

Mahindra & Mahindra

06 August 2021

Muted quarter

RESULT UPDATE

Sector: Auto Rating: SELL

CMP: Rs 764 Target Price: Rs 722

Stock Info

Sensex/Nifty	54,363 / 16,266
Bloomberg	MM IN
Equity shares (mn)	1,190mn
52-wk High/Low	Rs 952/566
Face value	Rs 5
M-Cap	Rs 950bn/ USD 12.8bn
3-m Avg volume	USD 40mn

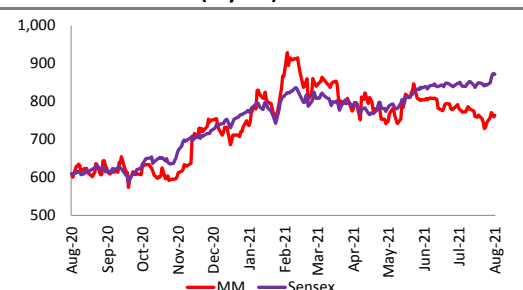
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Auto volume growth (%)	-26	25	10
Tractor volume growth (%)	17	3	-6
Net Sales	445,744	520,677	549,588
EBIDTA	69,766	74,179	77,024
PAT	40,974	43,112	43,556
EPS (Rs)	34	36	37
PE (x)	16.6	15.9	15.9
EV/EBITDA (x)	7.9	8.0	7.7
RoE (%)	12	12	11
RoCE (%)	14	13	13

Shareholding Pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	19.4	19.4	19.4
-Pledged	1.3	1.3	1.3
FII	40.1	38.9	37.9
DII	26.1	27.6	28.2
Others	14.4	14.1	14.5

Stock Performance (1-year)



Mahindra & Mahindra (M&M)'s 1QFY22 EBITDA margin was 4%/10% below consensus/our estimates. Raw material inflation and operating deleverage hurt EBITDA margins sequentially despite an improvement in the product mix. EBIT margin was 20.3% (-170bps QoQ) for the tractor segment while 1.7% (-330bps QoQ) for the automotive segment. The management expects single-digit growth for the tractor industry and has built inventory for the upcoming festive season. In the automotive segment, order booking remains strong but supply chain constraints have restricted wholesale volumes. M&M took another impairment hit of Rs 785mn during 1Q, taking the total write-offs to Rs 83bn in the last two years. While the company has pruned loss-making subsidiaries, it has set aside Rs 65bn for investments in EVs and non-core group companies. The competitive intensity across these segments remains high and FCF turns sharply negative for the forecast period. We remain skeptical about the tractor industry growth beyond FY22E as it nears its cyclical peak. Our FY22/23 estimates remain largely unchanged. We maintain our SELL rating with a SoTP-based target price of Rs 722, valuing the core business at 15x FY23E earnings (at peak cycle multiple).

Key con-call takeaways:

- Tractor demand scenario and outlook:** The management highlighted that demand started picking up mid-June onwards (90% of auto dealers & 65% of tractor dealers were closed around mid-May). Region-wise, southern states saw a faster recovery compared to western states on the back of better monsoon. It has guided for a low- to mid-single-digit growth for the tractor industry in FY22 on a high base of FY21.
- Supply constraints & inventory levels:** For the auto segment, the continued industry-wide shortage of semiconductors is likely to hamper production in the near term; however, the management believes it can navigate the situation and is building up inventory to manage the same. It plans to launch *XUV700* this quarter as it has received a strong response. For the tractor segment, the company is building up inventory (currently at ~30 days) ahead of the festive season (partly to recoup the lost market share in FY21 owing to short supply).
- Bookings & waiting periods across models:** *Thar* has an order book of ~39K+ units currently and a waiting period of 10 months. *XUV300*, *Scorpio* & *Bolero* have waiting periods of ~2 months, 1.5 months & 1 month, respectively. Its latest launch, *Bolero Neo* (launched in July'21) has received 5.5K+ bookings since launch.
- RM headwinds & cost reduction efforts:** The management expects the commodity price surge to continue in 2Q as well; expected to stabilize by 3QFY22. For the farm equipment (FES) & automotive segments, the company has taken several price hikes to offset the commodity price rise. While it has been able to pass on the costs, margins remain impacted. It is focusing on value engineering (particularly in the auto segment with several new launches coming up) and fixed cost reduction to aid margin improvement over the near term.

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- **Capex and investments:** The company has set aside Rs 30bn as capex for EV product developments/collaborations and a further Rs 35bn for investment in non-core group companies over FY22-24; the management highlighted that no allocation has been made so far.
- **Outlook for international subsidiaries:** The company has undertaken significant restructuring efforts for its international farm subsidiaries and has been able to turnaround most of them to profitability in 1QFY22.

Outlook and valuation: We estimate volume/revenue/EBITDA/APAT CAGRs of 8%/11%/5%/3% between FY21-23E. At the CMP, the stock trades at 15.9x core PER and 7.7x core EV/EBITDA on FY23E.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	117,628	124,426	(5.5)	122,758	(4.2)
EBITDA	16,317	18,131	(10.0)	17,007	(4.1)
EBITDA Margin (%)	13.9	14.6	(70)	13.9	2
Adjusted PAT	9,341	9,535	(2.0)	9,113	2.5
Adjusted EPS	7.8	8.0	(2.0)	7.7	2.5

Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 2: Quarterly performance

M&M + MVML (Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Net Sales	55,894	115,903	139,665	133,382	117,628	110.4	(11.8)
- Raw Material	36,240	76,979	96,292	92,255	81,922	126.1	(11.2)
(% of Net Sales)	64.8	66.4	68.9	69.2	69.6	481	48
- Staff Expenditure	7,704	7,920	8,841	7,964	8,855	14.9	11.2
(% of Net Sales)	13.8	6.8	6.3	6.0	7.5	(625)	156
- Other Expenditure	6,219	10,432	11,576	13,559	10,534	69.4	(22.3)
(% of Net Sales)	11.1	9.0	8.3	10.2	9.0	(217)	(121)
Total Expenditure	50,163	95,330	116,709	113,777	101,311	102.0	(11.0)
EBITDA	5,732	20,573	22,956	19,605	16,317	184.7	(16.8)
EBITDA Margin (%)	10.3	17.8	16.4	14.7	13.9	362	(83)
Depreciation	5,813	5,870	6,043	5,899	5,586	(3.9)	(5.3)
EBIT	-81	14,703	16,914	13,706	10,731	(13,364)	(21.7)
Interest	768	1,179	1,039	971	714	(7.0)	(26.5)
Other Income	1,338	3,839	5,618	1,178	2,052	53.4	74.2
PBT	488	17,364	21,493	13,913	12,069	2,371.0	(13.3)
Tax	99	4,252	4,944	3,888	2,728	2,658.1	(29.8)
Tax Rate (%)	20.2	24.5	23.0	27.9	22.6	235	(535)
Adjusted PAT	389	13,112	16,548	10,024	9,341	2,298.1	(6.8)
Exceptional Items	288	(11,495)	(11,240)	(8,399)	(785)	-	-
Reported PAT	678	1,618	5,309	1,625	8,556	1,162.1	426.4
EPS (Rs)	0.3	11.0	13.9	8.4	7.8	2,298.1	(6.8)
Total Volumes (Nos)	95,308	185,270	223,978	202,223	186,777	96.0	(7.6)
Net Realisation (Rs)	586,460	625,591	623,567	659,576	629,777	7.4	(4.5)
EBITDA / Vehicle (Rs)	60,139	111,044	102,493	96,945	87,359	45.3	(9.9)

Source: Company, Systematix Institutional Research

Exhibit 3: Quarterly segment-wise performance

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Revenues							
Automotive Segment	20,395	63,565	83,111	78,581	60,502	196.7	(23.0)
(% to total)	36	55	59	59	51	1,475	(737)
Farm Equipment Segment	33,408	48,354	52,815	49,755	53,186	59.2	6.9
(% to total)	60	42	37	37	45	(1,467)	792
Other Segment	2,206	4,455	5,359	5,904	4,557	106.5	(22.8)
(% to total)	4	4	4	4	4	(9)	(54)
Total	56,009	116,374	141,285	134,240	118,245	111.1	(11.9)
Net Realisation (Rs)							
Automotive Segment	687,818	690,748	679,691	725,396	696,647	1.3	(4.0)
Farm Equipment Segment	508,832	518,561	519,320	529,906	532,235	4.6	0.4
Results							
Automotive Segment	-5,837	4,117	6,141	3,900	1,025	(117.6)	(73.7)
Margin (%)	(28.6)	6.5	7.4	5.0	1.7	3,032	(327)
Farm Equipment Segment	6,823	11,795	12,359	10,950	10,811	58.5	(1.3)
Margin (%)	20.4	24.4	23.4	22.0	20.3	(10)	(168)
Other Segment	-54	127	380	-192	139	(357.6)	(172.1)
Margin (%)	(2.4)	2.8	7.1	(3.3)	3.0	548	630
Total	932	16,039	18,880	14,657	11,975	1,185.3	(18.3)
Margin (%)	1.7	13.8	13.4	10.9	10.1	846	(79)
Capital Employed							
Automotive Segment	133,988	112,243	113,291	111,997	134,311	0.2	19.9
Farm Equipment Segment	25,304	22,547	18,323	25,120	35,041	38.5	39.5

Source: Company, Systematix Institutional Research

Exhibit 4: Subsidiaries' losses narrowing

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Automotive segment									
Consolidated									
Revenue	135,478	120,588	133,016	97,335	65,086	110,809	86,062	85,045	63,168
EBIT	1,121	(3,676)	(5,085)	(4,921)	(14,764)	(2,429)	5,766	5,051	808
EBIT margin (%)	0.8%	-3.0%	-3.8%	-5.1%	-22.7%	-2.2%	6.7%	5.9%	1.3%
Standalone									
Revenue	79,858	68,928	74,238	55,058	20,395	63,565	83,111	78,581	60,502
EBIT	5,180	3,973	5,417	2,253	(5,837)	4,117	6,141	3,900	1,025
EBIT margin (%)	6.5%	5.8%	7.3%	4.1%	-28.6%	6.5%	7.4%	5.0%	1.7%
Overseas subs									
Revenue	55,620	51,660	58,777	42,277	44,692	47,244	2,951	6,463	2,666
EBIT	(4,059)	(7,649)	(10,502)	(7,174)	(8,927)	(6,546)	(375)	1,151	(217)
EBIT margin (%)	-7.3%	-14.8%	-17.9%	-17.0%	-20.0%	-13.9%	-12.7%	17.8%	-8.1%
Farm equipment segment									
Consolidated									
Revenue	60,779	53,699	54,566	42,088	49,069	64,782	68,148	65,926	71,887
EBIT	7,664	6,463	6,248	2,299	6,134	11,834	12,369	11,241	11,875
EBIT margin (%)	12.6%	12.0%	11.4%	5.5%	12.5%	18.3%	18.2%	17.1%	16.5%
Standalone									
Revenue	43,822	36,315	42,778	31,110	33,408	48,354	52,815	49,755	53,186
EBIT	8,447	7,019	8,309	5,488	6,823	11,795	12,359	10,950	10,811
EBIT margin (%)	19.3%	19.3%	19.4%	17.6%	20.4%	24.4%	23.4%	22.0%	20.3%
Overseas subs									
Revenue	16,957	17,384	11,788	10,978	15,661	16,429	15,333	16,171	18,702
EBIT	(784)	(556)	(2,061)	(3,189)	(689)	38	10	291	1,064
EBIT margin (%)	-4.6%	-3.2%	-17.5%	-29.1%	-4.4%	0.2%	0.1%	1.8%	5.7%

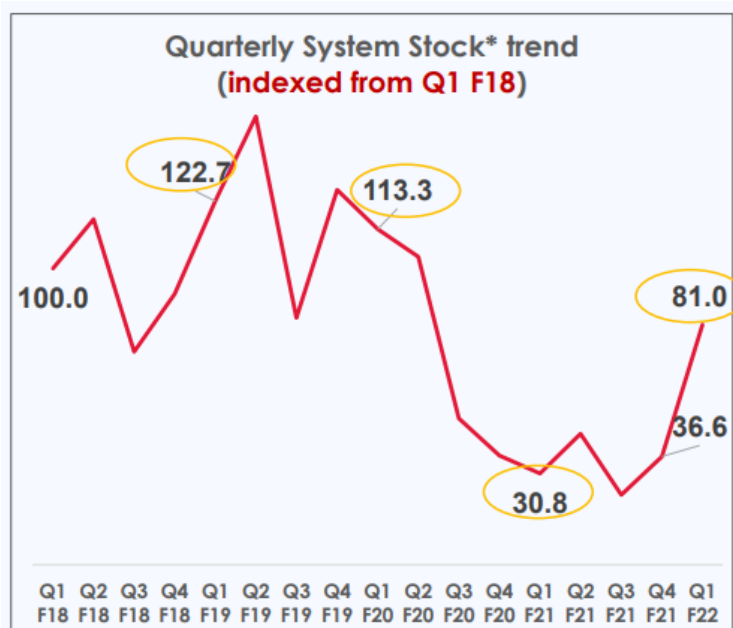
Source: Company, Systematix Institutional Research; Note: Ssangyong ceases to be subsidiary & losses are not consolidated from 3QFY21. Prior quarters include losses from Ssangyong.

Exhibit 5: Volume trend

Volumes (Nos)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
PVs	11,942	39,533	53,016	52,725	43,202	261.8	(18.1)
CVs (incl MHCV)	15,587	47,309	53,557	39,706	34,034	118.3	(14.3)
3Ws	52	977	9,837	9,659	3,065	5,794.2	(68.3)
Exports	2,070	4,205	5,867	6,239	6,547	216.3	4.9
Total Auto Volumes	29,651	92,024	122,277	108,329	86,848	192.9	(19.8)
Tractor Volumes	65,657	93,246	101,701	93,894	99,929	52.2	6.4
Total Volumes	95,308	185,270	223,978	202,223	186,777	96.0	(7.6)

Source: Company, Systematix Institutional Research

Exhibit 6: Inventory levels for the auto segment



Source: M&M 1QFY22 presentation

Exhibit 7: Inventory level for the farm segment

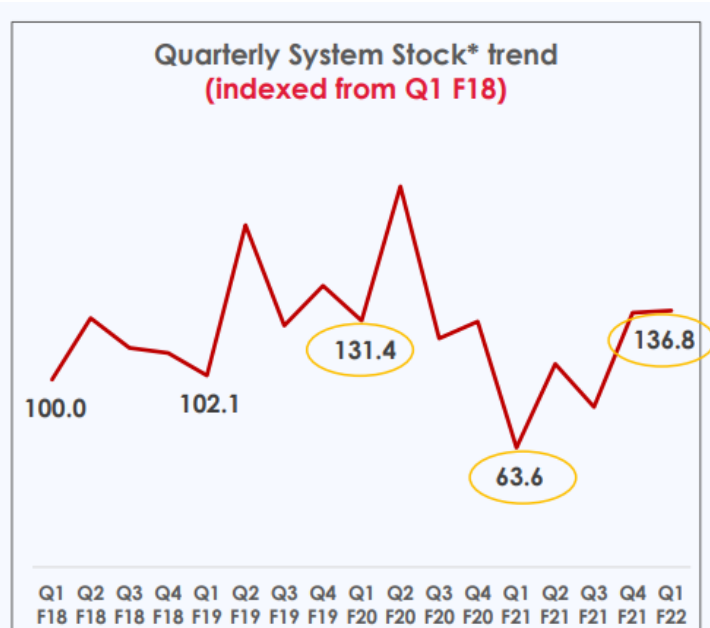
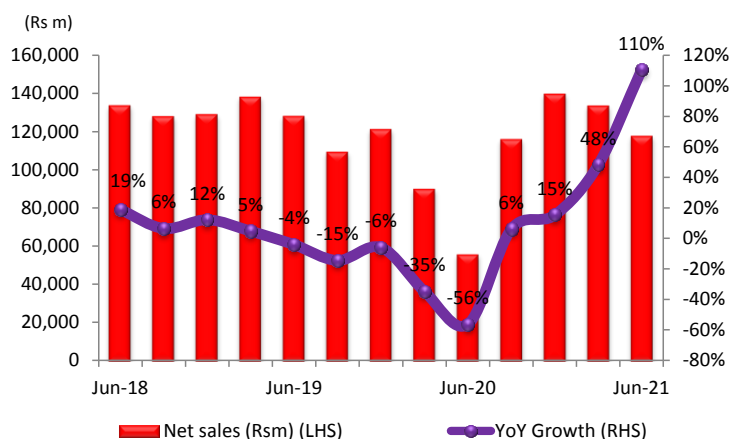
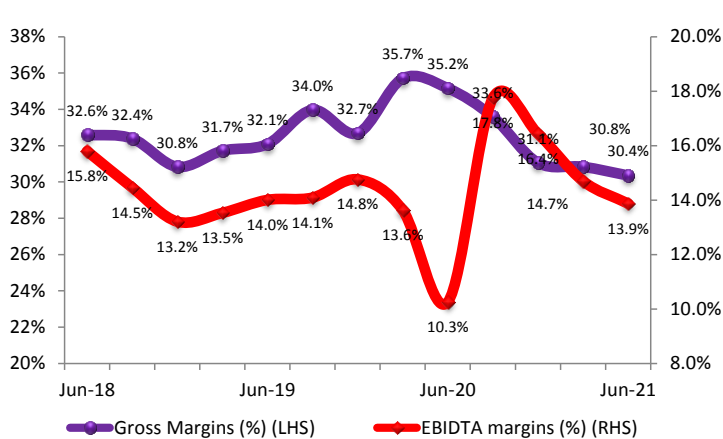


Exhibit 8: Revenue and YoY growth trend

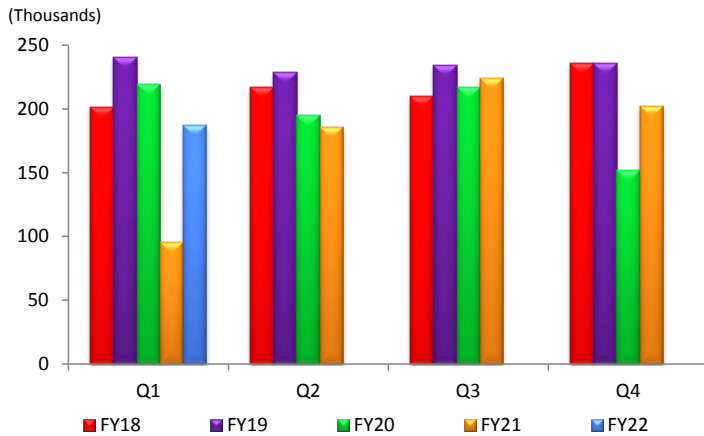


Source: Company, Systematix Institutional Research

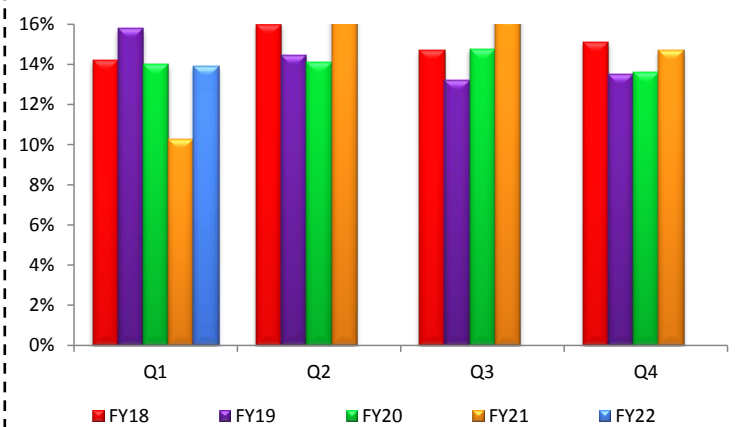
Exhibit 9: Gross & EBITDA margin trend



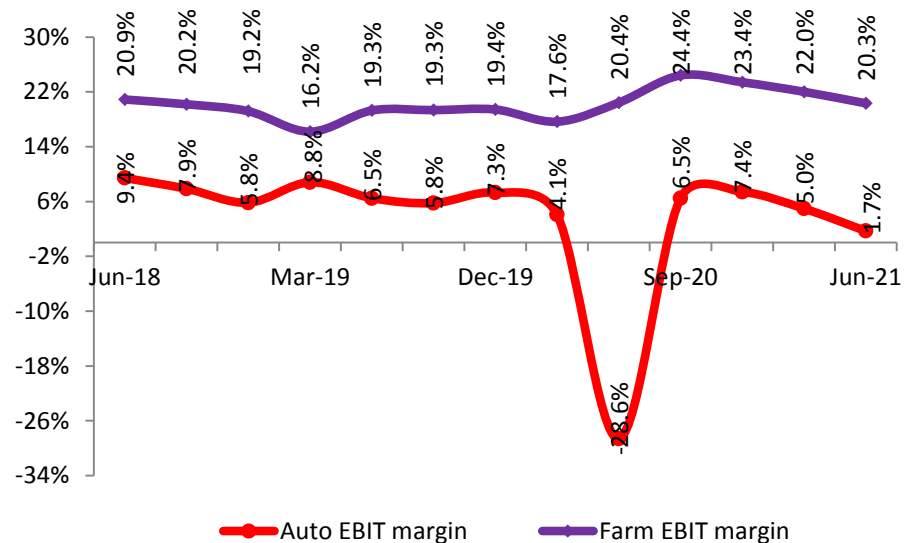
Source: Company, Systematix Institutional Research

Exhibit 10: Quarterly volume trend

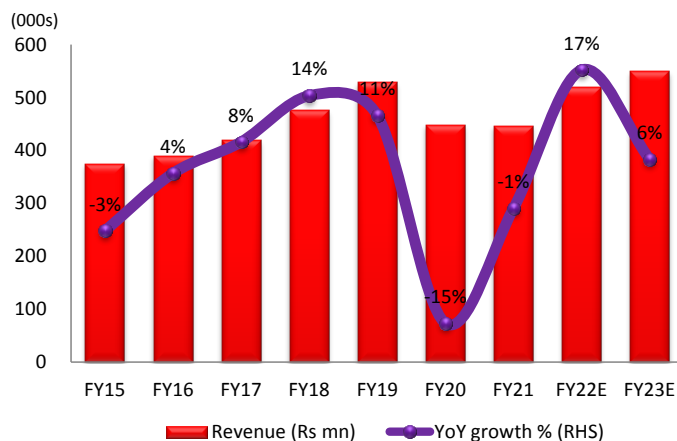
Source: Company, Systematix Institutional Research

Exhibit 11: Quarterly EBITDA margin trend

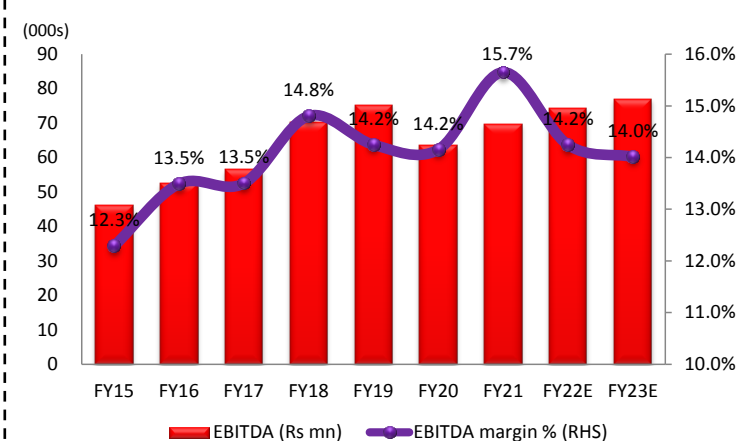
Source: Company, Systematix Institutional Research

Exhibit 12: Automotive and tractor EBIT margin quarterly trend

Source: Company, Systematix Institutional Research

Exhibit 13: M&M annual revenue & YoY growth (RHS)

Source: Company, Systematix Institutional Research

Exhibit 14: M&M annual EBITDA & EBITDA margin (RHS)

Source: Company, Systematix Institutional Research

Exhibit 15: Segment-wise annual volume trend

Volumes (units)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Passenger vehicles	223,968	236,307	236,980	249,505	254,701	186,978	157,216	201,289	214,399
Commercial vehicles	153,836	166,783	180,948	216,803	248,601	199,135	156,159	185,513	205,858
Three-Wheelers	56,764	54,975	52,306	54,625	66,699	62,187	20,525	31,814	41,358
Exports	30,196	36,033	37,364	28,221	38,595	27,743	18,381	22,976	25,274
Total Automotive volume	464,764	494,098	507,598	549,154	608,596	476,043	352,281	441,592	486,889
YoY growth %	-7%	6%	3%	8%	11%	-22%	-26%	25%	10%
Total Tractors	234,023	213,591	262,992	317,383	330,436	301,915	354,498	365,133	343,225
YoY growth %	-13%	-9%	23%	21%	4%	-9%	17%	3%	-6%
Total Volume	698,787	707,689	770,590	866,537	939,032	777,958	706,779	806,725	830,114
YoY growth %	-9%	1%	9%	12%	8%	-17%	-9%	14%	3%

Source: Company, Systematix Institutional Research

FINANCIALS (M&M + MVML)

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Net sales	528,482	448,655	445,744	520,677	549,588
Growth, %	11	(16)	(1)	17	6
RM expenses	-359,977	-298,668	-301,766	-364,474	-384,712
Employee expenses	-32,830	-32,237	-32,428	-36,644	-39,942
Other expenses	-60,375	-54,245	-41,785	-45,381	-47,910
EBITDA	75,301	63,506	69,766	74,179	77,024
Growth, %	7	(16)	10	6	4
Margin, %	14.2	14.2	15.7	14.2	14.0
Depreciation	-20,030	-23,631	-23,624	-26,153	-29,678
EBIT	55,271	39,875	46,142	48,026	47,346
Growth, %	2	(28)	16	4	(1)
Margin, %	10.5	8.9	10.4	9.2	8.6
Interest paid	-1,467	-1,245	-3,957	-4,029	-3,805
Other Income	16,303	15,391	11,973	12,729	13,769
Non-recurring Items	(227)	(28,112)	(31,745)	0	0
Pre-tax profit	70,106	54,021	54,157	56,726	57,310
Tax provided	-15,867	-18,513	-13,183	-13,614	-13,754
Profit after tax	54,239	35,509	40,974	43,112	43,556
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	54,012	7,397	9,229	43,112	43,556
Growth, %	17	(86)	25	367	1
Net Profit (adjusted)	54,239	35,509	40,974	43,112	43,556

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Cash & bank	38,321	42,365	62,556	7,441	9,280
Marketable securities cost	17,330	21,896	44,889	56,072	41,055
Debtors	38,119	29,012	22,012	28,530	30,114
Inventory	47,631	40,408	47,827	49,928	52,700
Loans & advances	8,612	6,511	19,399	20,757	22,210
Other current assets	64,435	55,460	63,130	66,287	69,601
Total current assets	197,117	173,757	214,923	172,943	183,905
Investments	188,934	153,433	177,973	200,220	215,236
Gross fixed assets	230,292	254,904	278,087	315,587	358,087
Less: Depreciation	-110,762	-134,393	-158,017	-184,170	-213,847
Add: Capital WIP	26,457	48,582	61,255	73,927	86,599
Net fixed assets	119,530	120,511	120,070	131,418	144,240
Total assets	549,369	518,179	619,110	634,579	671,035
Current liabilities	148,581	109,509	164,182	152,642	160,782
Provisions	16,152	15,781	15,077	16,584	18,243
Total current liabilities	164,733	125,290	179,258	169,226	179,025
Non-current liabilities	7,896	15,068	14,497	14,497	14,497
Total liabilities	172,629	140,358	193,755	183,722	193,521
Paid-up capital	5,958	5,965	5,974	5,974	5,974
Reserves & surplus	343,979	340,326	347,239	379,896	412,998
Shareholders' equity	349,937	346,291	353,212	385,870	418,972
Total equity & liabilities	549,369	518,179	619,110	634,579	671,035

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22e	FY23e
Pre-tax profit	69,879	25,910	22,413	56,726	57,310
Depreciation	20,030	23,631	23,624	26,153	29,678
Chg in working capital	-5,802	-12,037	32,992	-23,166	675
Total tax paid	-15,867	-18,513	-13,183	-13,614	-13,754
CFO	39,832	39,942	95,896	37,398	63,945
Capital expenditure	-15,918	-45,902	-33,119	-50,172	-55,172
Chg in investments	-1,447	-1,519	-1,595	-1,675	-1,759
Chg in marketable securities	-10,818	32,454	-45,937	-31,754	1,759
CFI	-11,880	-29,478	-146,677	-70,872	-41,403
Free cash flow	22,468	-7,479	61,181	-14,450	7,014
Debt raised/(repaid)	-5,339	4,728	40,613	-7,157	-6,444
Dividend (incl. tax)	-12,076	-9,909	34,308	-10,454	-10,454
CFF	-18,874	-6,419	70,972	-21,640	-20,703
Net chg in cash	9,079	4,045	20,190	(55,114)	1,839
Opening cash balance	29,242	38,321	42,365	62,556	7,441
Closing cash balance	38,321	42,365	62,556	7,441	9,280

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22e	FY23e
EPS (INR)	46	30	34	36	37
PER (x)	13.0	16.0	16.6	15.9	15.9
Price/Book (x)	2.6	2.6	2.6	2.4	2.2
EV/EBITDA (x)	7.4	8.7	7.9	8.0	7.7
EV/Net sales (x)	1.7	2.0	2.0	1.8	1.7
RoE (%)	17	10	12	12	11
RoCE (%)	20	14	14	13	13
Fixed Asset turnover (x)	2.3	1.8	1.6	1.6	1.5
Dividend Yield (%)	1.1	1.1	0.0	0.0	0.0
Receivable (days)	27	24	19	21	21
Inventory (days)	38	38	46	41	41
Payable (days)	83	68	103	75	75
Revenue Growth (%)	11	(16)	(1)	17	6
EBITDA Growth (%)	7	(16)	10	6	4
EPS Growth, %	29	(35)	15	5	1
Net D/E ratio (x)	(0.1)	(0.1)	(0.1)	0.0	0.0

Source: Company, Systematix Institutional Research

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