

Mahindra & Mahindra (MM IN)

Rating: BUY | CMP: Rs620 | TP: Rs728

November 10, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	728		703	
Sales (Rs. m)	5,15,432	5,77,153	5,07,493	5,74,867
% Chng.	1.6	0.4		
EBITDA (Rs. m)	64,465	73,779	62,992	73,357
% Chng.	2.3	0.6		
EPS (Rs.)	35.3	40.2	34.1	39.9
% Chng.	3.6	0.7		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	455	455	515	577
EBITDA (Rs. bn)	58	64	64	74
Margin (%)	12.7	14.0	12.5	12.8
PAT (Rs. bn)	22	40	42	48
EPS (Rs.)	18.4	33.3	35.3	40.2
Gr. (%)	(54.6)	81.3	6.2	13.7
DPS (Rs.)	2.4	8.0	10.0	12.0
Yield (%)	0.4	1.3	1.6	1.9
RoE (%)	6.4	11.2	11.0	11.6
RoCE (%)	9.7	10.2	9.7	10.4
EV/Sales (x)	1.5	1.5	1.4	1.2
EV/EBITDA (x)	12.2	11.0	10.9	9.4
PE (x)	33.8	18.6	17.5	15.4
P/BV (x)	2.1	2.0	1.9	1.7

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.667 / Rs.245
Sensex / Nifty	43,278 / 12,631
Market Cap	Rs.770bn/ \$ 10,385m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.7177.41m

Shareholding Pattern (%)

Promoter's	23.80
Foreign	34.72
Domestic Institution	30.68
Public & Others	10.80
Promoter Pledge (Rs bn)	1.95

Stock Performance (%)

	1M	6M	12M
Absolute	(2.1)	60.2	6.8
Relative	(8.4)	17.2	(0.5)

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Farm segment drive performance

Quick Pointers:

- Farm segment (FES) EBIT margins at record 24.4% (+5% YoY). **Global FES subs turned EBIT positive.**
- FY21 domestic tractor industry growth guidance at 10-12% (v/s 5% earlier).

M&M's 2QFY21 results exceeded our expectations with record EBITDA margins delivery by M&M+MVML's at 17.8% (+370bp YoY, PLe ~14%). The beat was led by strong performance in FES. EBIT margins for FES was recorded at 24.4% (+5% YoY) led by operating leverage and cost controls. In 2QFY21, with focus on prudent capital allocation, M&M exited Gipps Aerospace business (Aircraft manufacturing division). Also it was able to turn around key global FES subs to EBIT positive (2Q contribution positive at Rs30m v/s loss of Rs560m YoY).

We are positive on MM as 1) better rural sentiments should help drive FES and auto segments over FY21-23 and 2) continued focus on exiting non core/loss making business bode well for re-rating. We increase FY21/22/23 EPS by 16%/4%/1% and built in EBITDA/PAT CAGR of 12.6%/19% over FY21-23E. We maintain BUY with revised SoTP based price target of Rs728 (v/s Rs703). The revision in TP is primarily led by increase in subs value to Rs180 (v/s Rs152 earlier, unchanged at 40% hold-co).

- Operational beat led by FES:** MM+MVML revenue came-line at Rs115.9bn (+6% YoY) led by 9.5% YoY growth in ASP at Rs625.6k/unit (PLe Rs611.3k) partially offset by volume decline of 3% YoY. EBITDA grew 33.5% YoY at Rs20.6bn (PLe Rs15.7bn) with margins at 17.8% (PLe 13.8%).
- Adj PAT aided by better operational performance** - M&M has provided impairment charges of Rs11.5bn for long term investments made in overseas FES and auto subs. Adj PAT came in at Rs10.5b (PLe Rs10.8b, -23% YoY).
- Auto margins turned positive, FES at record high:** Auto PBIT came in at Rs4.1bn (EBIT% at 6.5% v/s 5.8% in Q2FY20) while tractor PBIT was at Rs11.8bn with EBIT margins improved by 510bp YoY at 24.4%. Expansion in tractor margins was largely led by lower advertisement spends/discounts as demand exceeded supply. Going forward believe large part of the cost saving to sustain.
- Key takeaways from the con-call:** 1) Outlook – Tractor growth guidance for FY21 increased to lower double digit (v/s 7-9% earlier). 2) Expect heavy channel filling to start post mid of Nov as system inventory is low both in FES and Autos. 3) **Global FES-** MAgNA market share improved by 80bp while retails up by 41%. Brazil/Mexico seeing good growth while turnaround visible in Turkey. 5) **Have announced exit from Gipps Aerospace** business. Also, MM has largely provided impairments against loss making subsidiaries. 6) **Thar** has received positive response with ~20k so far. Well accepted in urban markets too with 44% booking coming for AMT.

Exhibit 1: SOTP valuation

	FY21E	FY22E	FY23E
Core EPS (excl. subsidiary dividend)	37.0	37.0	42.5
PE attributable (x)	14	14	14
Value of core business	511	511	586
Value of subsidiaries @ Hold Co discount	40	40	40
1. Tech Mahindra	106	106	106
2. M&M Financial Services	21	21	21
3. Mahindra Lifespaces	4	4	4
4. Mahindra Holidays	15	15	15
5. Ssangyong	15	15	15
6. Mahindra CIE	3	3	3
7. CIE Automotive Spain	9	9	9
8. Mahindra Logistics	8	8	8
Target price	690	691	766

Source: Company, PL

Exhibit 2: Q2FY21 Result Overview (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	H1FY21	H1FY20	YoY gr. (%)
Net Revenues	1,17,105	1,10,761	5.7	56,022	1,73,126	2,39,988	(27.9)
Raw Materials	80,923	76,571	5.7	37,882	1,18,805	1,68,162	(29.4)
<i>% of Net Sales</i>	<i>69.1</i>	<i>69.1</i>		<i>67.6</i>	<i>68.6</i>	<i>70.1</i>	
Personnel	7,012	7,188	(2.5)	6,780	13,792	15,029	(8.2)
<i>% of Net Sales</i>	<i>6.0</i>	<i>6.5</i>		<i>12.1</i>	<i>8.0</i>	<i>6.3</i>	
Manufacturing & Other Exp	10,272	12,892	(20.3)	5,868	16,140	26,460	(39.0)
<i>% of Net Sales</i>	<i>8.8</i>	<i>11.6</i>		<i>10.5</i>	<i>9.3</i>	<i>11.0</i>	
Total Expenditure	98,206	96,651	1.6	50,530	1,48,737	2,09,650	(29.1)
EBITDA	18,898	14,110	33.9	5,492	24,390	30,337	(19.6)
<i>EBITDA Margin (%)</i>	<i>16.1</i>	<i>12.7</i>	<i>3.4</i>	<i>9.8</i>	<i>14.1</i>	<i>12.6</i>	
Depreciation	5,545	5,399	2.7	5,484	11,029	10,853	1.6
EBIT	13,354	8,711	53.3	8	13,361	19,485	(31.4)
Interest Expenses	1,091	502	117.3	669	1,760	774	127.6
Non-operating income	3,926	8,277	(52.6)	1,278	5,204	11,469	(54.6)
Extraordinary Income	-11,495	0		643	-10,851	13,671	(179.4)
PBT	4,693	16,486	(71.5)	1,260	5,954	43,850	(86.4)
Tax-Total	3,922	4,360	(10.1)	139	4,061	8,586	(52.7)
<i>Tax Rate (%) - Total</i>	<i>83.6</i>	<i>26.4</i>	<i>215.9</i>	<i>11.0</i>	<i>2.3</i>	<i>3.6</i>	<i>(34.4)</i>
Reported PAT	772	12,126	(93.6)	1,121	1,893	35,264	(94.6)
Adj. PAT	12,267	12,126	1.2	549	12,815	23,705	(45.9)

Source: Company, PL

Exhibit 3: Operating Metrics

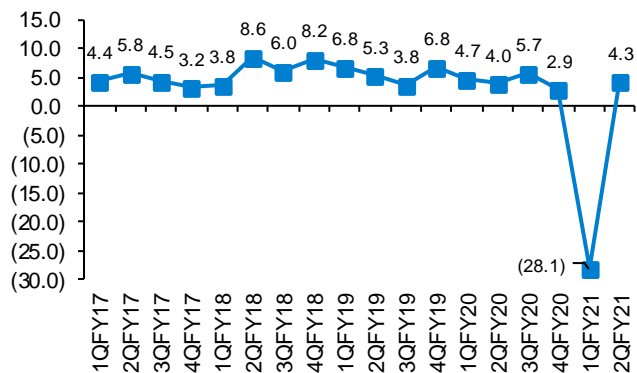
Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	H1FY21	H1FY20	YoY gr. (%)
Sales Volume (nos)	1,85,270	1,91,390	(3.2)	95,308	2,80,578	4,09,429	(31.5)
Net Realisation/Vehicle	6,32,075	5,78,716	9.2	5,87,797	6,17,035	5,86,152	5.3
Material cost / vehicle	4,36,785	4,00,077	9.2	3,97,464	4,23,428	4,10,723	3.1
Gross Profit / vehicle	1,95,291	1,78,639	9.3	1,90,333	1,93,607	1,75,429	10.4
Employee cost /vehicle	37,845	37,555	0.8	71,142	49,156	36,707	33.9
Other expenses / vehicle	55,441	67,360	(17.7)	61,572	57,524	64,626	(11.0)
EBITDA/vehicle	1,02,004	73,723	38.4	57,620	86,927	74,097	17.3
Net Profit/vehicle	66,209	63,358	4.5	5,758	45,674	57,898	(21.1)

Source: Company, PL

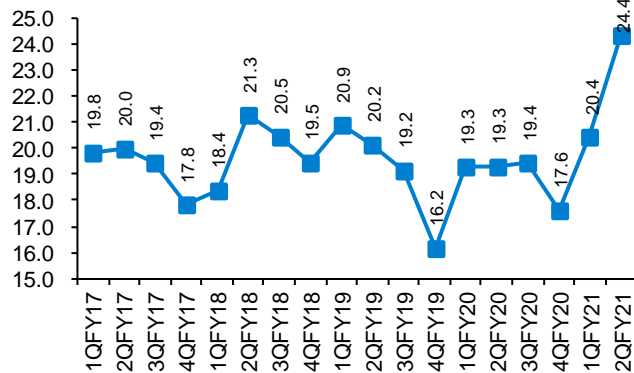
Exhibit 4: Segmental Breakup (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)
Revenue					
Auto	64,722	70,297	(7.9)	20,518	215.4
Farm Equipment's	48,354	36,315	33.2	33,408	44.7
Others	4,455	4,873	(8.6)	2,205	102.0
PBIT					
Auto	2,757	2,778	(0.7)	-5,761	NA
Farm Equipment's	11,795	7,019	68.1	6,823	72.9
Others	127	183	(30.7)	-54	NA
PBIT Margins					
Auto	4.3%	4.0%	0.3	-28.1%	(115.2)
Farm Equipment's	24.4%	19.3%	5.1	20.4%	19.4
Others	2.8%	3.8%	(0.9)	-2.4%	(216.7)

Source: Company, PL

Exhibit 5: Auto PBIT margins turned positive at 4.3%


Source: Company, PL

Exhibit 6: FES PBIT margins at record level of 24.4%


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	4,54,878	4,55,460	5,15,432	5,77,153
YoY gr. (%)	(15.2)	0.1	13.2	12.0
Cost of Goods Sold	3,16,326	3,14,268	3,61,833	4,04,584
Gross Profit	1,38,552	1,41,193	1,53,599	1,72,569
Margin (%)	30.5	31.0	29.8	29.9
Employee Cost	28,801	29,665	31,148	32,705
Other Expenses	51,771	47,596	57,986	66,084
EBITDA	57,981	63,932	64,465	73,779
YoY gr. (%)	(12.7)	10.3	0.8	14.4
Margin (%)	12.7	14.0	12.5	12.8
Depreciation and Amortization	22,226	24,884	24,768	28,168
EBIT	35,754	39,048	39,697	45,611
Margin (%)	7.9	8.6	7.7	7.9
Net Interest	1,132	931	863	801
Other Income	16,678	17,035	18,909	20,818
Profit Before Tax	31,160	43,945	57,743	65,628
Margin (%)	6.9	9.6	11.2	11.4
Total Tax	17,855	12,305	15,591	17,720
Effective tax rate (%)	57.3	28.0	27.0	27.0
Profit after tax	13,306	31,641	42,152	47,909
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	21,905	39,709	42,152	47,909
YoY gr. (%)	(54.5)	81.3	6.2	13.7
Margin (%)	4.8	8.7	8.2	8.3
Extra Ord. Income / (Exp)	(8,600)	(8,068)	-	-
Reported PAT	13,306	31,641	42,152	47,909
YoY gr. (%)	(72.3)	137.8	33.2	13.7
Margin (%)	2.9	6.9	8.2	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,306	31,641	42,152	47,909
Equity Shares O/s (m)	1,193	1,193	1,193	1,193
EPS (Rs)	18.4	33.3	35.3	40.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,26,292	2,71,387	3,11,387	3,51,387
Tangibles	2,26,292	2,71,387	3,11,387	3,51,387
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,22,346	1,47,230	1,71,998	2,00,166
Tangibles	1,22,346	1,47,230	1,71,998	2,00,166
Intangibles	-	-	-	-
Net fixed assets	1,03,946	1,24,157	1,39,389	1,51,221
Tangibles	1,03,946	1,24,157	1,39,389	1,51,221
Intangibles	-	-	-	-
Capital Work In Progress	40,095	30,000	25,000	20,000
Goodwill	-	-	-	-
Non-Current Investments	1,77,485	1,87,485	1,97,485	2,07,485
Net Deferred tax assets	(14,082)	(14,223)	(14,365)	(14,508)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	21,897	25,000	25,000	25,000
Inventories	34,009	34,053	45,189	50,600
Trade receivables	29,990	30,028	35,304	39,531
Cash & Bank Balance	42,365	38,373	39,406	41,065
Other Current Assets	48,726	49,213	49,705	50,202
Total Assets	5,05,021	5,24,825	5,63,852	5,93,362
Equity				
Equity Share Capital	5,965	5,965	5,965	5,965
Other Equity	3,38,713	3,60,810	3,91,032	4,24,624
Total Network	3,44,679	3,66,775	3,96,997	4,30,589
Non-Current Liabilities				
Long Term borrowings	29,320	27,120	25,170	23,370
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	67,858	67,945	76,892	72,737
Other current liabilities	49,082	48,762	50,429	52,157
Total Equity & Liabilities	5,05,021	5,24,825	5,63,852	5,93,362

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	51,300	39,048	39,697	45,611
Add. Depreciation	22,226	24,884	24,768	28,168
Add. Interest	(14,327)	17,035	18,909	20,818
Less Financial Other Income	16,678	17,035	18,909	20,818
Add. Other	1,662	-	-	-
Op. profit before WC changes	60,862	80,967	83,373	94,597
Net Changes-WC	(13,260)	(810)	(7,149)	(13,445)
Direct tax	(10,823)	(12,164)	(15,448)	(17,576)
Net cash from Op. activities	36,778	67,993	60,777	63,576
Capital expenditures	(25,757)	(48,104)	(45,000)	(45,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(25,757)	(48,104)	(45,000)	(45,000)
Issue of share cap. / premium	-	1,546	1,933	2,319
Debt changes	3,289	(2,200)	(1,950)	(1,800)
Dividend paid	(11,874)	(9,544)	(11,930)	(14,316)
Interest paid	(1,570)	(2,864)	(2,796)	(2,734)
Others	-	-	-	-
Net cash from Fin. activities	(10,155)	(13,062)	(14,743)	(16,531)
Net change in cash	866	6,827	1,033	2,045
Free Cash Flow	(2,658)	32,993	25,777	28,576

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	1,23,453	91,437	56,022	1,17,105
YoY gr. (%)	(5.5)	(34.9)	(56.6)	5.7
Raw Material Expenses	86,492	61,472	37,882	80,923
Gross Profit	36,961	29,966	18,140	36,182
Margin (%)	29.9	32.8	32.4	30.9
EBITDA	16,495	11,348	5,492	18,898
YoY gr. (%)	8.7	(31.0)	(66.2)	33.9
Margin (%)	13.4	12.4	9.8	16.1
Depreciation / Depletion	5,537	5,836	5,484	5,545
EBIT	10,958	5,512	8	13,354
Margin (%)	8.9	6.0	-	11.4
Net Interest	224	335	669	1,091
Other Income	2,063	3,147	1,278	3,926
Profit before Tax	6,791	(19,480)	1,260	4,693
Margin (%)	5.5	(21.3)	2.2	4.0
Total Tax	3,725	5,544	139	3,922
Effective tax rate (%)	54.9	(28.5)	11.0	83.6
Profit after Tax	3,065	(25,024)	1,121	772
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	9,071	2,781	577	10,496
YoY gr. (%)	(20.7)	(69.8)	(95.0)	(13.4)
Margin (%)	7.3	3.0	1.0	9.0
Extra Ord. Income / (Exp)	(6,006)	(27,805)	544	(9,724)
Reported PAT	3,065	(25,024)	1,121	772
YoY gr. (%)	(71.5)	(394.8)	(95.2)	(93.6)
Margin (%)	2.5	(27.4)	2.0	0.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,065	(25,024)	1,121	772
Avg. Shares O/s (m)	1,193	1,193	1,193	1,193
EPS (Rs)	7.6	2.3	0.5	8.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	18.4	33.3	35.3	40.2
CEPS	37.0	54.1	56.1	63.8
BVPS	288.9	307.4	332.8	360.9
FCF	(2.2)	27.7	21.6	24.0
DPS	2.4	8.0	10.0	12.0
Return Ratio(%)				
RoCE	9.7	10.2	9.7	10.4
ROIC	5.0	8.8	8.4	9.0
RoE	6.4	11.2	11.0	11.6
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	(3)	(3)	3	11
Valuation(x)				
PER	33.8	18.6	17.5	15.4
P/B	2.1	2.0	1.9	1.7
P/CEPS	16.8	11.5	11.1	9.7
EV/EBITDA	12.2	11.0	10.9	9.4
EV/Sales	1.5	1.5	1.4	1.2
Dividend Yield (%)	0.4	1.3	1.6	1.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Tractor Volumes	3,01,915	3,26,068	3,42,372	3,59,490
Auto volumes	4,70,946	3,98,359	4,45,869	4,89,100

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	BUY	703	633
2	09-Aug-20	BUY	703	600
3	14-Jul-20	Hold	531	545
4	11-Jul-20	Hold	531	555
5	14-Jun-20	Hold	498	508
6	09-Apr-20	Hold	420	381
7	11-Feb-20	Hold	600	524
8	03-Jan-20	Hold	593	533

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	100	84
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	446	466
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,291	2,218
6	Exide Industries	BUY	191	164
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	703	633
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	139	121
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

PL's Recommendation Nomenclature (Absolute Performance)

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

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