

MAHINDRA & MAHINDRA | Auto & Farm Equipment*New launches, FES to drive the numbers in ensuing quarters***LKP****Profitability a tad lower than expectations, Revenues in line**

M&M's Q4 FY21 numbers came in line at the topline at ₹135 bn, a growth of 48% yoy as volumes grew 33% in the same period. This growth was also led by a 15% growth in realizations. Automotive division revenues came in at ₹80.3 bn, an increase of 42% yoy led by (a) 25% yoy increase in ASPs due to BS-VI transition last year & low base and (b) 17% yoy growth in volumes in Q3 FY21. Tractor division revenues increased by 60% yoy led by (a) 58% yoy increase in volumes and (b) 2% yoy increase in ASPs in Q4 FY21. Automotive EBIT margin dropped 330 bps qoq to 3.1%, (+20 bps yoy). It dropped sequentially due to negative operating leverage and higher input costs. Tractor EBIT margins came in at 22% (+540 bps yoy, -140 bps qoq). Overall EBITDA margin came in at 13.2% (+80 bps yoy, -280 bps qoq). This was however, lower than our expectations due to (1) RM costs headwinds and (2) competitive pressures in Auto segment. The company reported net profit of ₹484 mn which included exceptional loss of ₹8.87 bn related to exposure in Ssangyong in Q4 FY21. PAT adjusted for this loss came in at ₹9.35 bn, which was 236% up yoy. In FY 21, PAT adjusted for an exceptional loss of ₹36.6 bn stood at ₹39.3 bn a growth of 17.6%. The company has exited Ssangyong Motors and substantially reduced losses in overseas subsidiaries. Management expects the loss making subsidiaries to break-even by FY23E and is taking steps to achieve 18%+ RoE target in mid-term and a revenue growth of 15-20% going forward.

Tractor Industry growth to reduce on high base effect and Wave #2 of Pandemic in Q1, Revival expected by Q2

Tractor Business of M&M remained the star performer in Q4 as well. The company has mentioned that the industry shall grow at 7-8% CAGR in the next 3-5 years, while they also mentioned that M&M should grow higher than this range winning market share which has come down to 38% in FY21. While the industry has grown by 26.9%, the company's FES business grew by 17.8% in FY2021E, losing market share by ~300 bps over FY20. This was mainly due to the supply constraints linked with the localized lockdowns in states like Maharashtra where the company has production facilities. Even in Q1 of this year, we expect a massive drop in sales due to deeper penetration of Wave #2 of Covid-19 in rural parts of the country. However, with the situation reviving, we expect a bounce back in Q2. M&M highlighted that Tractor segment fundamentals continue to remain robust led by (1) strong crop output in both Khariff and Rabi (2) higher reservoir levels (3) strong agricultural credit growth & MSPs and (4) expectations of normal monsoon in 2021. Also in FES, M&M has seen a robust demand for Rice Cultivators, Rice and Vegetable Transplanters and Rotavators in FY21.

Key Financials	FY 20	FY 21	FY 22E	FY 23E
Total Sales (₹ bn)	455	450	502	566
EBITDA Margins (%)	12.7	14.4	15.2	15.9
PAT Margins (%)	7.4	8.7	9.6	10.2
EPS (₹)	28.1	33.0	40.3	48.3
P/E (x)	30.1	25.6	21.0	17.5
P/BV (x)	2.9	2.9	2.6	2.3
EV/EBITDA (x)	14.3	13.5	11.4	9.6
ROE (%)	9.7	11.4	12.5	13.4
Dividend Yield (%)	1.2	0.3	1.0	1.1

Rating	Buy
Current Market Price (₹)	846
12 M Price Target (₹)	957
Potential upside (%)	13

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,053
Free Float Market Cap (₹ bn) :	715
52-Week High / Low (₹) :	424 / 952
2-Year High / Low (₹) :	245 / 952
1 Year Avg. Dly Traded Volume (in lakh)	64
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern (%)

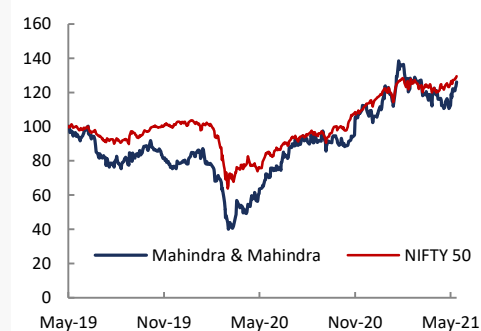
	Mar-21	Dec-20	Sep-20	Jun-20
Promoter	19.45	19.44	19.58	19.60
FPIs	38.93	37.90	34.72	34.61
MFs	10.38	10.77	10.98	10.85
Insurance	10.43	10.74	12.94	13.81
Others	20.81	21.15	21.78	21.13

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
M&M	8.2%	4.9%	17.2%	92.1%
Nifty 50	3.8%	6.2%	19.0%	62.7%

* To date / current date : May 28, 2021

M&M vs Nifty 50

THAR launch brings cheer to the SUV business, new launches to bolster further growth

M&M witnessed 17.2% yoy wholesale growth in the UV segment in Q4 FY21. The company has received a good response from new Thar launch. They have received 55,000+ bookings (~47% of the bookings were for automatic variants) since launch on October 2, 2020. The company expects to launch two new SUVs in FY2022E (XUV 700 and New Scorpio) and intends to launch 9 new products in Auto segment and 14 new products in CV segment over the next 5 years. Out of this planned portfolio, there will be a strong presence of EV products, for which ₹30 bn investment is planned. M&M is looking for building partnerships with various EV players globally and build products such as XUV 700 EV and XUV 620 EV. In the automotive segment, shortage of semiconductors remained an area of concern for the company. Also competition from players like MSIL, Hyundai-Kia is getting more and more intensified. We expect about 10% growth in UV business for the next 2 years.

Tighter capital allocations norms

Over the past four years, losses in subsidiaries increased from ₹530 mn in FY2017 to ₹52.6 bn in FY2020, which reduced to ₹25 bn in FY21. M&M expects it to further reduce to ₹3bn in FY22E and breakeven in FY23E. The company highlighted that it will focus on realigning its capital allocation norms. However, over the past one year, the company has taken several decisions to correct its capital allocation strategy – (1) no infusion of further capital into Ssangyong and has completely exited it now. As a part of its turnaround plan, the company has taken a complete write-off its investments in Ssangyong Motors during the quarter and has ceased consolidating the results of Ssangyong as a subsidiary. In Q4, the company reported ₹8.7 bn write-off of Ssangyong business investment and has announced that no further write-offs shall be taken henceforth for this business.(2) complete exit from Genze business, (3) the company has bailed out from the bid to manufacture small delivery trucks for the United States' Postal Service, which would have required investment worth US\$500 mn, (4) the company has also shut down the aerospace business in Australia, (5) divestment of entire stake held in Mahindra First Choice Services Limited and its subsidiary Auto Digitech Private Limited to TVS Automobile Solutions Private Limited (TASL) in a share swap deal, (6) called off the proposed JV with Ford India due to higher investments required, which would have impacted return ratios, and (7) is scouting for strategic investors for Mahindra Electric Mobility and Automobili Pininfarina.

Quarterly Financial Snapshot

(₹ mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Net Sales	1,35,124	1,42,159	-4.9%	91,437	47.8%
Raw Material Costs	96,899	1,00,426	-3.5%	61,472	57.6%
Employee Costs	7,236	7,561	-4.3%	6,178	17.1%
Other Expenses	13,096	11,395	14.9%	12,439	5.3%
EBITDA	17,893	22,778	-21.4%	11,348	57.7%
EBITDA Margins (%)	13.2%	16.0%	(280 bps)	12.4%	80 bps
Other Income	1,310	5,699	-77.0%	3,147	-58.4%
Depreciation	5,587	5,714	-2.2%	5,836	-4.3%
Interest Expenses	952	997	-4.6%	335	184.3%
PBT	12,664	21,766	-41.8%	8,324	52.1%
Tax	3,313	4,542	-27.1%	5,544	-40.2%
Reported PAT	484	309	N/A	(25,024)	N/A
Exceptional Items	(8,867)	(16,915)	N/A	(27,805)	N/A
Adjusted PAT	9,351	17,224	-45.7%	2,781	236.3%
Adj EPS	7.90	14.55	-45.7%	2.3	236.3%

Source: Company, LKP Research

Outlook and Valuation

We have slightly reduced our FY22-23E EPS due to Wave #2 and its impact on retail sales, especially the FES business. However, we expect a bounce back in tractor sales by Q2 provided there is no Wave #3, since all other growth parameters are intact. Within the Auto sector, new launches in the coming years should bolster growth. Resolution of semi conductor issues shall remain the key to further growth. The company has identified several pillars of growth, which can leverage the core strength of M&M group and accelerate the growth for the company over the medium term, which we are currently not building in our assumptions. Maintain BUY rating on attractive valuations; SOTP-based target price increased to ₹957 as we expect margins to improve on increase in value of UV, 3Ws and LCV segments on higher volume and cost reduction measures. M&M is set for a new beginning as they have taken multiple steps to improve with capital allocation strategy by selling stakes in loss making subsidiaries, exiting certain subsidiaries or walking out from certain JVs or deals, which would have consumed capital.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@13x FY 23E EPS)	-	629
M&M Financial Services	Market cap	25%	29
Tech Mahindra	Market cap	20%	236
Mahindra Lifespaces	Market cap	30%	6
Mahindra CIE Automotives	Market cap	30%	29
Mahindra Logistics	Market cap	30%	13
Mahindra Holiday & Resorts	Market cap	30%	9
Swaraj Engines	Market cap	30%	6
Ssangyong	Market cap	30%	0
Subsidiaries Total SOTP value			329
Total			957

Income Statement

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Total Revenues	4,54,878	4,50,410	5,02,198	5,65,871
Raw Material Cost	3,16,326	3,16,130	3,51,539	3,94,978
Employee Cost	28,801	28,588	30,634	32,820
Other Exp	51,771	40,631	43,691	48,099
EBITDA	57,981	65,061	76,334	89,973
EBITDA Margin(%)	12.7	14.4	15.2	15.9
Other Income	16,678	12,213	13,500	14,500
Depreciation	22,226	22,330	23,203	25,425
Interest	1132	3709	3500	3350
PBT	51,300	51,235	63,131	75,698
PBT Margin(%)	11.3	11.4	12.6	13.4
Tax	17,855	11,916	15,151	18,168
Adj PAT	33,445	39,319	47,979	57,531
Adj PAT Margins (%)	7.4	8.7	9.6	10.2
Exceptional items	-20140	-36633	0	0
Reported PAT	13,305	2,687	47,979	57,531
Rep. PAT Margins (%)	2.9	0.6	9.6	10.2

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (₹)				
Adj. EPS	28.1	33.0	40.3	48.3
CEPS	29.9	21.0	59.8	69.7
BVPS	289.7	289.9	322.2	360.9
DPS	10.0	2.5	8.1	9.7
Growth Ratios(%)				
Total revenues	-15.2	-1.0	11.5	12.7
EBITDA	-12.7	12.2	17.3	17.9
PAT	-30.7	17.6	22.0	19.9
EPS Growth	-30.7	17.6	22.0	19.9
Valuation Ratios (X)				
PE	30.1	25.6	21.0	17.5
P/CEPS	28.3	40.2	14.1	12.1
P/BV	2.9	2.9	2.6	2.3
EV/Sales	1.8	2.0	1.7	1.5
EV/EBITDA	14.3	13.5	11.4	9.6
Operating Ratios (Days)				
Inventory days	39.2	45.7	44.0	47.0
Receivable Days	27.9	21.6	23.0	24.0
Payables day	95.0	96.8	99.0	90.0
Net Debt/Equity (x)	0.06	0.20	0.17	0.14
Profitability Ratios (%)				
ROE	9.7	11.4	12.5	13.4
Dividend payout	35.5	7.5	20.0	20.0
Dividend yield	1.2	0.3	1.0	1.1

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Equity and Liabilities				
Equity Share Capital	5,965	5,974	5,974	5,974
Reserves & Surplus	3,38,713	3,39,045	3,77,429	4,23,453
Total Networth	3,44,678	3,45,019	3,83,403	4,29,427
Total debt	36,532	86,106	81,106	76,106
Deferred tax liabilities	14,082	13,431	13,431	13,431
Current liabilities & Provisions	1,09,735	1,51,331	1,47,798	1,51,841
Total Liabilities	5,05,021	5,95,887	6,25,737	6,70,806
Assets				
Fixed assets	1,44,041	1,50,116	1,77,412	2,12,487
Non current Investments	1,77,485	1,95,766	1,89,766	1,83,766
Other non current assets	32,080	46,884	46,884	46,884
Current Assets	1,51,415	2,03,122	2,11,676	2,27,669
Cash and Bank (i)	23,235	7,393	13,909	24,856
Bank deposits other than(i)	19,130	55,161	51,161	47,161
Inventories	34,009	39,555	42,377	50,860
Sundry Debtors	29,990	23,430	31,645	37,208
Loan, Advances & others	5,120	7,570	7,570	7,570
Other current assets	59,061	1,25,174	1,16,175	1,07,175
Total Assets	5,05,021	5,95,887	6,25,737	6,70,806

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	51,300	51,235	63,131	75,698
Depreciation	22,226	22,330	23,203	25,425
Interest	1,132	3,709	3,500	3,350
Chng in working capital	-13,096	35,001	-15,571	-12,003
Tax paid	-10,823	-10,646	-15,151	-18,168
Other operating activities	-13,961	-10,430	0	0
Cash flow from operations (a)	36,778	91,199	59,112	74,303
Capital expenditure	-39,437	-27,653	-50,500	-60,500
Chng in investments	-13,037	-68,318	11,000	11,000
Other investing activities	26,717	-49,668	4,000	4,000
Cash flow from investing (b)	-25,757	-1,45,639	-35,500	-45,500
Free cash flow (a+b)	11,021	-54,440	23,612	28,803
Inc/dec in borrowings	3,289	45,261	-4,000	-3,000
Dividend paid (incl. tax)	-11,874	-2,936	-9,596	-11,506
Other financing activities	-456	0	0	0
Cash flow from financing (c)	-10,155	38,598	-17,096	-17,856
Net chng in cash (a+b+c)	866	-15,842	6,516	10,947
Closing cash & cash equivalents	23,235	7,393	13,909	24,856

Source: Company, LKP Research

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