifty



M&M + MVML Profit for the quarter de-grew by 97% YoY to Rs 678 Mn during Q1FY21. Net sales stood at Rs. 55,894 mn (-56.4% YoY / -37.9% QoQ). Gross margins expanded by 31 bps to 35.2% driven by commodity cost benefits and cost rationalization measures by the company. EBITDA was at Rs. 5,732 mn (-68.0% YoY / -53.3% QoQ) with margin of 10.3% (-38bps YoY / 34bps QoQ). The total volumes (auto + tractors) de-grew by 58.5% YoY to 90,536 units led by subdued demand. The blended realisation has seen an increase of 13.4% YoY to Rs 6,87,818 unit on account of better product mix.

Concall highlights

- Its key brands with a strong rural base saw good demand in the month of June. However, low pipeline inventory coupled with the challenges of ramping up production due to supply chain affected the company's sales.
- The Company's market share was lost due to supply side issue and demand was strong.
- Rural demand is strong, share of rural market increased from 56% in 4QFY20 to 62% in 1QFY21.
- Suppliers: All suppliers are not facing issues around 97% of suppliers are working normal and 2-3% of the suppliers are severely impacted due to COVID-19 and are struggling.
- Finance cost is on higher side because company took debt to maintain strong cash flow and company would bring back normal level as it generated enough cash in 1QFY21.
- The company is actively looking for investors for its electric vehicle.
- By March 2021, the company would sort out regarding loss making subsidiary and what steps the company need to take regarding the same.
- For SsangYong Motor Company (SYMC) the company won't be making any further investment.
- Merger of Mahindra vehicle manufacturing limited (MVML) is fully on track, it has received all required permission and it would complete in 1-1.5 months.
- Margins: The company continues its strong focus on cost management to improve its financial performance in these testing times. The company has undertaken significant cost cutting measures. It has cut on marketing and advertisement expenses for now. Still it is difficult to give any guidance on margin.
- The company is ramping up its supply and there is strong demand in market.
- Tractor FY21 outlook: Demand is expected to be strong and the management is bit doubtful about supply side.

Outlook and valuation

At CMP of Rs 610, M&M currently trades at FY20 PE of 20.2x. On time easing of the lockdown for the agricultural sector along with positive rural sentiment led to good sales numbers for tractors during the quarter despite the supply chain issues. The Company has sold 24,463 tractors in the domestic market during July 2020, a growth of 28% over last year. These are highest ever July sales. The strong demand momentum continued, aided by positive sentiments due to good cash flows to farmers, higher Kharif sowing, a timely and normal monsoon cumulatively across June & July and continued higher rural spending by the Government. We remain positive on M&M due to the large exposure to rural demand and management efforts to tighten capital allocation norms.

We value M&M at PE of 20.5x to its FY22E EPS of Rs 27. **We maintain our Buy rating on the stock and value it with SOTP valuation for a target price of Rs 718.**

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Q1FY21 results summary (MM + MVML)

Rs Mn	Q1FY21	Q4FY20	Q1FY20	YoY %	QoQ %
Net Sales	55,894	90,047	1,28,055	-56.4%	-37.9%
Cost of material consumed	36,240	57,898	86,971	-58.3%	-37.4%
Staff Cost	7,704	7,127	8,679	-11.2%	8.1%
Other expenses	6,219	12,748	14,469	-57.0%	-51.2%
Total expenses	50,163	77,773	1,10,119	-54.4%	-35.5%
EBITDA	5,732	12,275	17,936	-68.0%	-53.3%
Depreciation	5,813	6,172	5,839	-0.4%	-5.8%
EBIT	(81)	6,103	12,097	-100.7%	-101.3%
Interest	768	359	302	154.6%	114.2%
Other Income	1,338	3,155	1,919	-30.3%	-57.6%
PBT	488	8,899	13,714	-96.4%	-94.5%
Tax	99	5,673	4,787	-97.9%	-98.3%
PAT	389	3,226	8,927	-95.6%	-87.9%
Extraordinary	288	(35,776)	13,671		
Reported PAT	678	(32,550)	22,597	-97.0%	-102.1%
EPS	0.9	-21.0	7.5	-87.5%	-104.5%
Margins	Q1FY21	Q4FY20	Q1FY20	YoY %	QoQ %
Gross margins	35.2%	35.7%	32.1%	31bps	-5bps
EBITDA	10.3%	13.6%	14.0%	-38bps	-34bps
PAT	0.7%	3.6%	7.0%	-63bps	-29bps
Tax Rate	20.2%	63.7%	34.9%	-147bps	-435bps
Tractor Segment	Q1FY21	Q4FY20	Q1FY20	YoY %	QoQ %
Total Tractors Volume	60,885	59,290	86,350	-29.5%	2.7%
Total Automotive Volume	29,651	92,423	1,31,689	-77.5%	-67.9%
Total Volume (Auto + Farm)	90,536	1,51,713	2,18,039	-58.5%	-40.3%
Aveg Relizations (Auto)	6,87,818	8,03,246	6,06,414	13.4%	-14.4%
Aveg Relizations (FES)	5,48,713	7,21,506	5,07,489	8.1%	-23.9%
Blended realisation	6,18,629	8,02,656	5,91,218	4.6%	-22.9%

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		662	2515,48,691	26.0	1,66,638	140
Mahindra & Mahindra Financial Services		135	3162,07,660	51.2	42,799	36
Mahindra Holidays & Resorts		168	898,90,615	67.3	15,075	13
Mahindra Lifespace Developers		209	264,39,850	51.5	5,533	5
Mahindra CIE Automotive Limited.		109	214,17,617	11.4	2,338	2
Ssangyong Motor Company (CMP 3700 KRW x 16 SKW/INR)	CMP	233	1118,55,108	74.7	26,091	22
CIE Automotive SA (CMP €14.10 x 88.46 Euro/INR)		1,247	95,90,706	7.4	11,958	10
Mahindra EPC Irrigation		144	151,44,433	54.6	2,173	2
Swaraj Engines		1,469	40,39,206	34.8	5,934	5
<i>Listed Subsidiaries (Rs mn)</i>					2,78,539	234
<i>Total Subsidiaries (Rs Mn)</i>					2,78,539	234
Sub Valuations Post Discount (30%)			30%		1,94,977	164
Core auto business @ 20.5x	Core FY22EPS	27				554
Value/Share						718
					CMP	600
					Upside	20%

Source: Company, Aриhant Capital Markets

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	B/Sheet (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	5,28,482	4,48,655	3,77,085	4,54,692	Equity capital	5,958	5,965	5,965	5,965
YoY (%)	11.1	(15.1)	(16.0)	20.6	Reserves	3,43,979	3,40,326	3,63,269	3,90,967
Raw material cost	3,59,977	2,98,668	2,54,532	3,04,189	Net worth	3,49,937	3,46,291	3,69,234	3,96,932
Employee Cost	32,830	32,237	27,094	32,671	Total Loans	26,803	31,530	29,530	27,530
Admin Expenses	60,375	54,245	44,496	53,654	Def Tax Liability	7,896	15,068	15,068	15,068
Total expenses	4,53,182	3,85,150	3,26,123	3,90,513	Total Liabilities	3,84,636	3,92,889	4,13,832	4,39,530
EBIDTA	75,301	63,506	50,962	64,179	Gross Block	2,45,023	3,07,168	3,69,313	4,31,458
(%)	14.2%	14.2%	13.5%	14.1%	Less: Acc. depreciation	96,238	1,12,697	1,40,329	1,75,861
Depreciation	20,030	23,631	27,632	35,532	Net block	1,48,786	1,94,471	2,28,984	2,55,597
EBIT	55,271	39,875	23,330	32,302	Investments	2,06,262	1,62,668	1,62,782	1,35,535
Interest	1,467	1,245	1,520	1,420	Inventories	47,631	40,408	37,515	44,834
Other income	16,303	15,391	13,495	13,012	Debtors	38,119	29,012	28,211	34,017
PBT	70,106	54,021	41,629	52,721	Cash	38,329	42,365	48,724	54,562
(-) Tax	15,867	18,513	14,266	18,067	Loans and advances	38,119	26,042	17,534	21,143
Tax/ PBT	22.6	34.3	34.3	34.3	Other Current assets	23,864	13,694	15,063	16,569
PAT	54,239	35,509	27,363	34,654	Current assets	1,86,062	1,51,521	1,47,047	1,71,125
YoY (%)	29.5	(34.5)	(22.9)	26.6	Current liabilities	1,40,319	99,990	1,11,718	1,06,734
PAT(%)	10.3%	7.9%	7.3%	7.6%	Provisions	16,154	15,781	13,264	15,994
Extraordinary	227	28112	0	0	Net current assets	29,589	35,750	22,065	48,398
Reported Profit	54,012	7,397	27,363	34,654	Total Assets	3,84,636	3,92,889	4,13,832	4,39,530

Cash Flow	FY19	FY20	FY21E	FY22E	Key Ratios	FY19	FY20	FY21E	FY22E
Net profit	54,012	7,397	27,363	34,654	EPS	45.5	29.8	22.9	29.0
Depreciation	20,030	23,631	27,632	35,532	P/E (Standalone)	13.2	20.2	26.2	20.7
Deferred tax	0	0	0	0	EV/EBDITA (x)	6.6	8.5	8.3	6.9
Change in W/C	-38,347	-2,124	20,043	-20,494	Book value	294	290	309	333
Operating cash flow	35,695	28,903	75,038	49,692	P/B (x)	2.0	2.1	1.9	1.8
Capex	-35,406	-62,145	-62,145	-62,145	Subsidiary Valuation	164	164	164	164
Investments	23,087	43,594	-114	27,247	EPS (Core EPS)	38.8	28.7	20.8	27.0
Investing cash flow	-12,319	-18,551	-62,259	-34,898	P/E (Core)	11.3	15.2	21.0	16.1
Free Cash Flow	288	-33,242	12,893	-12,453	EV/EBITDA (Core)	6.3	7.7	8.0	6.2
Dividend	-11,817	-4,819	-4,420	-6,956	ROCE	15.3%	9.5%	7.2%	8.5%
Equity	2,868	-6,224	0	0	ROE	16.6%	10.2%	7.6%	9.0%
Debt	-5,339	4,728	-2,000	-2,000	Days				
Financing cash flow	-14,288	-6,316	-6,420	-8,956	Inventory	41	54	54	54
Net change in cash	9,087	4,036.30	6,359	5,838	Debtor	24	27	27	27
Opening cash	29,242	38,329	42,365	48,724	Creditor	68	71	70	59
Closing cash	38,329	42,365	48,724	54,562					

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

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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