

Mahindra & Mahindra

BSE SENSEX 47,869
S&P CNX 14,019



| 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 |

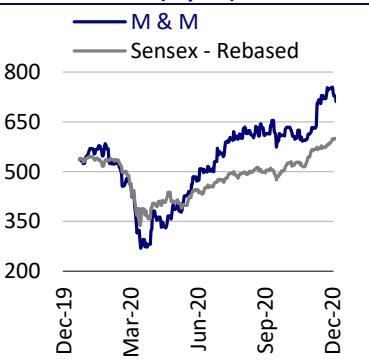
*incl.MVML

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)



CMP: INR733

TP: INR840 (+15%)

Buy

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 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 SYMCs 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 pursing 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 |
| Value of the core business | | 561 | 641 |
| 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 |
| Fair Value (INR/share) | | 760 | 840 |

Source: MOFSL

Operating metrics

Exhibit 1: Snapshot of revenue model

| '000 units | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Tractors | 263 | 320 | 330 | 302 | 339 | 373 | 402 |
| 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 |
| Autos | | | | | | | |
| 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 |
| Total Autos | 504 | 549 | 609 | 476 | 381 | 448 | 495 |
| 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 |
| Total volumes ('000 units) | 767 | 869 | 939 | 778 | 720 | 820 | 897 |
| Growth (%) | 8.8 | 12.9 | 8.1 | -17.2 | -7.4 | 14.0 | 9.4 |
| ASP (INR '000/units) | 572 | 560 | 571 | 585 | 621 | 627 | 637 |
| Growth (%) | 0.3 | -2.1 | 1.9 | 2.4 | 6.3 | 1.0 | 1.5 |
| Net sales (INR b) | 441 | 487 | 536 | 455 | 447 | 515 | 572 |
| 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

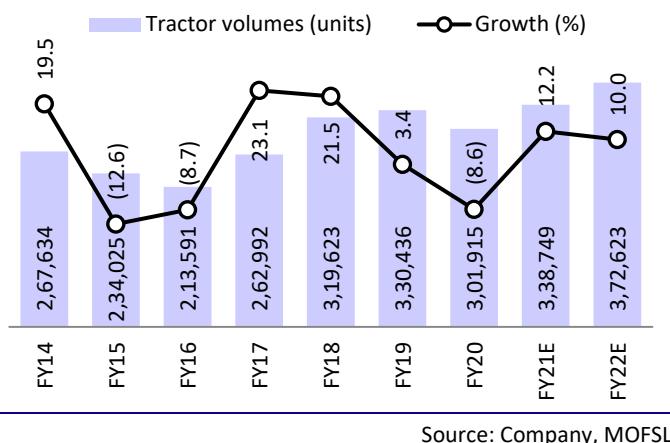


Exhibit 3: New product launches to drive UV sales

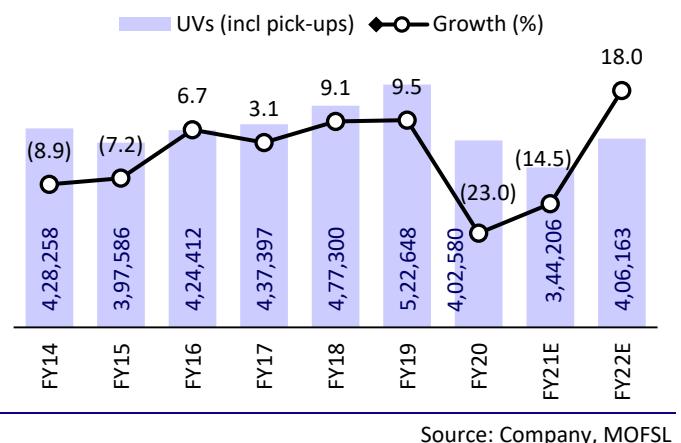


Exhibit 4: Realization trend

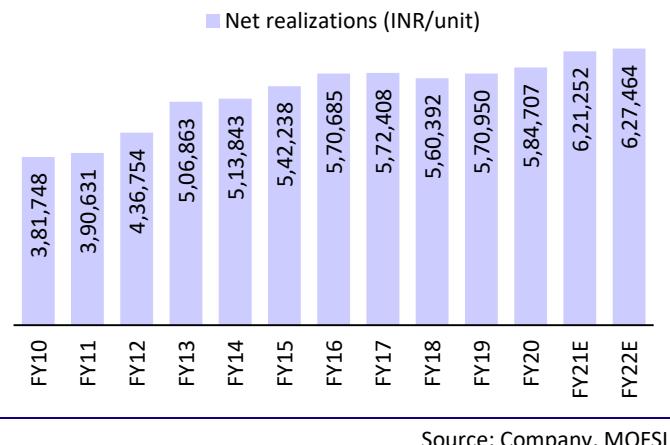


Exhibit 5: Trend in EBITDA margin

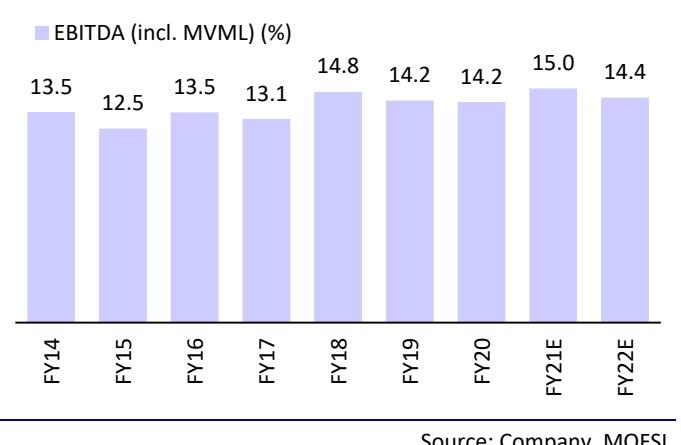


Exhibit 6: Trend in return profile

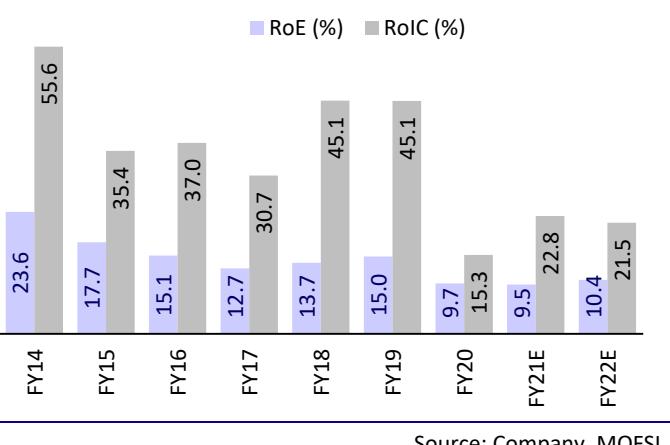
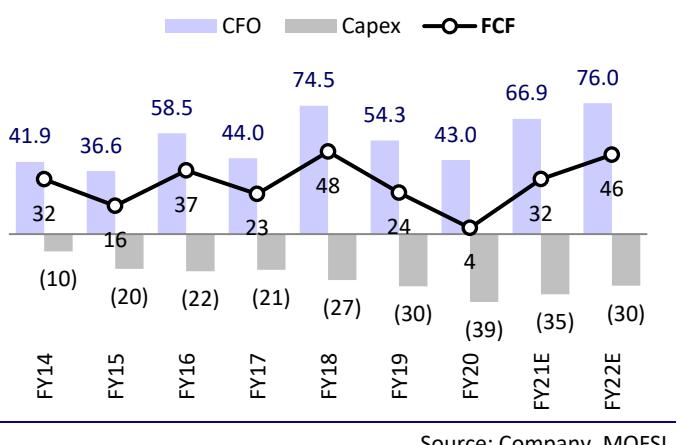


Exhibit 7: FCF to improve despite higher capex plans (INR b)



Financials and valuations

| Income Statement | | | | | | | (INR m) |
|------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|----------------|
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Net Op. Income | 4,40,535 | 4,86,856 | 5,36,140 | 4,54,878 | 447,320 | 514,824 | 571,525 |
| 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 |
| EBITDA | 45,147 | 62,240 | 66,396 | 57,981 | 61,175 | 67,795 | 76,476 |
| Margin (%) | 10.2 | 12.8 | 12.4 | 12.7 | 13.7 | 13.2 | 13.4 |
| Margin %, incl. MVML | 13.1 | 14.8 | 14.2 | 14.2 | 15.0 | 14.4 | 14.7 |
| Depreciation | 15,264 | 14,794 | 18,604 | 22,226 | 23,257 | 27,018 | 28,993 |
| EBIT | 29,883 | 47,446 | 47,792 | 35,754 | 37,918 | 40,777 | 47,483 |
| 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 |
| Profit before Tax | 47,226 | 61,024 | 63,250 | 31,160 | 45,539 | 53,758 | 62,284 |
| Eff. Tax Rate (%) | 22.9 | 28.6 | 24.2 | 57.3 | 25.0 | 25.0 | 25.0 |
| Profit after Tax | 36,434 | 43,560 | 47,960 | 13,306 | 34,154 | 40,318 | 46,713 |
| Adj. Profit after Tax | 31,130 | 39,220 | 48,260 | 33,450 | 34,154 | 40,318 | 46,713 |
| Change (%) | (1.3) | 26.0 | 23.0 | (30.7) | 2.1 | 18.0 | 15.9 |
| Adj. PAT (incl. MVML) | 35,133 | 43,202 | 51,288 | 35,770 | 37,504 | 42,543 | 49,531 |

| 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 |
| Net Worth | 2,67,856 | 3,02,941 | 3,42,093 | 3,44,679 | 371,901 | 401,822 | 436,605 |
| 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 |
| Capital Employed | 2,98,134 | 3,34,357 | 3,74,147 | 3,89,440 | 416,662 | 444,583 | 477,366 |
| 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 |
| Net Fixed Assets | 77,710 | 78,594 | 1,00,818 | 1,03,946 | 140,784 | 143,766 | 144,773 |
| 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 |
| Curr. Assets, Loans and Adv. | 1,25,034 | 1,58,457 | 1,81,795 | 1,61,599 | 172,175 | 198,060 | 228,709 |
| 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 |
| Current Liab. and Prov. | 1,04,098 | 1,39,811 | 1,52,824 | 1,15,581 | 118,325 | 131,271 | 142,145 |
| 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 |
| Net Current Assets | 20,935 | 18,646 | 28,971 | 46,018 | 53,850 | 66,789 | 86,564 |
| Application of Funds | 2,98,134 | 3,34,357 | 3,74,147 | 3,89,440 | 416,662 | 444,583 | 477,366 |

E: MOFSL estimates

Financials and valuations

Ratios

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Basic (INR) | | | | | | | |
| 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 |
| Valuation (x) | | | | | | | |
| 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 |
| Profitability Ratios (%) | | | | | | | |
| 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 |
| RoIC | 30.7 | 45.1 | 45.1 | 15.3 | 22.8 | 21.5 | 25.1 |
| Turnover Ratios | | | | | | | |
| 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 |
| Leverage Ratio | | | | | | | |
| Net Debt/Equity (x) | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 |

Cash Flow Statement

(INR m)

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 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 | | | |
| CF from Oper. Activity | 37,100 | 70,271 | 49,239 | 36,778 | 62,940 | 71,700 | 79,564 |
| (Inc.)/Dec. in FA+CWIP | -20,743 | -26,688 | -30,316 | -39,437 | -35,000 | -30,000 | -30,000 |
| Free Cash Flow | 16,358 | 43,583 | 18,923 | -2,658 | 27,940 | 41,700 | 49,564 |
| (Pur.)/Sale of Invest. | -7,076 | -24,416 | 4,826 | 13,672 | -7,648 | -12,000 | -12,000 |
| CF from Inv. Activity | -27,818 | -51,104 | -25,490 | -25,764 | -42,648 | -42,000 | -42,000 |
| 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 |
| CF from Fin. Activity | -11,615 | -10,333 | -15,552 | -10,155 | -9,048 | -13,193 | -14,103 |
| Inc.-(Dec.) in Cash | -2,333 | 8,834 | 8,196 | 859 | 11,245 | 16,507 | 23,461 |
| Add: Beginning Balance | 22,870 | 16,875 | 14,180 | 22,376 | 42,365 | 52,812 | 68,037 |
| Closing Balance | 20,705 | 25,876 | 22,376 | 23,235 | 53,610 | 69,319 | 91,666 |

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 |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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