



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 754	
Price Target: Rs. 872	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

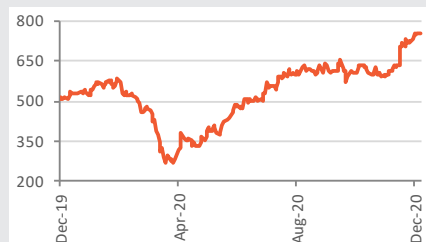
Company details

Market cap:	Rs. 93,842 cr
52-week high/low:	Rs. 764 / 246
NSE volume: (No of shares)	65.5 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	100.8 cr

Shareholding (%)

Promoters	19.9
FII	34.2
DII	24.6
Others	21.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	23.1	24.0	60.2	47.0
Relative to Sensex	13.1	3.8	26.1	33.1

Sharekhan Research, Bloomberg

Automobiles

Sharekhan code: M&M

Company Update

Summary

- We maintain a Buy on Mahindra and Mahindra (M&M) with a revised PT of Rs. 872, factoring higher multiples and higher value of subsidiaries.
- We expect M&M to benefit from leadership position in tractor segment, strengthening position in LCV segment and steady market share in UV segment.
- Concrete steps to achieve 18% RoE from all businesses, by exiting loss-making subsidiaries and focusing on core businesses make a case for re-rating stock.
- M&M attractively valued with P/E multiple of 17.7x and EV/EBITDA multiple of 9.4x its FY2023E estimates; it trades at a discount to long-term average multiples.

We expect M&M to benefit from its leadership position in the tractor space (40% share), strengthening position in LCV segment and a steady market share in UV segment. For tractors, the farm sector is expected to remain buoyant, driven by good monsoon and higher crop output. The tractor business has high ROCEs that will help M&M improve overall return ratios. M&M also leads in the LCV space with an over 45% market share and a greater than 65% share in the 2-3.5T LCV category. We expect M&M to further consolidate market share in the overall LCV segment. The demand in the sector is likely to be driven by higher demand for short distance movement of goods. In the UV market, we expect M&M's growth to be driven by new launches in a highly competitive markets. M&M's collaboration with Ford Motors in the utility vehicles space would see the company launch products in the B and C segments of SUVs, which would further strengthen its position in the UV segment. Moreover, M&M would gain from a rise in LCV demand as it has a strong market share in this space. Concrete steps to achieve 18% ROE, by exiting loss-making subsidiaries and focusing on core businesses will improve overall performance going ahead. We expect M&M's standalone earnings to grow at 28.8% y-o-y in FY22E and 15.4% y-o-y in FY23E, driven by 15.5% CAGR during FY2021-FY2023E in revenues and 60 bps increase in operating profit margin.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 872: We expect M&M to benefit from its leadership position in tractor segment, strengthening its position in the LCV segment and defending its market share in a highly competitive UV segment. Going ahead, M&M's strategy revolves around tighter capital allocation, exiting loss-making subsidiaries and focusing on emerging businesses. The company has started to take concrete steps to achieve an 18% RoE from all its businesses makes a strong case for re-rating of stock. Our SOTP-based valuation provides a price target of Rs. 872 for M&M. The stock is attractively valued with P/E multiple of 17.7x and EV/EBITDA multiple of 9.4x its FY2023E estimates, and is at a discount to its long-term average multiples. We recommend a Buy on the stock.

Key Risks

A second wave of COVID-19 can lead to slow down in the economic activities and thus can impact earnings of the company. Also, A steep rise in metal prices can impact profitability.

Valuation (M&M+MVML)

	Rs cr				
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue (Rs cr)	52,848	44,866	43,312	51,957	57,840
Growth (%)	11.1	(15.1)	(3.5)	20.0	11.3
EBITDA (Rs cr)	7,530	6,351	6,298	7,796	8,711
EBITDA margin (%)	14.2	14.2	14.5	15.0	15.1
PAT (Rs cr)	5,424	3,551	3,553	4,577	5,283
Growth (%)	29.5	(34.5)	0.1	28.8	15.4
FD EPS (Rs)	43.6	28.6	28.6	36.8	42.5
P/E (x)	17.3	26.4	26.4	20.5	17.7
P/B (x)	2.7	2.7	2.5	2.3	2.2
EV/EBITDA (x)	11.5	14.0	14.1	11.0	9.4
ROE (%)	15.5	10.2	9.6	11.4	12.2
ROCE (%)	18.1	14.0	11.9	13.8	14.7

Source: Company; Sharekhan estimates

Beneficiary of better traction in farm sector: We believe M&M will benefit from buoyant demand from the farm sector, driven by good monsoon and higher crop production. In the past Rabi season crop registered a significant 7% rise, reflected in higher tractor sales. We expect Tractor industry to grow in double-digit in FY2021. Higher ground water reservoir levels coupled with robust farmer cash flows would mean tractor demand would remain buoyant in FY2022 as well. M&M is the market leader in tractors with over 40% market share. The tractor segment contributes 34% for of the standalone revenues and over 50% of profits. The tractor have high ROCEs, that will benefit M&M in improve overall return ratios, given buoyant demand in the tractor segment. In the tractor segment, M&M launched 'XP Plus' range of tractors in both Bhoomiputra and Sarpanch range of tractors. Also, M&M mentioned in the that international subsidiaries in the farm equipment segment have turned profitable after a long time, which is a positive development.

Share in LCV space to further strengthen: M&M is also the market leader in LCVs with over 45% market share overall and greater than 65% share in the 2-3.5T LCV category. We expect M&M to further consolidate its market share in the segment. The demand in the sector is likely to be driven by higher demand for short distance movement of goods.

New launches in automotive segment to defend its market in highly competitive markets: In the automotive segment, M&M launched 'Thar' SUV. The company stated that it has received encouraging response, having garnered 20,000 bookings in one month of its launch in October 2020. Thar has attracted a whole new set of buyers with about 55% of bookings from first-time buyers. Moreover, about 44% of bookings were for the automatic variant. The company has lined up model upgrades and new launches over the next 18 months. We could expect upgrades in Thar, XUV500, Scorpio and e-XUV 300. This will help M&M to defend its market share, given the intense competition in the segment.

Latest quarterly results surprised; EBITDA margin held high: In Q2FY2021, M&M's operating performance was better than the consensus, driven by higher margins in both automotive and tractor business. Overall revenue grew by 6% y-o-y, driven by a 30% volume growth in tractors despite a decline of 23% in the automobile segment. Margins beat our estimates of 14.5%. Automotive EBIT margin improved by 70 bps y-o-y to 6.5% , while tractor EBIT margins were at an all-time high of 24.4%, improving by 510 bps y-o-y. Operating leverage due to strong topline growth and cost-control measures led to better margins for tractors.

Company guidance: M&M expects the tractor industry to grow in low double-digit in FY21. The industry has grown by 12% in YTD FY2021 (April 2020 to October 2020). The management expects the trend of double-digit growth to sustain and has raised FY2021 guidance from mid-single digit growth earlier to 12%. With good farmer cashflows and high water reservoir levels (reservoir capacity stands at 86% of live capacity at the end of September 2020 as compared to 10-year LPA of 75%), M&M expects tractor demand to be buoyant in FY2022 as well.

The automotive segment is also witnessing improvement in demand, with volume drop narrowing to 23% y-o-y in Q2FY2021 as compared to 78% y-o-y in Q1FY2021. With successful new launches (Thar SUV, which has strong backlog) and sub-optimal inventory, we expect automotive demand to continue to improve. We expect a strong recovery in FY2022, driven by normalisation of economic activity and continued new launches.

Capital allocation and investments

M&M remains committed on firm capital allocation and its path towards achieving 18% ROE and has announced its exit from the loss-making aircraft business in Australia (Gipps Aerospace). M&M has earlier announced no further investment in loss-making Ssangyong, exit from overseas tractor assembly business (Genze), and non-participation in large postal bid in USA (MANA). This would further substantially reduce losses in overseas subsidiaries and act as a key re-rating trigger for M&M.

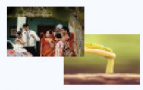
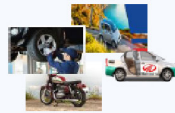
Steps taken towards 18% ROE

	SYMC ...	No further investment
	GENZE ... (Mahindra Tractor Assembly)	Exit announced
	MANA ... (Mahindra Automotive NA)	No USPS Bid
	Gipps Aerospace ...	Exit announced

Source: Company Data; Sharekhan Research

In another step, M&M is exiting two of its loss-making subsidiaries - Mahindra First Choice Services Ltd (MFCSL) and Auto Digitech Pvt. Ltd. (ADPL), in a share swap transaction. Mahindra Holdings Ltd (MHL), a subsidiary of M&M and holding company of MFCSL & ADPL, is selling its stake in MFCSL & ADPL to TVS Automobile Solutions Pvt. Ltd. for a consideration of Rs. 35 crore (Rs. 21.5 crore for MFCSL and Rs. 13.5 crore for ADPL). MFCSL has annual revenue of ~Rs. 106 crore and a negative net worth of Rs. 53 crore.

M&M sees huge potential in its ten jewel companies

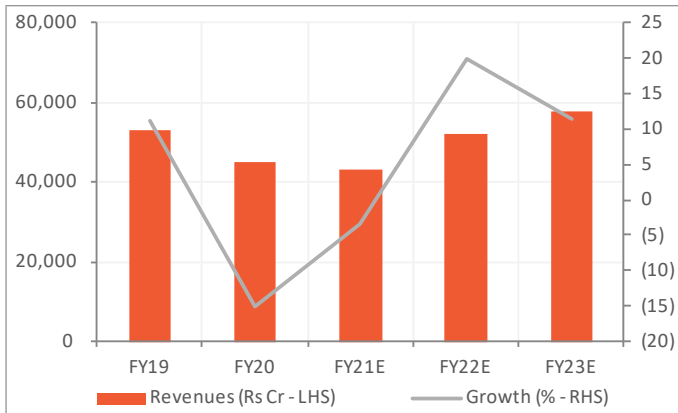
		F20 Revenue	F20 PAT
Clean Energy			
	Susten Group	2,231	20
Rural & Fin Services			
	Rural Housing Finance	1,528	149
	Agri Sector	1,277	(51)
Infra & Technology			
	Powerol	1,517	102
	Accelo Group	1,361	26
	Bristlecone Group	701	40
Mobility			
	Aftermarket Group	491	(39)
	Classic Legends	411	(6)
	Electric	279	(55)
	Shared mobility Group	506	(14)
	Total	10,302	172

Source: Company Data; Sharekhan Research

Strong broad-based recovery; expect double-digit growth in FY22: We expect M&M's standalone earnings to grow at 28.8% y-o-y in FY22E and 15.4% y-o-y in FY23E, driven by 15.5% CAGR during FY2021-FY2023E in revenues and a 60 bps increase in operating profit margin.

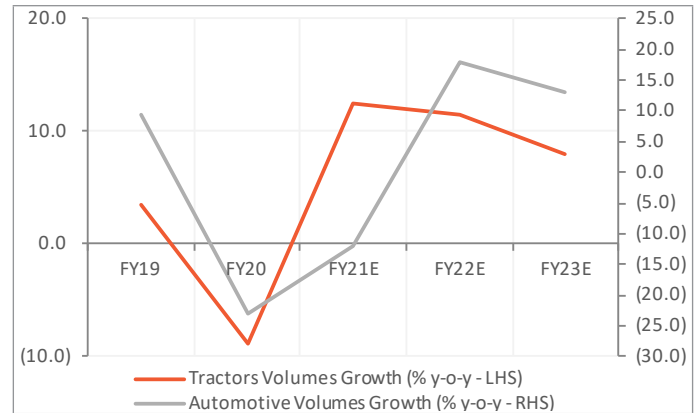
Financials (M&M+MVML) in Charts

Revenue and growth trend



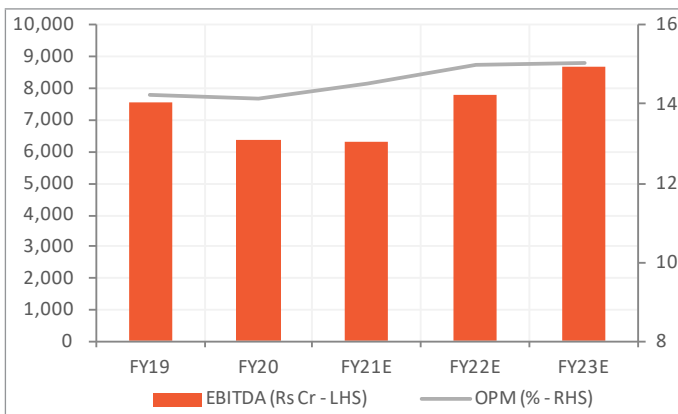
Source: Company, Sharekhan Research

Volume growth trend – Tractors & Automotive segment



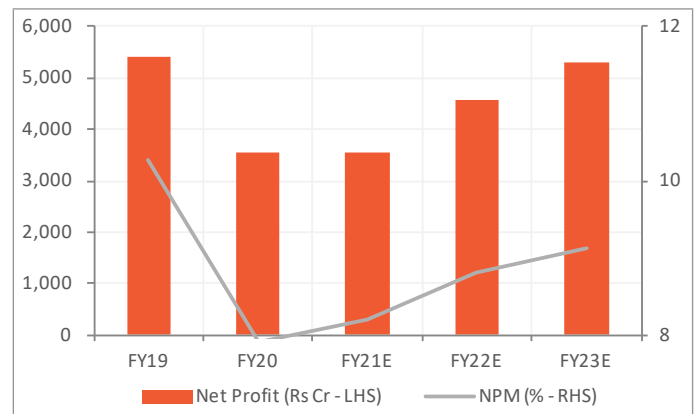
Source: Company, Sharekhan Research

EBITDA and OPM trend



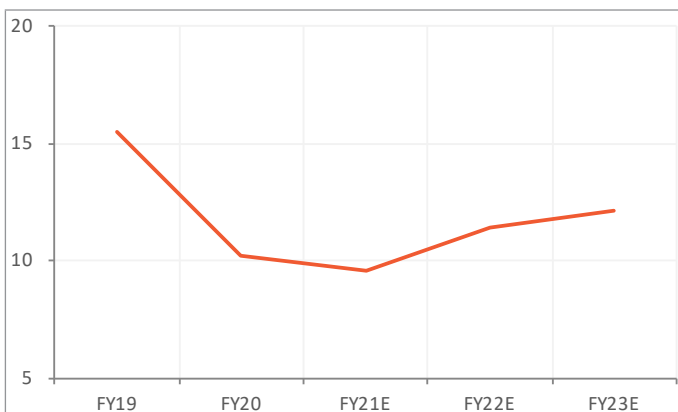
Source: Company, Sharekhan Research

Net profit and growth trend



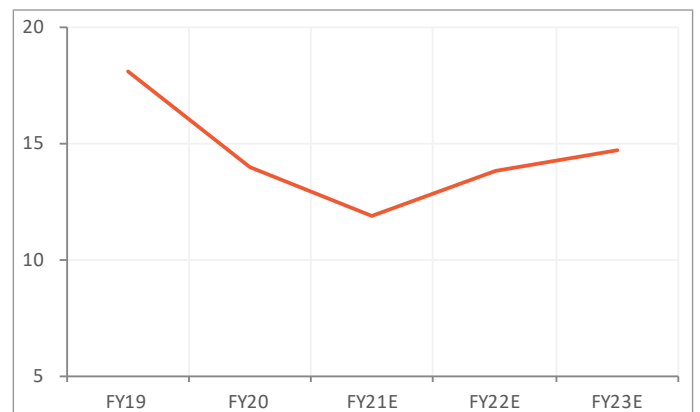
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook - Demand picking up in automotive and industrial sector

The domestic tractor industry is the only segment reporting growth on a y-o-y basis in H1FY2021 as the agricultural sector has been relatively less impacted by COVID-19. Good monsoons and higher kharif sowing have boosted farm sentiments, with the tractor industry growing in double digits since June 2020. The tractor industry is expected to grow in double-digits in FY2021. The PV and LCV industry have reported positive growth from August onwards. We expect a strong recovery for PV and LCV from FY2022, driven by normalisation of economic activity and pent-up demand.

■ Company outlook - Strong earnings growth

M&M is the market leader in the tractors segment, commanding a 40% market share. The company is working on lightweight compact global tractor project (named K2), which would see the launch of four new platforms. K2 would witness launch of 38 models and would further strengthen the company's position in the tractor space. M&M has one of the highest exposures to the rural markets (~65% of volumes), which are expected to be less impacted by the on-going impact of COVID-19.

M&M's collaboration with Ford in utility vehicles would see the company launch products in the B and C segment of SUVs, which would strengthen its position in the utility vehicle segment. Moreover, with a strong 39% market share in LCV, M&M would gain from strong recovery in demand. Moreover, tighter capital-allocation strategy of no fund infusion in businesses with an unclear path to profitability would significantly improve the overall performance and act as a key re-rating trigger.

■ Valuation - Maintain Buy with a revised PT of Rs. 1,060, providing an upside room of 15%

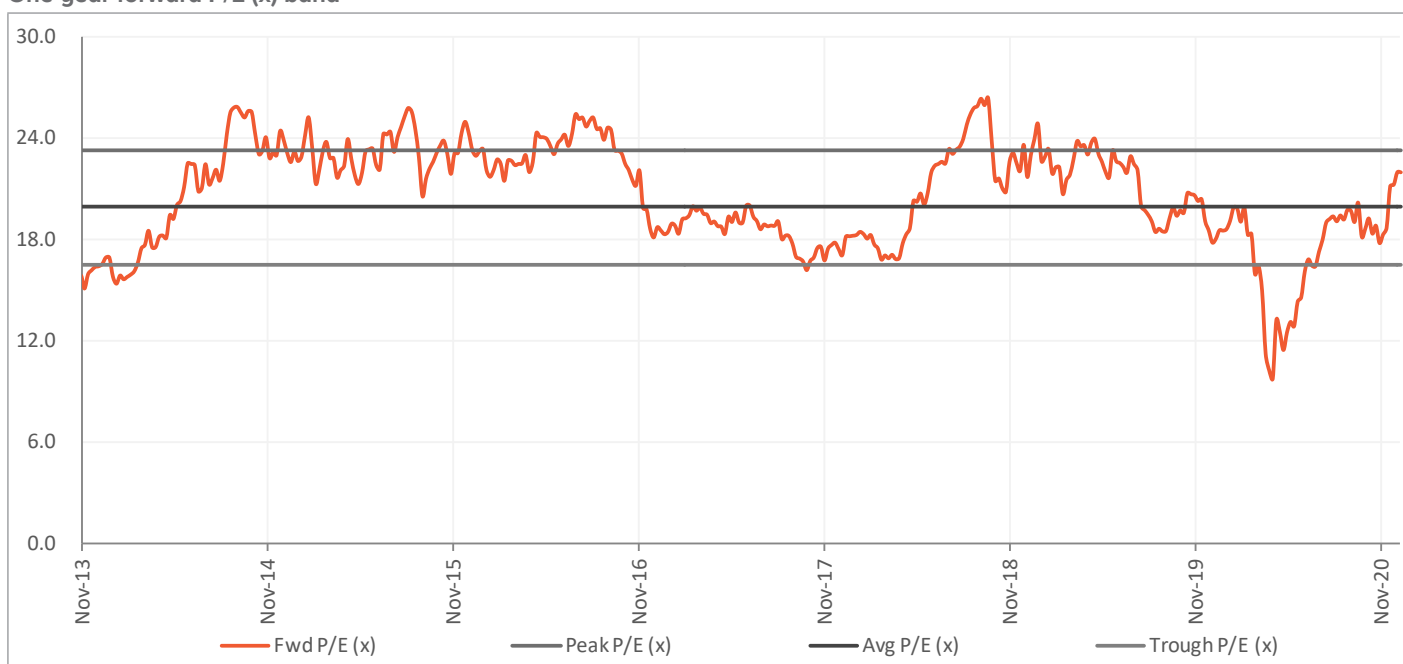
We expect M&M to benefit from its leadership position in tractor segment, strengthening its position in the LCV segment and defending its market share in a highly competitive UV segment. Going ahead, M&M's strategy revolves around tighter capital allocation, exiting loss-making subsidiaries and focusing on emerging businesses. The company has started to take concrete steps to achieve an 18% RoE from all its businesses makes a strong case for re-rating of stock. Our SOTP-based valuation provides a price target of Rs. 872 for M&M. The stock is attractively valued with P/E multiple of 17.7x and EV/EBITDA multiple of 9.4x its FY2023E estimates, and is at a discount to its long-term average multiples. We recommend a Buy on the stock.

M&M's Sum-of-Part-Valuation provide PT of Rs. 872

Business	Valuation rationale	M&M's stake (%)	Value of M&M's stake (Rs crore)	Value per share (Rs)
Core (MM+MMVL) business excl. dividend earnings from subsidiaries & associates	16x FY23E EPS	100.0	79,079	636
Value of listed subsidiaries & associates				
Tech Mahindra	Market Capitalisation	26.0	23,467	189
M&M Financial Services	Market Capitalisation	51.2	11,090	89
Mahindra Lifespaces	Market Capitalisation	51.5	892	7
Mahindra Holiday and Resorts	Market Capitalisation	67.3	1,877	15
SYMC	Market Capitalisation	74.7	2,846	23
Mahindra Logistics	Market Capitalisation	58.5	1,656	13
Swaraj Engines	Market Capitalisation	34.8	595	5
Mahindra CIE	Market Capitalisation	11.4	691	6
Value of listed subsidiaries & associates			41,829	336
Fair value of subsidiary cos @30% discount	Holding co. discount		29,280	236
Fair Value of M&M entity			1,08,359	872
CMP				754.0
Potential Upside/(downside)				15.6
ROCE (%)	14.0	11.9	13.8	14.7

Source: Company; Sharekhan estimates

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

About company

M&M is the flagship company of Mahindra Group. M&M's core business houses the automotive and tractor segment. M&M is the only automotive company that is virtually present across all segments. The company is the market leader in light commercial vehicles and is a leading utility vehicle, and 3W player. M&M also manufactures MHCV and is present in the 2W space through its investment in Jawa. Apart from being a strong player in the automotive space, M&M is the market leader in the tractor segment, having market share of about 40%. Apart from the core business, M&M is also the promoter/holds controlling interest in companies that are engaged in diverse businesses under the Mahindra brand (IT services, NBFC, logistics, hospitality, real estate, and auto ancillary business).

Investment theme

With strong farm sentiments on account of higher rainfall, expected increase in kharif output, and increased government spending, M&M has raised FY2021 tractor industry's growth forecast from mid-single digit growth earlier to 12%. Higher ground water reservoir levels coupled with robust farmer cash flows would mean tractor demand would remain buoyant in FY2022 as well. Automotive volumes are also improving with the decline narrowing to 14% y-o-y in October 2020 as compared to 78% in Q1FY2021. With the success of new launches (Thar with strong bookings) and inventory filling (automotive inventory is lower than normal), automotive demand is expected to improve further. Moreover, tighter capital-allocation strategy with focus on 18% ROE continues, with M&M announcing exit from its loss-making aircraft business in Australia (Gipps Aerospace). M&M had earlier announced no further investment in loss-making Ssangyong, exit from overseas tractor assembly business (Genze), and non-participation in large postal bid in USA (MANA). This would further substantially reduce losses in overseas subsidiaries and act as key re-rating trigger for M&M.

Key Risks

- ♦ The second wave of COVID-19 can lead to slow down in the economic activities and thus can impact earnings of the company.
- ♦ A steep rise in metal prices can impact profitability.

Additional Data

Key management personnel

Anand Mahindra	Executive Chairman
Pawan Goenka	Managing Director
Anish Shah	Deputy Managing Director & Group CFO
Rajesh Jejurikar	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL MGMT & SERVICES	11.38
2	M & M BENEFIT TRUST	6.79
3	First State Investments	4.56
4	MAHINDRA & MAHIN EMP STK OP TRST	4.06
5	SBI Funds Management Pvt Ltd	2.61
6	BlackRock Inc	2.09
7	Vanguard Group Inc	1.71
8	ICICI Prudential Asset Management	1.60
9	Republic of Singapore	1.40
10	Franklin Resources Inc	1.20

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVL R, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.