

# Mahindra & Mahindra

 BSE SENSEX  
47,869

 S&P CNX  
14,019

**CMP: INR733**
**TP: INR840 (+15%)**
**Buy**


Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USDb)	911.1 / 12.3
52-Week Range (INR)	764 / 246
1, 6, 12 Rel. Per (%)	-7/12/21
12M Avg Val (INR M)	3398

**Financials Snapshot (INR b)**

Y/E MARCH	2020	2021E	2022E
Sales	455	447	515
EBITDA	58.0	61.2	67.8
Adj. PAT*	35.8	37.5	42.5
Adj. EPS (INR)	30.0	31.4	35.7
EPS Gr. (%)	-30.3	4.8	13.4
BV/Sh. (INR)	290	316	343

**Ratios**

RoE (%)	9.7	9.5	10.4
RoCE (%)	5.9	9.0	9.7
Payout (%)	24	20	26

**Valuations**

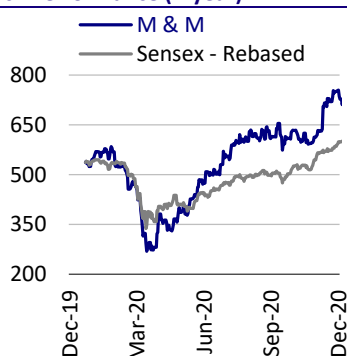
P/E (x)	24.4	23.3	20.6
P/BV (x)	2.5	2.3	2.1
Div. Yield (%)	0.3	0.7	1.0
FCF Yield*	0.4	3.7	5.3

\*incl.MVML

**Shareholding pattern (%)**

As On	Sep-20	Jun-20	Sep-19
Promoter	18.9	18.9	18.9
DII	29.9	28.5	26.7
FII	41.1	41.1	41.5
Others	10.2	11.5	12.9

FII Includes depository receipts

**Stock Performance (1-year)**


## SsangYong resolution in sight...

### ...Calling off the Ford JV signals seriousness on capital allocation

MM's management hosted a concall to update on Ssangyong Motor Co (SYMC), its decision to not pursue the Ford JV further, and supply-side issues impacting the Auto business. The SYMC resolution seems near as there is a court deadline (of Feb'21) to get a buyer or proceed with bankruptcy. The decision to not go ahead with the Ford JV has been a surprise as there were credible synergies that were visible. However, the management indicated that the increased investment requirement made this JV a less attractive proposition. Both these decisions signal seriousness of its intent to correct capital allocation even within the Auto business.

### SYMC: Resolution in sight...

- The debt default that triggered a rehabilitation process has left SYMC with two options: a) bringing in an investor, or b) accept a pre-package bankruptcy.
- Based on SYMC's application for an Autonomous Restructuring Support (ARS) program, the court granted a deadline of 28 February 2021 to negotiate a revival package, post which a rehabilitation (bankruptcy) process would be initiated. SYMC's labor union is supporting an ARS process.
- MM has been in discussion with one potential investor for a stake stake in SYMC. If the sale goes through, its stake would reduce to ~30%.

### ...with worst case financial impact of INR16.6b (impairment + loans)

- In both cases, MM would cede majority stake and operational control, and see a reduction in losses. It has already impaired a fair amount for SYMC (net carrying value of INR9.8b) and further impairment would be dependent on the solution attained.
- In case bankruptcy proceedings are initiated, its maximum liability would be INR6.8b against debt guarantees, of which a portion may be recoverable. In a worst case scenario, the maximum financial impact for MM would be INR16.6b (INR9.8b impairment and INR6.8b debt guarantees).
- MM's exit from SYMC wouldn't have any material impact on its SUV business, as the IP is either directly or jointly owned for XUV300 (based on SYMC's Tivoli platform) and the jointly developed powertrain.

### Calls of Ford JV due to substantial changes in the operating environment

- Considering the substantial changes in the operating environment, MM and Ford have decided not to pursue this JV.
- This decision was in line with MM's renewed capital allocation policy as the investment requirement had increased beyond original estimates of INR14b, which would have made it difficult for this JV to deliver the targeted RoEs. Since the JV was not yet formed, MM was yet to invest in this JV.

- While the JV has been called off, Ford-MM will continue with their alliance and undertake a fresh review of areas that would be mutually beneficial. Even before the JV plans were crystallized, they were working on five MoUs. Of these, a) one MoU has been implemented in a connected tech area, b) two MoUs are in advanced stage (C segment SUV for Ford and supply of a petrol engine by MM for the Ford Ecosport), and c) two other MoUs have been shelved (Ford Aspire based e-SUV and Mobility solutions).
- This decision to not continue with the JV would have a limited impact on MM's SUV business, given its renewed strategy of focusing on its core rather than having a broad-based presence in the SUV segment.

### **SUV: Strategy to focus on core and e-SUV**

- MM has been reorienting its SUV strategy to focus on its core area of rugged compact to large SUVs. This reorientation started with the recent launch of the new Thar, which despite being a niche product has seen a very strong response (booking of ~6,000 units in Dec'20 and total bookings of 32,000 units despite having a high waiting period). Its upcoming two SUVs (new XUV500 and Scorpio) are based on this renewed strategy.
- Its EV focused SUV strategy is two pronged: a) electrifying existing ICE models (e-KUV, e-XUV300, etc.; part of the capex program), and b) a pure EV platform (needs a new approach and investments).
- It would use some of the funds assigned for the Ford JV for its EV strategy. This is part of its capex guidance for conversion of ICE to EV. For its EV platform, it would need fresh investments.
- It expects reasonable RoEs for its Auto business despite relatively lower volumes per platform. This would be driven by a focused SUV strategy, restructured cost, platform consolidation (to three monocoque platforms), and correction in capital allocation.

### **Other takeaways**

- The management maintained its capex guidance of INR90b, spread over the next three years (v/s INR120b earlier), as it has already invested in platforms, and future investments would be for variants or top hat on these platforms. This capex is for Auto and FES divisions, but doesn't include investments. Investments would be lower than that in the past, but would come back by FY21-end after its exercise on capital allocation is complete.
- A large part of the capex is towards balance capex in two new SUV products in FY22 and the K2 tractor platform. There is very little in new capacity and a large part is in products.
- The management said the exit from SYMC and not pursuing the Ford JV would mean some additional capex at MM. From a FCF standpoint, it would be a positive outcome considering investments required in SYMC and the Ford JV.
- Semiconductor shortage is primarily impacting ECUs and the infotainment system. However, the impact is limited to a few SUVs. There is no or limited impact on products like XUV300, 3Ws, LCVs/ICVs, and Tractors. While supply in Dec'20 and Jan'21 (so far) has been better than expected, MM expects 4QFY21 to be impacted by this issue.

- M&HCV business is expected to see an improvement in profitability, based on several initiatives it is taking. Despite MM being a challenger brand in the M&HCV segment, there are few products that consumers like.
- The management is open to returning cash to shareholders (from expected improvement in FCF generation). It has a clear policy of investing its core business (Auto and FES) cash flows within the core business, whereas investments need to be self-sustaining (from dividends and cash flows).

#### Valuation and view

- Since Apr'20, MM has decided to exit five loss-making businesses as part of its decision to exit non-strategic, loss-making businesses. SYMC has been the biggest pain point and filing for bankruptcy is the last option it has to sell it.
- MM is the best proxy of a rural recovery in the Auto segment, given its strong footing in Tractors and LCVs. For the SUV business, we are not building in any major traction and have not built-in benefits from any upcoming product launches.
- While MM's core business would recover faster, its focus on tightening capital allocation could act as a re-rating catalyst. Hence, we see twin levers of EPS growth and re-rating.
- The stock trades at implied core P/E of 15x/12.9x FY22E/23E EPS. Maintain Buy with a SoTP-based TP of INR840 per share (Mar-23E SoTP-based).

#### Exhibit 1: MM: Sum-of-the-parts (INR/share)

INR/share	Target P/E (x)	FY22E	FY23E
Tractors	18	457	486
Autos	12	62	112
Others	8	42	43
<b>Value of the core business</b>		<b>561</b>	<b>641</b>
Value of subsidiaries post holding company discount	40%	199	199
- Tech Mahindra		124	124
- M&M Financial Services		28	28
- Mahindra Lifespaces		5	5
- Mahindra Holidays		10	10
- SsangYong Motor		10	10
- Mahindra Logistics		9	9
- Others		13	13
<b>Fair Value (INR/share)</b>		<b>760</b>	<b>840</b>

Source: MOFSL

## Operating metrics

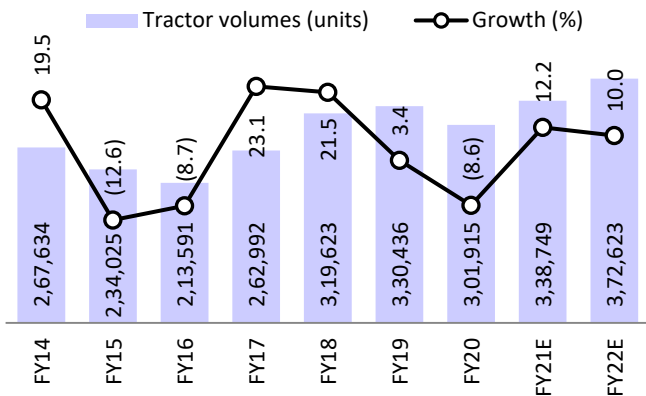
### Exhibit 1: Snapshot of revenue model

'000 units	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Tractors</b>	<b>263</b>	<b>320</b>	<b>330</b>	<b>302</b>	<b>339</b>	<b>373</b>	<b>402</b>
Growth (%)	23.1	21.5	3.4	-8.6	12.2	10.0	8.0
% of total volumes	34.3	36.8	35.2	38.8	47.0	45.4	44.8
<b>Autos</b>							
Pick-up/LCVs (less than 3.5t)	168	200	229	188	182	228	262
Growth (%)	7.7	19.1	14.9	-18.1	-3.0	25.0	15.0
SUVs	223	235	237	179	140	154	161
Growth (%)	-4.4	5.7	0.9	-24.4	-22.1	10.1	4.4
3Ws	52	55	67	62	32	35	37
Growth (%)	-4.9	4.4	22.1	-6.8	-48.8	10.0	5.0
LCVs (over 3.5t)	8	8	8	6	3	3	4
Growth (%)	18.7	1.6	8.6	-26.5	-57.0	30.0	10.0
M&HCVs (MTBL)	7	9	11	5	3	3	4
Growth (%)	17.7	41.2	14.3	-53.0	-50.0	25.0	10.0
Others and Exports	47	42	56	35	22	24	28
Growth (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Autos</b>	<b>504</b>	<b>549</b>	<b>609</b>	<b>476</b>	<b>381</b>	<b>448</b>	<b>495</b>
Growth (%)	2.5	8.9	10.8	-21.8	-19.9	17.5	10.5
% of total volumes	65.7	63.2	64.8	61.2	53.0	54.6	55.2
<b>Total volumes ('000 units)</b>	<b>767</b>	<b>869</b>	<b>939</b>	<b>778</b>	<b>720</b>	<b>820</b>	<b>897</b>
Growth (%)	<b>8.8</b>	<b>12.9</b>	<b>8.1</b>	<b>-17.2</b>	<b>-7.4</b>	<b>14.0</b>	<b>9.4</b>
<b>ASP (INR '000/units)</b>	<b>572</b>	<b>560</b>	<b>571</b>	<b>585</b>	<b>621</b>	<b>627</b>	<b>637</b>
Growth (%)	0.3	-2.1	1.9	2.4	6.3	1.0	1.5
<b>Net sales (INR b)</b>	<b>441</b>	<b>487</b>	<b>536</b>	<b>455</b>	<b>447</b>	<b>515</b>	<b>572</b>
Growth (%)	9.1	10.5	10.1	-15.2	-1.7	15.1	11.0

Source: Company, MOFSL

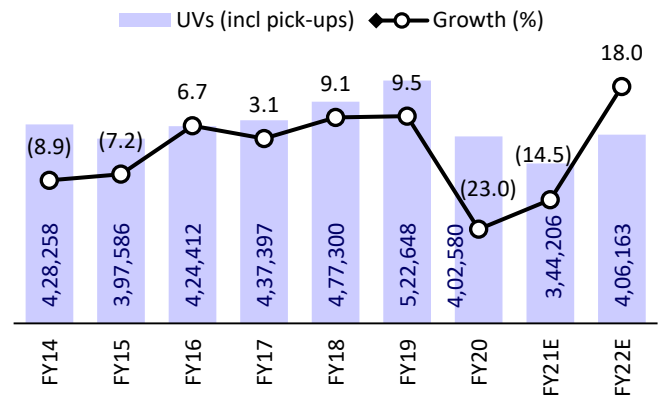
Story in charts

Exhibit 2: Trend in Tractor volumes



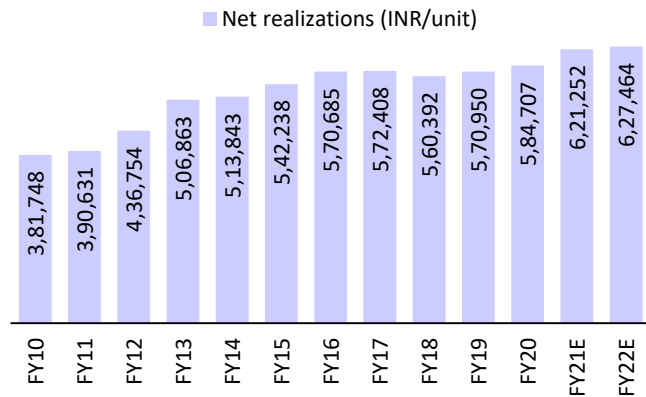
Source: Company, MOFSL

Exhibit 3: New product launches to drive UV sales



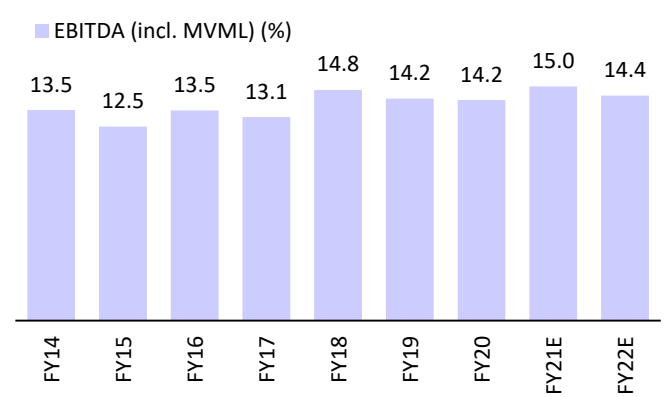
Source: Company, MOFSL

Exhibit 4: Realization trend



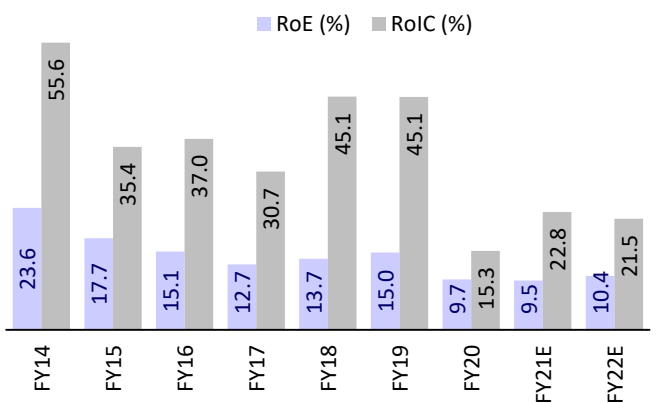
Source: Company, MOFSL

Exhibit 5: Trend in EBITDA margin



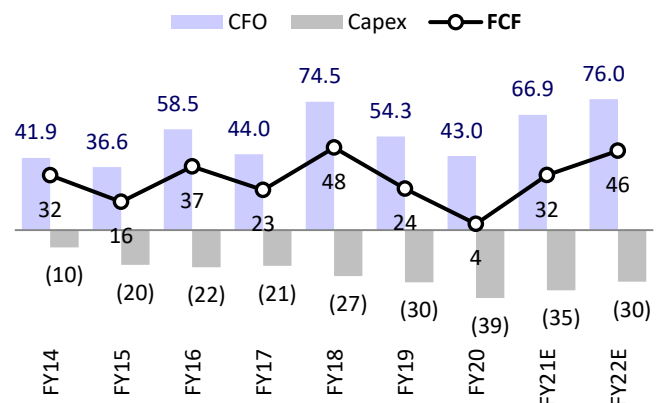
Source: Company, MOFSL

Exhibit 6: Trend in return profile



Source: Company, MOFSL

Exhibit 7: FCF to improve despite higher capex plans (INR b)



Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Op. Income</b>	<b>4,40,535</b>	<b>4,86,856</b>	<b>5,36,140</b>	<b>4,54,878</b>	<b>447,320</b>	<b>514,824</b>	<b>571,525</b>
Change (%)	7.8	10.5	10.1	-15.2	-1.7	15.1	11.0
Total Expenditure	3,95,388	4,24,615	4,69,744	3,96,897	386,145	447,029	495,050
<b>EBITDA</b>	<b>45,147</b>	<b>62,240</b>	<b>66,396</b>	<b>57,981</b>	<b>61,175</b>	<b>67,795</b>	<b>76,476</b>
Margin (%)	10.2	12.8	12.4	12.7	13.7	13.2	13.4
<b>Margin (% incl. MVML)</b>	<b>13.1</b>	<b>14.8</b>	<b>14.2</b>	<b>14.2</b>	<b>15.0</b>	<b>14.4</b>	<b>14.7</b>
Depreciation	15,264	14,794	18,604	22,226	23,257	27,018	28,993
<b>EBIT</b>	<b>29,883</b>	<b>47,446</b>	<b>47,792</b>	<b>35,754</b>	<b>37,918</b>	<b>40,777</b>	<b>47,483</b>
Deferred Revenue Exp.	0	0	0	0	0	0	0
Int. and Finance Charges	1,596	1,122	1,134	1,132	2,915	2,078	1,938
Other Income	13,455	10,364	16,890	16,678	10,535	15,058	16,739
Non-recurring Income	5,485	4,336	-297	-20,140	0	0	0
<b>Profit before Tax</b>	<b>47,226</b>	<b>61,024</b>	<b>63,250</b>	<b>31,160</b>	<b>45,539</b>	<b>53,758</b>	<b>62,284</b>
Eff. Tax Rate (%)	22.9	28.6	24.2	57.3	25.0	25.0	25.0
<b>Profit after Tax</b>	<b>36,434</b>	<b>43,560</b>	<b>47,960</b>	<b>13,306</b>	<b>34,154</b>	<b>40,318</b>	<b>46,713</b>
<b>Adj. Profit after Tax</b>	<b>31,130</b>	<b>39,220</b>	<b>48,260</b>	<b>33,450</b>	<b>34,154</b>	<b>40,318</b>	<b>46,713</b>
Change (%)	(1.3)	26.0	23.0	(30.7)	2.1	18.0	15.9
<b>Adj. PAT (incl. MVML)</b>	<b>35,133</b>	<b>43,202</b>	<b>51,288</b>	<b>35,770</b>	<b>37,504</b>	<b>42,543</b>	<b>49,531</b>

Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	2,968	5,950	5,958	5,965	5,965	5,965	5,965
Reserves	2,64,888	2,96,991	3,36,135	3,38,713	365,936	395,857	430,640
<b>Net Worth</b>	<b>2,67,856</b>	<b>3,02,941</b>	<b>3,42,093</b>	<b>3,44,679</b>	<b>371,901</b>	<b>401,822</b>	<b>436,605</b>
Deferred tax	2,548	2,772	6,341	14,082	14,082	14,082	14,082
Loans	27,729	28,644	25,713	30,680	30,680	28,680	26,680
<b>Capital Employed</b>	<b>2,98,134</b>	<b>3,34,357</b>	<b>3,74,147</b>	<b>3,89,440</b>	<b>416,662</b>	<b>444,583</b>	<b>477,366</b>
Application of Funds							
Gross Fixed Assets	1,54,778	1,82,295	2,23,122	2,48,477	308,571	338,571	368,571
Less: Depreciation	77,068	1,03,700	1,22,304	1,44,531	167,787	194,806	223,798
<b>Net Fixed Assets</b>	<b>77,710</b>	<b>78,594</b>	<b>1,00,818</b>	<b>1,03,946</b>	<b>140,784</b>	<b>143,766</b>	<b>144,773</b>
Capital WIP	20,404	31,287	24,198	40,095	15,000	15,000	15,000
Investments	1,79,084	2,05,830	2,20,160	1,99,381	207,029	219,029	231,029
<b>Curr. Assets, Loans and Adv.</b>	<b>1,25,034</b>	<b>1,58,457</b>	<b>1,81,795</b>	<b>1,61,599</b>	<b>172,175</b>	<b>198,060</b>	<b>228,709</b>
Inventory	27,580	27,017	38,393	34,009	32,032	36,866	40,927
Sundry Debtors	29,388	31,730	39,463	29,990	29,413	33,851	37,580
Cash and Bank Bal.	16,875	28,937	37,317	42,365	52,812	68,037	89,733
Loans and Advances	5,406	10,182	7,110	6,509	9,192	10,579	11,744
Others	45,784	60,591	59,513	48,726	48,726	48,726	48,726
<b>Current Liab. and Prov.</b>	<b>1,04,098</b>	<b>1,39,811</b>	<b>1,52,824</b>	<b>1,15,581</b>	<b>118,325</b>	<b>131,271</b>	<b>142,145</b>
Sundry Creditors	68,811	86,034	96,782	67,858	73,532	84,629	93,949
Other Liabilities	21,388	38,485	40,326	32,537	32,537	32,537	32,537
Provisions	13,899	15,292	15,716	15,185	12,255	14,105	15,658
<b>Net Current Assets</b>	<b>20,935</b>	<b>18,646</b>	<b>28,971</b>	<b>46,018</b>	<b>53,850</b>	<b>66,789</b>	<b>86,564</b>
<b>Application of Funds</b>	<b>2,98,134</b>	<b>3,34,357</b>	<b>3,74,147</b>	<b>3,89,440</b>	<b>416,662</b>	<b>444,583</b>	<b>477,366</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Basic (INR)</b>							
Fully diluted EPS	26.2	33.0	40.5	28.0	28.6	33.8	39.2
FD EPS (incl. MVML)	29.6	36.3	43.0	30.0	31.4	35.7	41.5
Cash EPS	39.1	45.4	56.1	46.7	48.1	56.4	63.5
Book Value per Share	225.1	256.2	293.7	290.3	315.9	342.8	366.0
DPS	6.5	7.5	8.5	2.4	5.0	7.5	10.0
Payout (Incl. Div. Tax, %)	12.3	23.8	24.5	24.5	20.3	25.8	29.7
<b>Valuation (x)</b>							
P/E	23.8	19.4	16.4	23.5	23.3	20.6	17.7
Cash P/E	18.0	15.5	12.6	15.1	15.2	13.0	11.5
EV/EBITDA	8.7	12.8	12.0	13.8	13.5	11.9	10.3
EV/Sales	0.9	1.6	1.5	1.8	1.8	1.6	1.4
Price-to-Book Value	3.1	2.8	2.4	2.4	2.3	2.1	2.0
Dividend Yield (%)	0.9	1.1	1.2	0.3	0.7	1.0	1.4
<b>Profitability Ratios (%)</b>							
RoE	12.7	13.7	15.0	9.7	9.5	10.4	11.1
RoCE	12.4	13.0	13.8	5.9	9.0	9.7	10.4
RoC	30.7	45.1	45.1	15.3	22.8	21.5	25.1
<b>Turnover Ratios</b>							
Debtor (Days)	24	24	27	24	24	24	24
Inventory (Days)	23	20	26	27	26	26	26
Creditor (Days)	57	65	66	54	60	60	60
Working Capital (Days)	17	14	20	37	44	47	55
Asset Turnover (x)	1.5	1.5	1.4	1.2	1.1	1.2	1.2
<b>Leverage Ratio</b>							
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2

### Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>(INR m)</b>							
OP/(Loss) before Tax	41,742	56,688	63,547	51,300	37,918	40,777	47,483
Int./Dividends Received	-9,800	-8,084	-13,184	-14,327	10,535	15,058	16,739
Depreciation and Amort.	15,264	14,794	18,604	22,226	23,257	27,018	28,993
Direct Taxes Paid	-9,929	-12,887	-14,341	-10,823	-11,385	-13,439	-15,571
(Inc.)/Dec. in Wkg. Capital	-508	17,803	-5,060	-13,260	2,615	2,286	1,920
Other Items	332	1,957	-327	1,662			
<b>CF from Oper. Activity</b>	<b>37,100</b>	<b>70,271</b>	<b>49,239</b>	<b>36,778</b>	<b>62,940</b>	<b>71,700</b>	<b>79,564</b>
(Inc.)/Dec. in FA+CWIP	-20,743	-26,688	-30,316	-39,437	-35,000	-30,000	-30,000
<b>Free Cash Flow</b>	<b>16,358</b>	<b>43,583</b>	<b>18,923</b>	<b>-2,658</b>	<b>27,940</b>	<b>41,700</b>	<b>49,564</b>
(Pur.)/Sale of Invest.	-7,076	-24,416	4,826	13,672	-7,648	-12,000	-12,000
<b>CF from Inv. Activity</b>	<b>-27,818</b>	<b>-51,104</b>	<b>-25,490</b>	<b>-25,764</b>	<b>-42,648</b>	<b>-42,000</b>	<b>-42,000</b>
Change in Net Worth	0	0	0	0	0	0	1,933
Inc./Dec. in Debt	-1,742	592	-3,725	3,289	0	-2,000	-2,000
Interest Paid	-1,482	-1,695	-1,710	-1,570	-2,915	-2,078	-1,938
Dividends Paid	-8,391	-9,230	-10,117	-11,874	-6,133	-9,116	-12,098
<b>CF from Fin. Activity</b>	<b>-11,615</b>	<b>-10,333</b>	<b>-15,552</b>	<b>-10,155</b>	<b>-9,048</b>	<b>-13,193</b>	<b>-14,103</b>
<b>Inc./Dec. in Cash</b>	<b>-2,333</b>	<b>8,834</b>	<b>8,196</b>	<b>859</b>	<b>11,245</b>	<b>16,507</b>	<b>23,461</b>
Add: Beginning Balance	22,870	16,875	14,180	22,376	42,365	52,812	68,037
<b>Closing Balance</b>	<b>20,705</b>	<b>25,876</b>	<b>22,376</b>	<b>23,235</b>	<b>53,610</b>	<b>69,319</b>	<b>91,666</b>

E: MOFSL estimates

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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