

# Mahindra & Mahindra (MM IN)

Rating: BUY | CMP: Rs732 | TP: Rs851

January 4, 2021

## Event Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	851		826	
Sales (Rs. m)	5,18,481	5,80,419	5,15,432	5,77,153
% Chng.	0.6	0.6		
EBITDA (Rs. m)	65,030	74,382	64,465	73,779
% Chng.	0.9	0.8		
EPS (Rs.)	35.7	40.5	35.3	40.2
% Chng.	1.0	0.9		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	455	458	518	580
EBITDA (Rs. bn)	58	65	65	74
Margin (%)	12.7	14.3	12.5	12.8
PAT (Rs. bn)	22	41	43	48
EPS (Rs.)	18.4	34.1	35.7	40.5
Gr. (%)	(54.6)	85.7	4.6	13.6
DPS (Rs.)	2.4	8.0	10.0	12.0
Yield (%)	0.3	1.1	1.4	1.6
RoE (%)	6.4	11.4	11.1	11.6
RoCE (%)	9.7	11.0	9.8	10.5
EV/Sales (x)	1.8	1.8	1.6	1.4
EV/EBITDA (x)	14.5	12.8	12.8	11.2
PE (x)	39.9	21.5	20.5	18.1
P/BV (x)	2.5	2.4	2.2	2.0

### Key Data

### MAHM.BO | MM IN

52-W High / Low	Rs.764 / Rs.245
Sensex / Nifty	47,869 / 14,019
Market Cap	Rs.911bn/ \$ 12,461m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.7906.06m

### 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	(0.2)	46.9	36.6
Relative	(6.9)	8.7	17.9

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## M&M-Ford JV call off – capital allocation host up

### Quick Pointers:

- MM-Ford JV call off would have no threat to new product development.
- M&M is in discussion with a potential investor for sale of SsangYong and is likely to sign the term sheet soon.

**We believe the decision of calling off JV between MM and Ford is positive given very limited scope for new product development along with sourcing related synergies ([Click here for our earlier report on MM-Ford JV](#)). In fact, amount saved from not investing (envisaged to be Rs14bn) can now be better utilized in their SUV and EV segment. On the other hand, with SsangYong (SYMC) now under ARS, MM is confident to strike a deal with potential investor by Feb end. We are assertive on MM as management has again reinforced investors that capital allocation remains the key focus (target RoE of >18). On the auto side, MM plans to sharpen focus on its core SUV products and succeed in establishing a strong presence in EV as well.**

**We expect farm and UV segment volumes to grow at ~5% and 9% CAGR over FY21-23E led by new launches. We also built in EBITDA/PAT CAGR of ~9%/12% over FY21-23E. M&M+MVML margins expected to remain elevated at ~14% over FY22-23E as tractor segment contribution remains elevated at ~44% (v/s 37% in FY18-20). We reiterate BUY with revised SoTP based price target of Rs851 (v/s Rs826, largely led by increase in subs value).**

### MM-Ford JV called off - No impact on product plans and no major write offs

- We believe calling off the JV was a positive decision for MM, given very limited scope to cap synergies and no material investment to bare legal expenses.
- **MM – Ford signed definitive agreement** for - 1) New product development in UVs, 2) EV, 3) connected mobility services and 4) engine supply for 2 SUVs (Ford model and W605). MM was to acquire 51% stake in the JV (total investments capped at Rs14bn).
- **Status of MOUs signed – no threat to IP loss** - 1) Connected mobility services (IP was jointly owned, however later called off as it couldn't make business case), 2) Engine supply for Ford Ecosport and C-SUV (W601 - IP owned by MM) and 3) product development (W605 - IP is jointly owned and will be under discussion).
- **No impact on product pipeline** - We believe the decision will not impact company's upcoming launches but will rather continue to focus on its core SUV DNA. It will also make efforts to establish leadership in last mile EV offerings (through Mahindra electric) followed by Electric SUVs.

### SsangYong (SYMC) exit – In discussion with potential investor for stake sell

- SYMC applied for an autonomous restructuring support (ARS), a court-designed process with the Seoul bankruptcy court. Under ARS, the court gave approval to SYMC to find solution on its own till 28<sup>th</sup> February and during this time the company to be managed by its management.
- **2 likely scenarios for SYMC– Scenario 1)** If the deal is through, majority ownership will be with new investor and MM will be in minority with around ~30% stake. If the deal doesn't happen then SYMC goes into court receivership and its management would be taken over by the court. **Scenario 2)** If this timeframe is not complied with, then the Court would take over and SYMC would enter into a pre-packaged bankruptcy deal.
- **M&M has a maximum financial exposure of ~Rs9.3bn** (of which Rs2.45bn was already paid in H1FY21) towards SYMC. It owes Rs6.8bn to foreign banks (with guarantee from M&M). Management expects most of the exposure to be recoverable from the SYMC transaction.
- **No impact on product line** - MM was working with SYMC on 6 powertrains - i) Gasoline (1.2L, 1.5L and 2L) and ii) Diesel (1.0L, 1.5L and 2.2L). In most of the cases, IP is solely owned by MM and in rest it is owned jointly.

### Savings from Ford JV call off to be used for new product development

- We believe both the decisions are FCF accretive as- i) Ford JV call off will reduce investments by Rs14bn and ii) SYMC divestment will result in savings of Rs6bn/quarter from Q1FY22.
- **Large part of the investment is now behind** including investment in new platforms under auto segment. Savings from not investing in the JV will now be used in EV and new product development projects.
- **MM has provided capex guidance of Rs90bn for next 3 years** (v/s Rs120bn for previous 3 year's capex cycle). Out of this, major capex will be allocated to 2 new projects i) upcoming platforms - W601 and Z101, ii) project K2 (4 new tractor platforms).

### Focus on the core SUVs and strengthening EV portfolio

- Company will continue to focus on its core SUV DNA and niche segments. It is currently working on 2 new platforms W601 and Z101 and both are expected to be launched in FY22.
- MM's recent launch Thar has total bookings of ~34k units (~50% Automatic variant) despite wait period of ~7-8 months. For the month of December, it received bookings of ~6k units.
- MM is working on strengthening its EV portfolio. This is planned in 3 phases such as 1) **Last mile-** Focusing on issues such as range anxiety, cost and infrastructure where investments are already in place and have set of good products. 2) **Electrifying current vehicles-** Investment amount is included in the current capex. 3) **Working on EV technology** (medium to long term plan) - Incremental capex will be used from JVs and FCFs generated savings.

- The company has aggressive plans to launch vehicles in the last mile connectivity segment (both passenger and cargo) through its EV subsidiary (Mahindra electric) and enter core EV-based SUV segment starting next year via standalone entity.

#### **Supply shortage of semiconductors to impact production in 4QFY21**

- Supply chain situation across the globe looks very dynamic with shortage of semiconductors. However, its impact is largely restricted to SUV segment while tractors, 3Ws, ICVs are better placed.
- Most of MM's supply issues are behind (ex of semiconductors) as overall supply chain for the month of December was better than expected with ~5% growth in SUV. Also, company is already in the process of sourcing ECUs from alternate sources.

#### **Exhibit 1: SOTP**

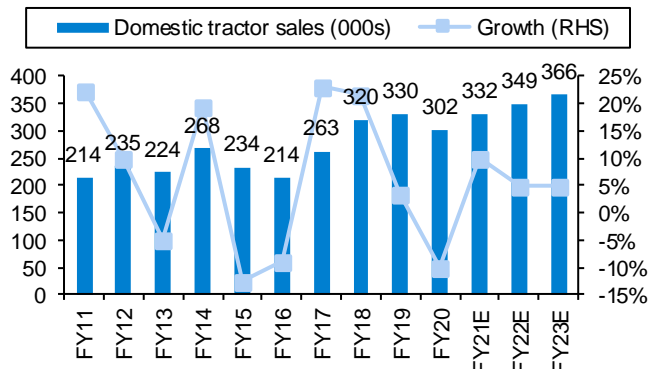
	<b>FY23E</b>
Core EPS (excl. subsidiary dividend)	42.9
PE attributable (x)	15
Value of core business	643
Value of subsidiaries @ Hold Co discount	40
1. Tech Mahindra	124
2. M&M Financial Services	26
3. Mahindra Lifespaces	5
4. Mahindra Holidays	18
5. Ssangyong	15
6. Mahindra CIE	4
7. Mahindra Logistics	9
<b>Target price</b>	<b>851</b>

Source: PL

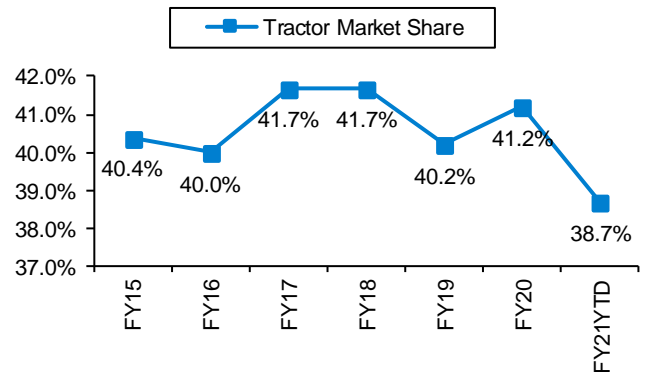
#### **Exhibit 2: Segmental performance**

<b>(Rs mn)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>1HFY21</b>
Segmental Revenue				
Auto	3,20,556	3,53,529	2,84,086	85,240
Farm Equipment	1,60,936	1,68,747	1,54,025	81,762
Others	16,541	17,251	19,377	6,660
<b>Total Revenue</b>	<b>4,98,032</b>	<b>5,39,527</b>	<b>4,57,488</b>	<b>1,73,662</b>
Segmental PBIT				
Auto	21,601	20,275	12,637	-3,003
Farm equipment	31,454	32,651	29,262	18,618
Others	509	508	726	73
<b>Total PBIT</b>	<b>53,564</b>	<b>53,433</b>	<b>42,625</b>	<b>15,688</b>
Segmental PBIT Margin				
Auto	6.7	5.7	4.4	-3.5
Farm equipment	19.5	19.3	19.0	22.8
Others	3.1	2.9	3.7	1.1
<b>PBIT Margins (%)</b>	<b>10.8</b>	<b>9.9</b>	<b>9.3</b>	<b>9.0</b>

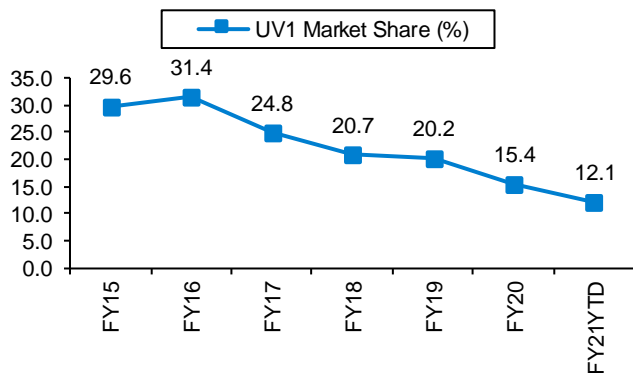
Source: PL

**Exhibit 3: Tractor sales to grow ~6% CAGR over FY20-22**


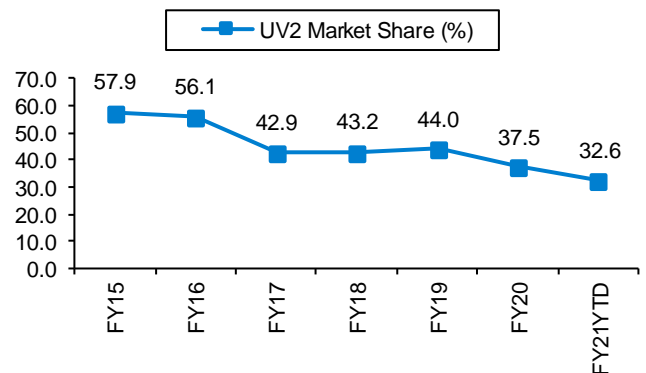
Source: Company, PL

**Exhibit 4: Supply challenges led market share decline**


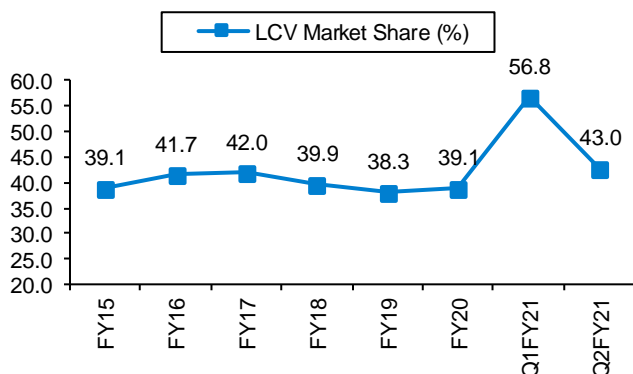
Source: Company, PL

**Exhibit 5: Market share in UV1 declined ~330bp v/s FY20**


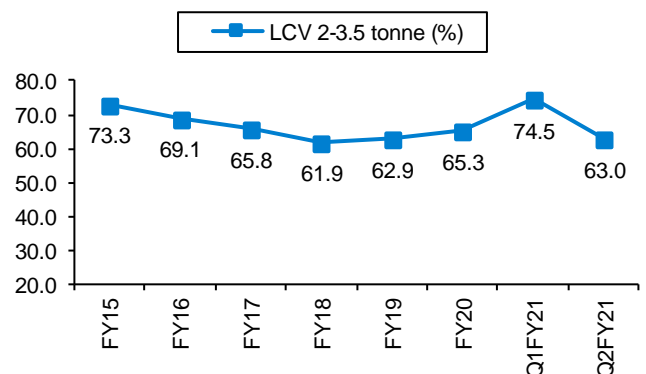
Source: PL, SIAM

**Exhibit 6: Market share in UV2 declined ~490bp v/s FY20**


Source: PL, SIAM

**Exhibit 7: MM market share in LCVs at 43% in Q2FY21**


Source: PL, SIAM

**Exhibit 8: MM Market Share in 2-3.5 tonner goods carriers**


Source: PL, SIAM

### Exhibit 9: Key revenue metrics

000 units	FY20	FY21E	FY22E	FY23E
Tractors	302	332	349	366
Growth (%)	-8.6	10.0	5.0	5.0
% of total volumes	39.1	45.5	43.9	42.8
UVs	403	362	399	426
Growth (%)	-23.0	-10.0	10.0	7.0
LCVs (MTBL)	6	4	5	5
Growth (%)	-26.5	-28.0	8.0	12.0
3-Ws	62	31	42	57
Growth (%)	-6.8	-50.0	35.0	35.0
M&HCVs (MTBL)	5	3	3	3
Growth (%)	0.0	0.0	0.0	0.0
<b>Total Autos</b>	<b>471</b>	<b>398</b>	<b>445</b>	<b>489</b>
Growth (%)	-21.2	-15.5	11.9	9.7
% of total volumes	60.9	54.5	56.1	57.2
<b>Total volumes</b>	<b>773</b>	<b>730</b>	<b>794</b>	<b>855</b>
Growth (%)	-17.2	-5.8	8.8	7.6
ASP (INR '000/Unit)	585	626	651	677
Growth (%)	2.4	7.0	4.0	4.0
<b>Net Sales (INR b)</b>	<b>455</b>	<b>458</b>	<b>518</b>	<b>580</b>
Growth (%)	-15.2	0.8	13.1	11.9

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>4,54,878</b>	<b>4,58,291</b>	<b>5,18,481</b>	<b>5,80,419</b>
YoY gr. (%)	(15.2)	0.8	13.1	11.9
Cost of Goods Sold	3,16,326	3,18,512	3,63,973	4,06,873
Gross Profit	1,38,552	1,39,779	1,54,507	1,73,545
Margin (%)	30.5	30.5	29.8	29.9
Employee Cost	28,801	29,665	31,148	32,705
Other Expenses	51,771	44,683	58,329	66,458
<b>EBITDA</b>	<b>57,981</b>	<b>65,431</b>	<b>65,030</b>	<b>74,382</b>
YoY gr. (%)	(12.7)	12.8	(0.6)	14.4
Margin (%)	12.7	14.3	12.5	12.8
Depreciation and Amortization	22,226	23,142	24,768	28,168
<b>EBIT</b>	<b>35,754</b>	<b>42,289</b>	<b>40,262</b>	<b>46,214</b>
Margin (%)	7.9	9.2	7.8	8.0
Net Interest	1,132	2,822	863	801
Other Income	16,678	17,035	18,909	20,818
<b>Profit Before Tax</b>	<b>31,160</b>	<b>45,295</b>	<b>58,308</b>	<b>66,231</b>
Margin (%)	6.9	9.9	11.2	11.4
Total Tax	17,855	12,683	15,743	17,882
Effective tax rate (%)	57.3	28.0	27.0	27.0
<b>Profit after tax</b>	<b>13,306</b>	<b>32,612</b>	<b>42,565</b>	<b>48,348</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>21,905</b>	<b>40,681</b>	<b>42,565</b>	<b>48,348</b>
YoY gr. (%)	(54.5)	85.7	4.6	13.6
Margin (%)	4.8	8.9	8.2	8.3
Extra Ord. Income / (Exp)	(8,600)	(8,068)	-	-
<b>Reported PAT</b>	<b>13,306</b>	<b>32,612</b>	<b>42,565</b>	<b>48,348</b>
YoY gr. (%)	(72.3)	145.1	30.5	13.6
Margin (%)	2.9	7.1	8.2	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,306	32,612	42,565	48,348
<b>Equity Shares O/s (m)</b>	<b>1,193</b>	<b>1,193</b>	<b>1,193</b>	<b>1,193</b>
<b>EPS (Rs)</b>	<b>18.4</b>	<b>34.1</b>	<b>35.7</b>	<b>40.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,26,292</b>	<b>2,71,387</b>	<b>3,11,387</b>	<b>3,51,387</b>
Tangibles	2,26,292	2,71,387	3,11,387	3,51,387
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>1,22,346</b>	<b>1,45,488</b>	<b>1,70,256</b>	<b>1,98,424</b>
Tangibles	1,22,346	1,45,488	1,70,256	1,98,424
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,03,946</b>	<b>1,25,898</b>	<b>1,41,131</b>	<b>1,52,963</b>
Tangibles	1,03,946	1,25,898	1,41,131	1,52,963
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	-	-	-	-
<b>Current Assets</b>				
Investments	21,897	25,000	27,000	29,000
Inventories	34,009	34,264	45,456	50,886
Trade receivables	29,990	30,215	35,512	39,755
Cash & Bank Balance	42,365	37,681	37,086	37,111
Other Current Assets	48,726	49,213	49,705	50,202
<b>Total Assets</b>	<b>5,05,021</b>	<b>5,26,314</b>	<b>5,65,793</b>	<b>5,95,707</b>
<b>Equity</b>				
Equity Share Capital	5,965	5,965	5,965	5,965
Other Equity	3,38,713	3,61,781	3,92,416	4,26,448
<b>Total Network</b>	<b>3,44,679</b>	<b>3,67,747</b>	<b>3,98,381</b>	<b>4,32,413</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	29,320	27,120	25,170	23,370
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	67,858	68,368	77,347	73,149
Other current liabilities	49,082	48,857	50,531	52,266
<b>Total Equity &amp; Liabilities</b>	<b>5,05,021</b>	<b>5,26,314</b>	<b>5,65,793</b>	<b>5,95,707</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	51,300	42,289	40,262	46,214
Add. Depreciation	22,226	23,142	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	82,465	83,939	95,199
Net Changes-WC	(13,260)	(732)	(7,190)	(13,518)
Direct tax	(10,823)	(12,542)	(15,601)	(17,739)
<b>Net cash from Op. activities</b>	<b>36,778</b>	<b>69,191</b>	<b>61,148</b>	<b>63,943</b>
Capital expenditures	(25,757)	(48,104)	(47,000)	(47,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invst. activities</b>	<b>(25,757)</b>	<b>(48,104)</b>	<b>(47,000)</b>	<b>(47,000)</b>
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)	(4,755)	(2,796)	(2,734)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(10,155)</b>	<b>(14,953)</b>	<b>(14,743)</b>	<b>(16,531)</b>
<b>Net change in cash</b>	<b>866</b>	<b>6,135</b>	<b>(595)</b>	<b>412</b>
Free Cash Flow	(2,658)	34,191	26,148	28,943

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>1,23,453</b>	<b>91,437</b>	<b>56,022</b>	<b>1,17,105</b>
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
<b>EBITDA</b>	<b>16,495</b>	<b>11,348</b>	<b>5,492</b>	<b>18,898</b>
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
<b>EBIT</b>	<b>10,958</b>	<b>5,512</b>	<b>8</b>	<b>13,354</b>
Margin (%)	8.9	6.0	-	11.4
Net Interest	224	335	669	1,091
Other Income	2,063	3,147	1,278	3,926
<b>Profit before Tax</b>	<b>6,791</b>	<b>(19,480)</b>	<b>1,260</b>	<b>4,693</b>
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
<b>Profit after Tax</b>	<b>3,065</b>	<b>(25,024)</b>	<b>1,121</b>	<b>772</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>9,071</b>	<b>2,781</b>	<b>549</b>	<b>12,267</b>
YoY gr. (%)	(20.7)	(69.8)	(95.3)	1.2
Margin (%)	7.3	3.0	1.0	10.5
Extra Ord. Income / (Exp)	(6,006)	(27,805)	572	(11,495)
<b>Reported PAT</b>	<b>3,065</b>	<b>(25,024)</b>	<b>1,121</b>	<b>772</b>
YoY gr. (%)	(71.5)	(394.8)	(95.2)	(93.6)
Margin (%)	2.5	(27.4)	2.0	0.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,065</b>	<b>(25,024)</b>	<b>1,121</b>	<b>772</b>
Avg. Shares O/s (m)	1,193	1,193	1,193	1,193
<b>EPS (Rs)</b>	<b>7.6</b>	<b>2.3</b>	<b>0.5</b>	<b>10.3</b>

Source: Company Data, PL Research

### Key Financial Metrics

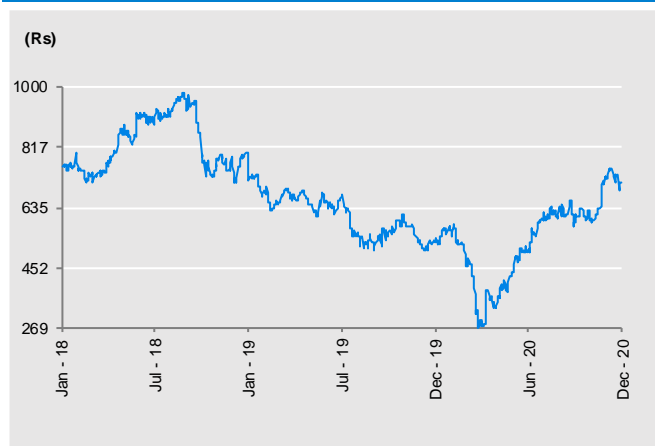
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	18.4	34.1	35.7	40.5
CEPS	37.0	53.5	56.4	64.1
BVPS	288.9	308.2	333.9	362.4
FCF	(2.2)	28.7	21.9	24.3
DPS	2.4	8.0	10.0	12.0
<b>Return Ratio(%)</b>				
RoCE	9.7	11.0	9.8	10.5
ROIC	5.0	9.5	8.5	9.0
RoE	6.4	11.4	11.1	11.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	(3)	(3)	3	11
<b>Valuation(x)</b>				
PER	39.9	21.5	20.5	18.1
P/B	2.5	2.4	2.2	2.0
P/CEPS	19.8	13.7	13.0	11.4
EV/EBITDA	14.5	12.8	12.8	11.2
EV/Sales	1.8	1.8	1.6	1.4
Dividend Yield (%)	0.3	1.1	1.4	1.6

Source: Company Data, PL Research

### Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Tractor Volumes	3,01,915	3,32,107	3,48,712	3,66,147
Auto volumes	4,70,946	3,97,864	4,45,335	4,88,502

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	25-Nov-20	BUY	826	729
2	10-Nov-20	BUY	728	620
3	09-Oct-20	BUY	703	633
4	09-Aug-20	BUY	703	600
5	14-Jul-20	Hold	531	545
6	11-Jul-20	Hold	531	555
7	14-Jun-20	Hold	498	508
8	09-Apr-20	Hold	420	381
9	11-Feb-20	Hold	600	524

**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	439	500
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,598	2,346
6	Endurance Technologies	BUY	1,478	1,241
7	Exide Industries	BUY	234	194
8	Hero Motocorp	Accumulate	3,282	2,894
9	Mahindra & Mahindra	BUY	826	729
10	Maruti Suzuki	BUY	7,642	7,118
11	Motherson Sumi Systems	BUY	165	140
12	Tata Motors	Hold	146	136
13	TVS Motors	Sell	386	422

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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