

Company update and
earnings revision

Automobiles

Target price: Rs881

Earnings revision*

(%)	FY21E	FY22E	FY23E
Sales	↑ 4.2	↑ 4.0	↑ 4.0
EBITDA	↑ 5.9	↑ 5.2	↑ 7.6
EPS	↑ 7.9	↑ 6.9	↑ 9.6

* M&M + MVML

Target price revision

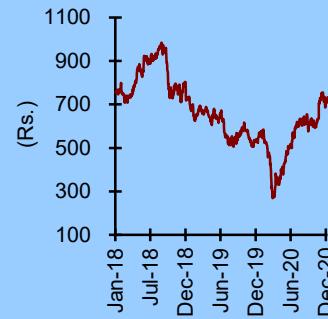
Rs881 from Rs836

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	19.8	19.6	19.6
Institutional investors	62.0	64.8	64.8
MFs and other	10.4	10.9	10.9
FIIs/Banks	0.3	0.3	0.3
Insurance Co	13.9	14.9	14.9
FIIs	37.4	34.7	34.8
Others	18.2	12.4	15.1

Source: NSE

Price chart



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Mahindra & Mahindra

BUY

Maintained

Rs733

Mahindra & Mahindra (M&M) hosted an investor call on developments related to a) exit from the planned JV with Ford Motor Company (Ford), b) SsangYong Motor(SYMC). M&M and Ford have reassessed their capital allocation priorities, both companies have mutually decided to not proceed further on the JV which was supposed to develop, market and distribute Ford vehicles in India. M&M's management has again reinforced investors that capital allocation remains the key tenet (target RoE of >18) for decision making. On the automotive side, M&M's plans to sharpen focus on its core SUV products and succeed in establishing a strong presence in electrics as well. We believe continued product success (post *Thar*'s performance) would be critical in re-energizing its channel and create a wow factor for its customers. Valuations have scope to improve. Maintain **BUY**.

Key highlights of the concall:

- M&M is in discussion with a potential investor for sale of SYMC and is likely to sign the term sheet soon. SYMC has entered into restructuring (ARS) and the Court has granted two months, i.e. up to 28th Feb'21, to close the transaction. 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's stake would eventually fall below 30%. 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.
- On Ford JV, management indicated the capital requirement for the JV increased from the initial Rs14bn estimated in 2018 leading to lower RoE. As the JV was still in discussion, no investment had been made with Ford.
- M&M is entering a strong product cycle in FY21 with the development of W601 and Z101 platforms, and further new launches of *XUV500* and *Scorpio* are likely to aid its growth.
- Company has not changed its earlier announced capex of Rs90bn over the next three years mainly towards product development and R&D (Rs120bn in last three years). Platform consolidation, better asset utilization and cost efficiencies are likely to drive improvements in RoE.
- On EVs, 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.
- M&M has the necessary intellectual property rights for all six of its powertrains and has no dependence on SYMC or Ford for the same.
- M&M is currently facing supply-side issues for semiconductor material for ECU, the impact of which is likely to linger till Q4FY21.

Market Cap	Rs911bn/US\$12.5bn	Year to Mar *	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	MAHM.BO / MM IN	Revenue (Rs mn)	4,48,655	4,30,839	5,03,433	5,61,816
Shares Outstanding (mn)	1,243.2	Net Profit (Rs mn)	7,397	26,462	44,262	52,048
52-week Range (Rs)	755/269	Dil. EPS (Rs)	28.6	30.5	35.6	41.9
Free Float (%)	80.4	% Chg YoY	(38.0)	7.6	18.3	19.3
FII (%)	34.8	P/E (x)	25.6	24.0	20.6	17.5
Daily Volume (US\$/'000)	55,985	CEPS (Rs)	26.0	43.2	62.5	71.9
Absolute Return 3m (%)	20.0	EV/E (x)	6.6	6.4	5.3	4.3
Absolute Return 12m (%)	37.1	Dividend Yield (%)	1.2	1.3	1.5	1.6
Sensex Return 3m (%)	24.0	RoCE (%)	13.6	12.6	13.2	14.5
Sensex Return 12m (%)	17.3	RoE (%)	10.2	10.7	11.7	12.7

*(M&M + MVML)

Table 1: Volumes snapshot

Units	FY18	FY19	FY20	FY21E	FY22E	FY23E
Utility Vehicles/Cars	2,48,859	2,66,596	1,98,307	1,60,788	1,92,289	2,09,637
% YoY	5.4	7.1	-25.6	-18.9	19.6	9.0
Commercial Vehicles	2,35,241	2,71,042	2,13,038	1,71,821	2,04,934	2,44,544
% YoY	13.9	15.2	-21.4	-19.3	19.3	19.3
Three Wheelers(3W)	57,638	71,394	59,796	24,744	30,692	38,106
% YoY	7.3	23.9	-16.2	-58.6	24.0	24.2
Total Auto	5,41,738	6,09,032	4,71,141	3,57,353	4,27,915	4,92,286
% YoY	9.1	12.4	-22.6	-24.2	19.7	15.0
Tractors	3,17,533	3,30,436	3,01,915	3,39,862	3,61,155	3,72,796
% YoY	20.7	4.1	-8.6	12.6	6.3	3.2

Source: Company data, I-Sec research

Table 2: Earnings revision (M&M + MVML)

(Rs mn, year ending March 31)

	FY21E			FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	4,13,644	4,30,839	4.2	4,83,967	5,03,433	4.0	5,40,306	5,61,816	4.0
EBITDA	62,068	65,729	5.9	71,552	75,258	5.2	79,458	85,477	7.6
PAT	35,175	37,957	7.9	41,453	44,262	6.8	47,486	52,048	9.6
EPS (Rs)	28.3	30.5	7.9	33.3	35.6	6.9	38.2	41.9	9.6

Source: Company data, I-Sec research

Valuation

The stock has risen 3x from its Mar'20 lows as the company benefitted from rural demand improvement along with change in the management's capital allocation philosophy. We upgrade our earnings estimates by ~8% / 7% / 10% for FY21E / FY22E / FY23E respectively. Focus on profitability and confidence on consistent delivery on capital allocation along with strengthening of the core SUV business leads us to maintain our target multiple at 7.5x Dec'22E EBITDA (Rs559/share) and value subsidiaries at Rs322/share to arrive at an SoTP-based target price of Rs881/share (earlier: Rs836). Maintain **BUY**.

Table 3: Valuation by SoTP methodology

Business	Dec'22 EBITDA (Rs mn)	EV/E (x)	Current market value (Rs mn)	Stake (%)	Rs/ Share	Remarks
M&M + MVML EBITDA	82,922	7.5	6,21,915	500	Unchanged target multiple even after FY23E rollover as confidence in capital allocation rises	
Value of outstanding debt/net cash			(73,061)		(59)	
Value of equity (M&M+MVML)			6,94,976		559	
Listed Strategic Investments/Subsidiaries	CMP/ I-Sec TP		Market Value			
Mahindra Life Spaces (Listed)	366	51	18,776	51.4%	8	At CMP
M&M Finance (Listed)	142	1,236	1,75,444	52.2%	74	As per I-Sec target price
Mahindra CIE/CIE Spa (Listed)			11,937		10	As per I-Sec target price
M&M Holidays & Resorts (Listed)	213	134	28,446	67.3%	15	At CMP
Tech Mahindra (Listed)	1155	966	11,15,499	26.0%	233	At CMP
Mahindra Logistics (Listed)	425	71	30,379	58.5%	14	As per I-Sec target price
Other subsidiaries and JVs			1,19,903		48 At 0.5x book Value	
Equity Value of subsidiaries/investments			4,00,180		322 20% holding company discount	
Total value (Post 20% group discount)			10,95,156		881	

Source: Bloomberg, Company data and I-Sec research

Financial summary (M&M+ MVML)

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	4,48,655	4,30,839	5,03,433	5,61,816
Operating Expenses	3,85,150	3,65,110	4,28,174	4,76,340
EBITDA	63,506	65,729	75,258	85,477
% margins	14.2	15.3	14.9	15.2
Depreciation & Amortisation	23,631	25,130	30,358	33,670
Gross Interest	1,245	3,738	2,206	1,981
Other Income	15,391	13,083	15,699	18,839
Recurring PBT	54,021	49,943	58,393	68,665
Add: Extraordinaries	28,112	11,495	-	-
Less: Taxes	18,513	11,986	14,131	16,617
Net Income (Reported)	7,397	26,462	44,262	52,048
Recurring Net Income	35,509	37,957	44,262	52,048

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	1,36,439	1,52,935	1,63,313	1,93,480
of which cash & cash equiv.	42,365	55,921	57,327	76,151
Total Current Liabilities & Provisions	1,08,244	1,14,333	1,17,445	1,30,534
Net Current Assets	28,195	38,602	45,868	62,946
Investments				
of which	1,75,329	1,85,329	2,00,329	2,15,329
Strategic/Group	1,53,433	1,58,433	1,63,433	1,68,433
Other Marketable	21,897	26,897	36,897	46,897
Net Fixed Assets	1,69,094	1,83,463	1,87,606	1,88,436
of which intangibles				
Capital Work-in-Progress	48,582	48,582	48,582	48,582
Goodwill				
Total Assets	4,09,936	4,44,713	4,71,121	5,04,029
Liabilities				
Borrowings	31,530	51,530	46,530	41,530
Deferred Tax Liability	15,068	15,068	15,068	15,068
Equity Share Capital	5,965	5,965	5,965	5,965
Face Value per share (Rs)	5	5	5	5
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	3,46,291	3,61,068	3,92,476	4,30,384
Total Liabilities	4,09,936	4,44,712	4,71,121	5,04,028

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	1,21,203	90,047	55,894	1,15,903
% growth (YoY)	10.8	-34.8	-56.4	107.4
EBITDA	17,888	12,275	5,732	20,573
Core Margin (%)	14.8	13.6	10.3	17.8
Other income	2,092	3,155	1,338	3,839
Add: Extra ordinaries	-6,006	-35,776	288	-11,495
Reported Net profit	3,802	-32,550	678	1,618

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	51,340	49,766	59,893	67,660
Working Capital Changes	(10,480)	3,387	(6,831)	965
Capital Commitments	(47,755)	(39,500)	(34,500)	(34,500)
Free Cashflow	(6,895)	13,653	18,561	34,125
Cashflow from Investing Activities				
Issue of Share Capital	7	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	4,728	20,000	(5,000)	(5,000)
Dividend paid	(10,623)	(11,686)	(12,854)	(14,140)
Extraordinary Items	(28,112)	(11,495)	-	-
Chg. in Cash & Bank balances	4,051	13,555	1,406	18,824

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	28.6	30.5	35.6	41.9
Diluted Recurring EPS	28.6	30.5	35.6	41.9
Recurring Cash EPS	26.0	43.2	62.5	71.9
Dividend per share (DPS)	8.9	9.8	10.8	11.9
Book Value per share (BV)	290.3	302.7	329.0	360.8
Growth Ratios (%)				
Operating Income	(15.1)	(4.0)	16.8	11.6
EBITDA	(15.7)	3.5	14.5	13.6
Recurring Net Income	(34.5)	6.9	16.6	17.6
Diluted Recurring EPS	(38.0)	7.6	18.3	19.3
Diluted Recurring CEPS	(58.1)	66.3	44.6	14.9
P/E	25.6	24.0	20.6	17.5
P/CEPS	28.1	16.9	11.7	10.2
P/BV	2.5	2.4	2.2	2.0
EV / EBITDA	6.6	6.4	5.3	4.3
EV / Operating Income	0.9	1.0	0.8	0.7
Operating Ratios (%)				
Raw Material/Sales	66.6	67.7	68.0	67.6
Other Income / PBT	28.5	26.2	26.9	27.4
Effective Tax Rate	34.3	24.0	24.2	24.2
NWC / Total Assets	(8.8)	(9.9)	(10.3)	(11.9)
Inventory Turnover (days)	10.2	10.3	11.3	11.6
Receivables (days)	27.3	24.9	22.9	23.1
Payables (days)	107.3	94.1	83.0	78.8
D/E Ratio	13.5	18.4	15.7	13.2
Return/Profitability Ratios (%)				
Recurring Net Income Margins	7.9	8.8	8.8	9.3
RoCE	13.6	12.6	13.2	14.5
RoNW	10.2	10.7	11.7	12.7
Dividend Payout Ratio	143.6	44.2	29.0	27.2
Dividend Yield	1.2	1.3	1.5	1.6
EBITDA Margins	14.2	15.3	14.9	15.2

Source: Company data, I-Sec research

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