

Well-positioned to leverage rural demand

- MM's Q1FY21 standalone + MVML EBITDA at Rs.5.73bn was slightly below estimates due to weak performance in the Auto segment offset by higher-than-expected margin in the farm equipment segment (FES). EBIT margin for FES improved by 114bps YoY to 20.4%.
- Management highlighted that the near term demand outlook is promising fueled by improved rural sentiment, but difficult to make long-term forecasts. Outlook for the tractor remains strong led by good monsoon and better prospects for Kharif crop.
- We expect low channel inventory (auto and farm) is expected to support wholesale in the near term. Moreover, new launches like new Thar (expected to launch in festive season) and strong rural demand for Bolero, Scorpio and the pick-ups will provide support after the festive season.
- The company is focused on strengthening core business, tightening capital allocation and turning around its core/strategic subsidiaries. The management is looking to bring down its stake to below 50% in Ssangyong Motors and in talks with potential investors.
- M&M's exposure (Tractor+ Auto) to the rural market at about 65% is one of the highest among its peers. These areas are not expected to be as impacted by the on-going COVID-19 disruption as urban ones. We value the core business at Rs.537/share (16x FY23 core EPS) and subsidiaries at Rs.155/share, and recommend Accumulate the stock, with a TP of Rs.692.

Outlook remain strong for tractors

In tractors, M&M has lost Market share, stood at 39.1% in Q1FY21 vs 41.2% Q4FY20 led by supply constraints. Even as utilization levels ramped up to 90%, it was unable to fully meet the demand. Consequently, inventories have fallen to unusually low levels. We expect the company to regain its lost market share once supply issues are resolved. Industry outlook is positive, given the record output of the Rabi crop and a good monsoon. In addition, re-stocking will also aid volume growth in the forthcoming months.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	55,894	1,28,055	(56.4)	90,047	(37.9)
Total Expense	50,163	1,10,119	(54.4)	77,773	(35.5)
EBITDA	5,732	17,936	(68.0)	12,275	(53.3)
Depreciation	5,813	5,839	(0.4)	6,172	(5.8)
EBIT	(81)	12,097	(100.7)	6,103	(101.3)
Other Income	1,338	1,919	(30.3)	3,155	(57.6)
Interest	768	302	154.6	359	114.2
EBT	777	27,384	(97.2)	(26,877)	(102.9)
Tax	99	4,787	(97.9)	5,673	(98.3)
RPAT	678	22,597	(97.0)	(32,550)	(102.1)
APAT	389	8,927	(95.6)	3,226	(87.9)
			(bps)		(bps)
Gross Margin (%)	35.2	32.1	308	35.7	(54)
EBITDA Margin (%)	10.3	14.0	(375)	13.6	(338)
NPM (%)	1.2	17.6	(1643)	(36.1)	3736
Tax Rate (%)	12.7	17.5	(475)	(21.1)	3384
EBIT Margin (%)	(0.1)	9.4	(959)	6.8	(692)

CMP	Rs 600
Target / Upside	Rs 692 / 15%
BSE Sensex	38,047
NSE Nifty	11,214

Scrip Details

Equity / FV	Rs 5,965mn / Rs 5
Market Cap	Rs 746bn
	US\$ 10bn
52-week High/Low	Rs 626/Rs 245
Avg. Volume (no)	74,57,560
NSE Symbol	M&M
Bloomberg Code	MM IN

Shareholding Pattern Jun'20(%)

Promoters	18.9
MF/Banks/FIs	28.1
FIIIs	37.9
Public / Others	15.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	25.0	17.2	14.4
EV/EBITDA	14.2	10.6	8.9
ROE (%)	8.4	11.4	12.5
RoACE (%)	7.8	10.5	11.6

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	3,95,002	4,74,447	5,42,365
EBITDA	51,350	68,795	80,812
PAT	29,892	43,384	51,967
EPS (Rs.)	24.0	34.9	41.8

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Automotive division on the recovery path

In the Automotive segment, despite the covid-led crisis, Bolero, Scorpio and the pick-ups have witnessed a sharp recovery in volume from June onwards led by strong retail in key states like Uttar Pradesh, Bihar, Madhya Pradesh and The management expects the supply-chain and raw material supplies to stabilize in the next one or two months showing signs of recovery, Rural demand and movement of essential goods are the key volume drivers for the Bolero pickups. The company is facing production/supply-side constraints (current capacity utilization is at ~50-60% June and July). The management expects the supply-chain and raw material supplies to stabilize in the next one or two months.

MM is trying to catch up with competition on product range in the SUV segment through new launches and innovative marketing, MM's product pipeline under UV segment continues to remain aggressive as it has several upgrades and new launches lined-up near to medium term like new Thar, W601 and Z101.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Dart Estimates	Variance (%)	Comments
Revenue	55,894	55,342	1%	
EBIDTA	5,732	6,602	-13%	Negative Operating leverage
EBIDTA Margin (%)	10.3	11.9	(167) bps	
PAT	390	1,802	-78%	

Source: Company, DART

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY21E			FY22E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	3,95,002	3,92,433	0.7	4,74,447	4,59,141	3.3
EBITDA	51,350	51,016	0.7	68,795	66,575	3.3
EBITDA margin (%)	13.00	13.00	(0.0)bps	14.5	14.5	(0) bps
APAT	29,892	29,643	0.8	43,384	41,730	4.0
EPS	24.0	23.8	0.8	34.9	33.6	4.0

Source: Company, DART

Exhibit 3: Assumption table

(in '000 units)	FY19	FY20	FY21E	FY22E	FY23E
Total PV	255	187	148	192	231
% YoY	2	(26.6)	(20.8)	30.0	20.0
LCV	238	194	144	176	201
% YoY	15	(18.4)	(25.6)	22.1	14.0
MHCV	11	5.1	2.8	3.8	4.5
% YoY	14	(53.0)	(45.0)	35.0	20.0
Three wheelers	67	62	34	44	53
% YoY	22	(7)	(45)	30	20
Total Domestic	570	448	329	417	490
% YoY	10	(21)	(27)	27	17
Exports	39	28	22	25	29
% YoY	37	(28.1)	(20.0)	14.0	13.0
Total Auto	609	476	352	442	518
% YoY	10.9	(21.8)	(26.1)	25.8	17.2
Tractor					
Domestic	317	292	298	322	341
% YoY	4	(8)	2	8	6
Export	14	10	9	10	11
% YoY	(12)	(27)	(15)	15	14
Total tractor	330	302	306	331	352
% YoY	4	(9)	1	8	6

Source: Company, DART

Exhibit 4: SOTP valuation table

Particular	Per share value
Core business EPS FY23E (Multiple 16x)	537
Subsidiaries	
Tech Mahindra	94
MMFS	26
Mahindra Lifespace	3
Mahindra Holidays	9
Swaraj Engines	3
MCIE	13
Mahindra Logistics	7
Total valuation for Subs and others with 25% discounts	155
Price (INR)	692

Source: Company, DART

Key conference call highlights

Outlook

- Industry outlook is positive for the tractor segment given the spike in government spending and good monsoon. Capacity utilization is at >90% (June and July) for tractor segment and expected to improve led by resolving supply side constraints. The management expects the supply-chain and raw material supplies to stabilize in the next one or two months.
- Automotive demand trend is also encouraging, led by increasing mix for rural sales. Rural share was about 62% in Q1FY21 versus ~50% in the previous quarter. However removing supply-side constraints is a near term challenge. Capacity utilization is low near~50-60%.
- Management reiterated to follow its strict capital allocation norms with the focus remaining on the road to 18% RoE. No major capital investments will be done without assessing cash flow visibility and a clear path to 18% RoE.

Automotive division

- In the Automotive division, current capacity utilisation is at ~50-60% (June and July), management expect it will Improve to 100% over the next three-four months. Personal mobility is driving demand for smaller vehicles, but going ahead demand for bigger vehicles will also improve, as customers may prefer social distancing in their personal vehicles.
- SCV demand is picking up well due to last mile connectivity for goods, SCV ambulance demand is also very strong but unable to meet as supply constraint.
- Strong rural demand is leading to movement of goods and driving pick up demand.
- Bolero, Scorpio and the pick-ups have witnessed a sharp recovery in volume from June onwards led by strong retail in key states like Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan. The key new launches ahead are -New Thar (October), W601 (Q1FY22), Z101 (Q3FY22).
- Rural demand has not seen any major shift to gasoline vehicles; however, urban demand has seen some shift to gasoline engines where M&M is, offering vehicles like XUV300 in petrol engines (~35% of volumes) to cater to this demand. Diesel share has decreased to 44% in 1Q vs 50% in previous quarter for UV industry

Tractor division

- In tractors, MM Market lost market share, stood at 39.1% in Q1FY21 versus 41.2% Q4FY20 led by supply constraints. Expect the company to regain its lost market share once supply issues are resolved. Industry outlook is positive, given the record output of the Rabi crop and a good monsoon.
- With labour shortage, mechanisation has accelerated; M&M intends to leverage this demand.
- Reduction in various other expenses such as travel cost, marketing cost helped to achieve higher margin in FES segment

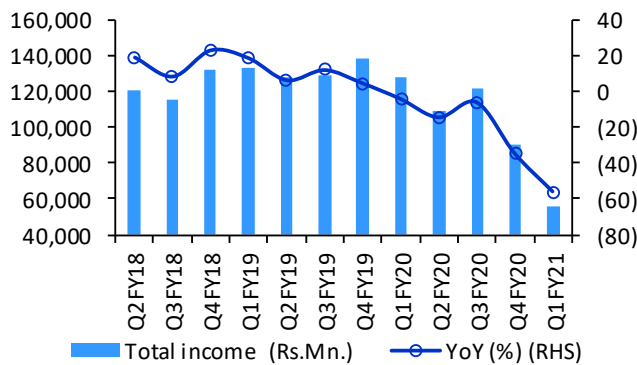
Others

- Jawa (2W) took longer in transition for BSVI as there were some supply side issues with certain Pune-based suppliers. However, most of these have been resolved now. Underlying demand outlook is strong.

- The management is looking to bring down its stake to below 50% in Ssangyong Motors and in talks with potential investors; M&M will not provide any fresh funding to SsangYong except the existing commitment.
- MAGNA 's (US division) tractor retail sales grew 15% YoY.
- Total system inventory (Tractor + Automotive) has decreased to lowest in three years.
- Capital expenditure in FY21 is likely to be 10-15% lower than FY20.
- MVML merger is on track expected to complete the process in 2-3 months. Ford JV planning is also under process however; approval is getting delayed due to lockdown.

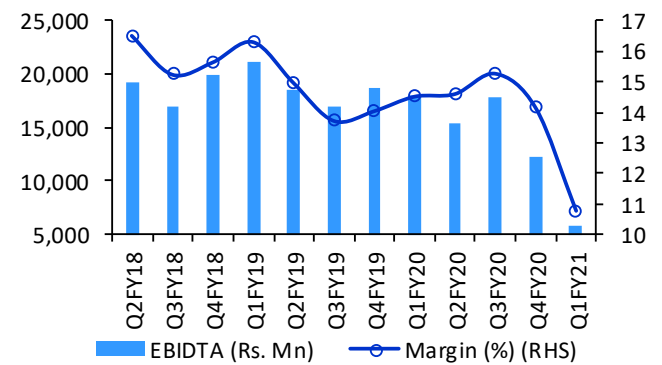
Quarterly Charts

Exhibit 5: M&M+MVML - Revenue de-grew YoY/QoQ



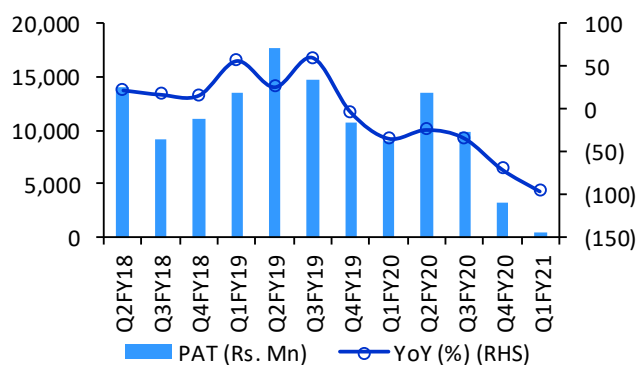
Source: DART, Company

Exhibit 6: M&M+MVML Margin contracted YoY/QoQ



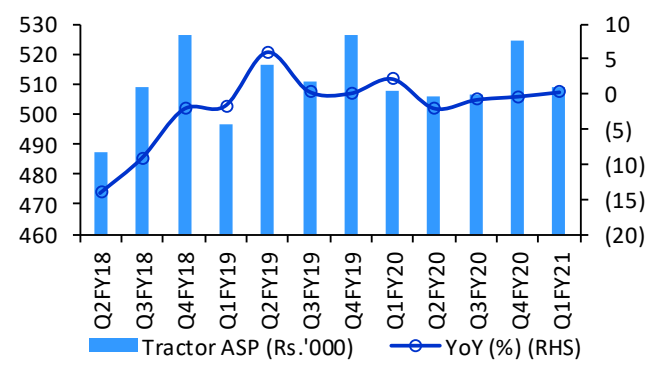
Source: DART, Company

Exhibit 7: Net Profit slid YoY/QoQ

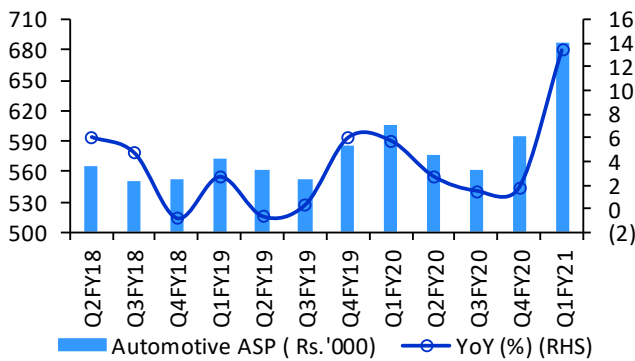


Source: DART, Company

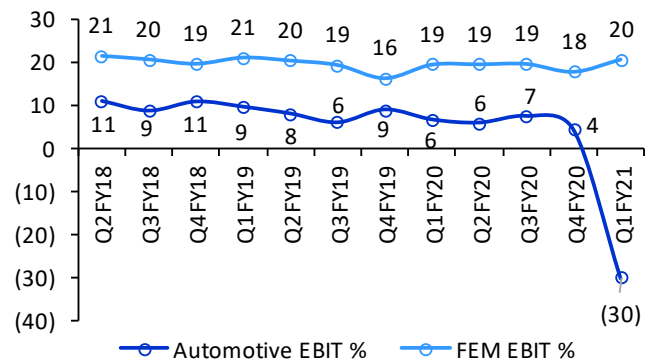
Exhibit 8: FES Realization fall QoQ



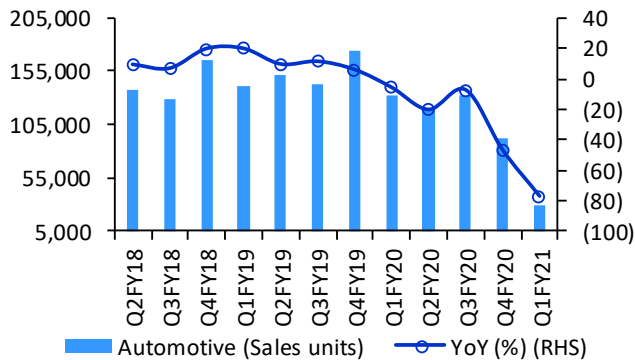
Source: DART, Company

Exhibit 9: Automotive Realization improve YoY


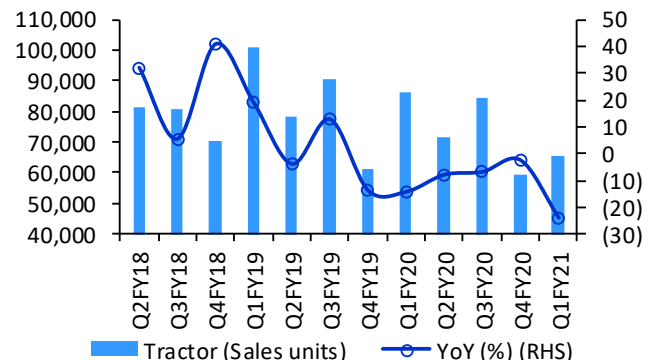
Source: DART, Company

Exhibit 10: Automotive & FEM EBIT margin %


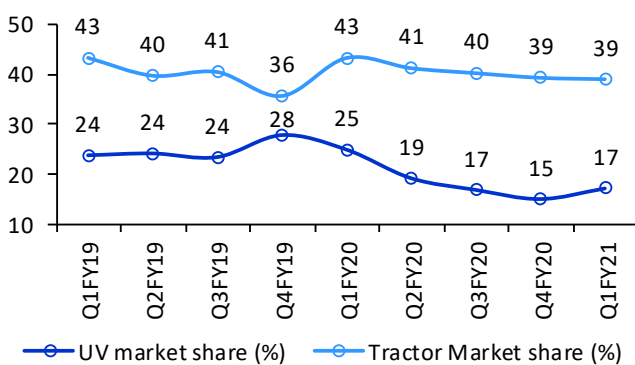
Source: DART, Company

Exhibit 11: Automotive volume declined due to lockdown


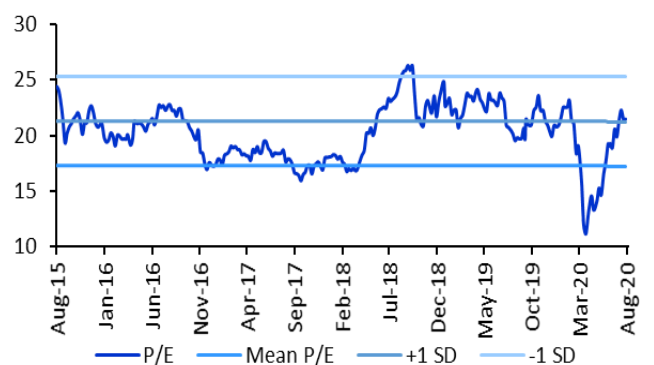
Source: DART, Company

Exhibit 12: Tractor volume de-grew by 24% (YoY)


Source: DART, Company

Exhibit 13: UV & Tractor market share (%)


Source: DART, Company

Exhibit 14: PE Band 1 yr forward


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	4,48,655	3,95,002	4,74,447	5,42,365
Total Expense	3,85,150	3,43,651	4,05,653	4,61,553
COGS	2,98,668	2,64,651	3,15,508	3,60,673
Employees Cost	32,237	27,650	31,788	35,796
Other expenses	54,245	51,350	58,357	65,084
EBIDTA	63,506	51,350	68,795	80,812
Depreciation	23,631	24,475	25,070	26,920
EBIT	39,875	26,876	43,725	53,893
Interest	1,245	1,374	1,284	1,194
Other Income	15,391	14,622	15,791	17,055
Exc. / E.O. items	(28,111)	0	0	0
EBT	25,910	40,123	58,233	69,754
Tax	18,513	10,231	14,849	17,787
RPAT	7,397	29,892	43,384	51,967
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	35,509	29,892	43,384	51,967

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	5,965	5,965	5,965	5,965
Minority Interest	0	0	0	0
Reserves & Surplus	3,40,326	3,59,651	3,91,224	4,30,137
Net Worth	3,46,291	3,65,616	3,97,189	4,36,102
Total Debt	31,530	29,530	27,530	25,530
Net Deferred Tax Liability	15,068	15,068	15,068	15,068
Total Capital Employed	3,92,889	4,10,214	4,39,787	4,76,700

Applications of Funds

Net Block	1,20,511	1,30,511	1,40,511	1,50,511
CWIP	48,582	48,582	48,582	48,582
Investments	1,75,329	1,83,329	1,93,329	2,03,329
Current Assets, Loans & Advances	1,73,757	1,79,735	2,06,001	2,37,365
Inventories	40,408	35,821	42,765	50,373
Receivables	29,012	28,491	34,222	39,121
Cash and Bank Balances	42,365	44,482	47,432	54,051
Loans and Advances	6,511	7,162	8,237	9,472
Other Current Assets	55,460	63,779	73,346	84,347
Less: Current Liabilities & Provisions	1,25,290	1,31,943	1,48,636	1,63,087
Payables	72,006	77,593	93,200	1,06,541
Other Current Liabilities	53,284	54,350	55,437	56,546
sub total				
Net Current Assets	48,466	47,791	57,365	74,278
Total Assets	3,92,889	4,10,214	4,39,787	4,76,700

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	33.4	33.0	33.5	33.5
EBIDTA Margin	14.2	13.0	14.5	14.9
EBIT Margin	8.9	6.8	9.2	9.9
Tax rate	71.5	25.5	25.5	25.5
Net Profit Margin	1.6	7.6	9.1	9.6
(B) As Percentage of Net Sales (%)				
COGS	66.6	67.0	66.5	66.5
Employee	7.2	7.0	6.7	6.6
Other	12.1	13.0	12.3	12.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	32.0	19.6	34.1	45.1
Inventory days	33	33	33	34
Debtors days	24	26	26	26
Average Cost of Debt	4.3	4.5	4.5	4.5
Payable days	59	72	72	72
Working Capital days	39	44	44	50
FA T/O	3.7	3.0	3.4	3.6
(D) Measures of Investment				
AEPS (Rs)	28.6	24.0	34.9	41.8
CEPS (Rs)	47.6	43.7	55.1	63.5
DPS (Rs)	12.5	8.5	9.5	10.5
Dividend Payout (%)	43.7	35.4	27.2	25.1
BVPS (Rs)	278.5	294.1	319.5	350.8
RoANW (%)	2.1	8.4	11.4	12.5
RoACE (%)	9.5	7.8	10.5	11.6
RoAIC (%)	11.4	7.5	11.5	13.2
(E) Valuation Ratios				
CMP (Rs)	600	600	600	600
P/E	21.0	25.0	17.2	14.4
Mcap (Rs Mn)	7,46,475	7,46,475	7,46,475	7,46,475
MCap/ Sales	1.7	1.9	1.6	1.4
EV	7,35,640	7,31,524	7,26,573	7,17,954
EV/Sales	1.6	1.9	1.5	1.3
EV/EBITDA	11.6	14.2	10.6	8.9
P/BV	2.2	2.0	1.9	1.7
Dividend Yield (%)	2.1	1.4	1.6	1.7
(F) Growth Rate (%)				
Revenue	(15.1)	(12.0)	20.1	14.3
EBITDA	(15.7)	(19.1)	34.0	17.5
EBIT	(27.9)	(32.6)	62.7	23.3
PBT	(62.9)	54.9	45.1	19.8
APAT	(34.5)	(15.8)	45.1	19.8
EPS	(34.5)	(15.8)	45.1	19.8

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	39,457	58,532	63,114	69,786
CFI	(27,720)	(42,475)	(45,070)	(46,920)
CFF	(10,429)	(13,941)	(15,094)	(16,247)
FCFF	(8,297)	24,057	28,045	32,867
Opening Cash	38,320	42,365	44,481	47,432
Closing Cash	42,365	44,481	47,432	54,051

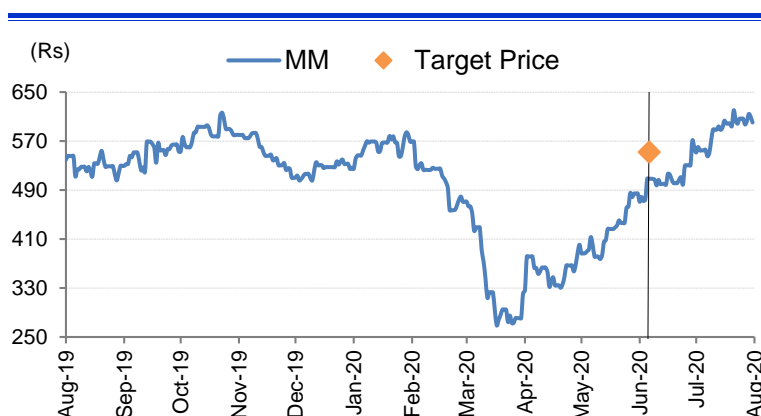
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Accumulate	552	508

*Price as on recommendation date

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