

Retail Equity Research

Mahindra & Mahindra Limited

Automobile

BSE CODE: 500520

NSE CODE: M&M

Bloomberg CODE: MM:IN

SENSEX: 43,357

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 633

TARGET Rs. 751

RETURN 19%


KEY CHANGES:
TARGET
RATING
EARNINGS

Sales improve on higher demand

Mahindra & Mahindra Ltd. (M&M) manufactures automobiles, farm equipment and automotive components. The company also manufactures agricultural tractors, agricultural implements and agricultural engines.

- Q2FY21 revenue up 44.4% sequentially (-1.5% YoY) aided by strong demand for tractors, with marginal growth seen in passenger vehicle sales and exports.
- EBIT margin improved to 11.2% (vs. 3.4% in Q1FY21) driven by robust cost control measures and increase in top line. Adjusting for the Rs. 770cr exceptional loss, PAT jumped 177.6% YoY to Rs. 906cr.
- Festive season demand, high kharif output, new product launches, improving supply side constraints should drive the growth momentum in upcoming quarter. Hence, we upgrade our rating on the stock to **BUY** with a revised TP of Rs. 751 based on 24x FY22E adj. EPS.

On track to recovery with tractor sales leading from front

Q2FY21 revenue rose 44.4% QoQ (-1.5% YoY) to Rs. 23,567cr on the back of improved demand seen in both farm equipment and auto segment. Among its largest segments, Automotive segment revenue grew 70.2% QoQ (-8.1% YoY) to Rs. 11,081cr, while Farm Equipment surged 32.0% QoQ (+20.6% YoY) to Rs. 6,478cr. Meanwhile, Financial Services revenue largely remained flat on sequential basis at Rs. 3,019cr (+4.8% YoY). Tractor sales (Domestic) went up to 89,597 (+31.1% YoY), while auto sales stood at 87,332 (-21.2% YoY) as the sales of passenger vehicles (-11% YoY) remained subdued. EBIT surged to Rs. 2,651cr (+29.3% YoY; vs. Rs. 561cr in Q1FY21) with margin improving ~270bps YoY to 11.2% on prudent cost measures. As a result, Adj. profit stood at Rs. 906cr (vs. a loss of Rs. 863cr in Q1FY21) excluding exceptional loss from impairment of assets related to company subsidiaries and JV investment.

Improved demand; Management strategy to improve ROE

Company's tractor sales on YTD basis stood at 205,461 units (0.9% YoY), strong recovery in Oct (41,982 units). Supported with better Kharif yield this season along with government reforms in agriculture sector should translate into improved demand for tractor segment. Management expects low double digit growth for overall tractor industry in FY21. The company has undertaken key steps to improve return on equity, such as exiting Australian aircraft business (GippsAero) and to stop further investment in SsangYong along with looking for potential investors in the subsidiary.

Key concall highlights

- Company recorded its highest ever quarterly & monthly production in Q2FY21/ October; expects to build back inventory post festive season leading into Q4FY21.
- Market share declined to 38.2% in Farm equipment sector (vs. 39.1% in Q1FY21) owing to inadequate stock build up in first quarter due to supply side issues.
- Newly launched Thar received great traction from customers with 20,000 bookings (55% of which were new Mahindra customers).

Outlook and Valuation

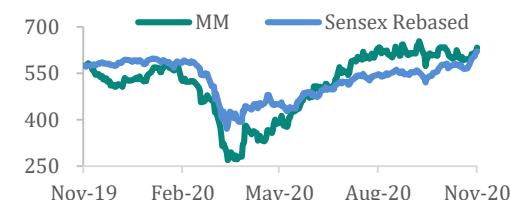
Tractor volumes are expected to witness continued strong growth from current levels. As the supply side constraints get resolved with higher production levels, coupled with rise in demand for passenger vehicles as customers would give preference to private transport, we expect the demand to pick up. We hereby upgrade our rating on the stock to **BUY** with a revised target price of Rs. 751 based on 24x FY22E adj. EPS.

Company Data

Market Cap (cr)	Rs. 70,174		
Enterprise Value (cr)	Rs. 131,017		
Outstanding Shares (cr)	114.9		
Free Float	78.0%		
Dividend Yield	0.4%		
52 week high	Rs. 666		
52 week low	Rs. 246		
6m average volume (lacs)	2.4		
Beta	1.0		
Face value	Rs. 5		
Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	19.9	19.6	19.6
FII's	33.9	34.6	34.7
MFs/Insti	32.7	33.8	35.1
Public	9.6	9.2	9.1
Others	4.0	2.8	1.5
Total	100.0	100.0	100.0
Promoters' pledge	3.0	3.0	1.3

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-0.3%	61.0%	10.0%
Absolute Sensex	13.0%	38.2%	7.5%
Relative Return*	-13.3%	22.7%	2.6%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	95,179	85,761	91,593
Growth (%)	(9.1)	(9.9)	6.8
EBITDA	12,564	13,257	14,429
EBITDA Margin (%)	13.2	15.5	15.8
Adj. PAT	2,101	2,314	3,477
Growth (%)	(58.7)	10.2	50.3
Adj. EPS	19.0	20.1	30.3
Growth (%)	(59.4)	6.3	50.3
P/E	15.0	31.4	20.9
P/B	0.8	1.7	1.6
EV/EBITDA	7.5	9.9	8.9
ROE (%)	0.3	5.5	7.8
D/E	1.3	1.4	1.2

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	23,567	23,936	(1.5)	16,321	44.4	39,888	49,977	(20.2)
EBITDA	3,843	3,310	16.1	1,724	123.0	5,567	6,745	(17.5)
EBITDA margins	16.3	13.8	250bps	10.6	570bps	14.0	13.5	50bps
Depreciation	1,193	1,259	(5.3)	1,163	2.6	2,356	2,500	(5.8)
EBIT	2,651	2,051	29.3	561	372.7	3,211	4,245	(24.4)
Interest	1,600	1,526	4.8	1,608	(0.5)	3,209	2,951	8.7
Other Income	530	560	(5.3)	450	17.7	980	1,093	(10.4)
Exceptional Items	(770)	22	n.m.	766	n.m.	(4)	161	n.m.
PBT	810	1,106	(26.7)	168	381.6	978	2,548	(61.6)
Tax	662	737	(10.2)	114	482.7	775	1,285	(39.7)
Share of profit from Associate	245	346	(29.3)	251	(2.6)	496	633	(21.6)
Minority Interest	13	20	(36.9)	152	(91.6)	165	1	n.m.
Reported PAT	136	348	(61.1)	(98)	238.9	38	1,262	(97.0)
Adjustments	770	(22)	n.m.	(766)	n.m.	4	(161)	n.m.
Adj. PAT	906	326	177.6	(863)	204.9	42	1,101	(96.2)
No. of shares	114.9	111.2	3.3	108.5	5.9	114.9	111.2	3.3
Adj. EPS (Rs.)	7.9	2.9	168.7	(8.0)	199.0	0.4	9.9	(96.3)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	85,274	90,629	85,761	91,593	0.6	1.1
EBITDA	13,098	14,008	13,257	14,429	1.2	3.0
Margins (%)	15.4	15.5	15.5	15.8	10bps	30bps
Adj. PAT	1,877	3,161	2,314	3,477	23.3	10.0
Adj. EPS	17.3	29.1	20.1	30.3	16.4	3.9

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	92,094	104,721	95,179	85,761	91,593
% change	9.9	13.7	(9.1)	(9.9)	6.8
EBITDA	13,226	15,207	12,564	13,257	14,429
% change	25.6	18.0	(13.3)	14.5	9.7
Depreciation	3,280	3,991	4,976	5,080	5,241
EBIT	9,946	11,216	7,588	8,177	9,188
Interest	3,987	5,021	6,065	6,416	6,610
Other Income	4,366	2,676	131	2,099	2,588
PBT	10,326	8,871	1,655	3,860	5,165
% change	62.6	(14.1)	(81.3)	133.3	33.8
Tax	2,368	2,854	1,976	973	1,302
<i>Tax Rate (%)</i>	22.9	32.2	119.4	25.2	25.2
Reported PAT	7,510	5,315	127	2,310	3,477
Adj*	(2,628)	(224)	1,974	4	-
Adj PAT	4,882	5,091	2,101	2,314	3,477
% change	50.2	4.3	(58.7)	10.2	50.3
No. of shares (cr)	109.1	109.1	110.8	114.9	114.9
Adj EPS (Rs.)	44.8	46.6	19.0	20.1	30.3
% change	(25.1)	4.2	(59.4)	6.3	50.3
DPS (Rs.)	7.5	8.5	2.4	4.0	6.1
CEPS (Rs.)	74.8	83.2	63.8	64.4	75.9

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	6,548	8,735	7,911	20,301	18,652
Accounts Receivable	8,490	8,678	6,928	6,861	7,556
Inventories	9,336	12,200	11,112	10,098	10,598
Other Cur. Assets	34,703	39,793	38,094	43,157	40,135
Investments	10,668	12,161	12,915	14,418	15,813
Gross Fixed Assets	48,079	51,420	58,214	62,074	68,710
Net Fixed Assets	20,820	22,227	24,417	22,888	23,867
CWIP	1,815	2,454	2,552	3,062	3,675
Intangible Assets	7,816	9,061	9,577	9,375	9,179
Def. Tax (Net)	842	1,503	1,291	1,167	1,041
Other Assets	36,174	46,579	52,210	48,813	48,866
Total Assets	137,211	163,392	167,007	180,141	179,382
Current Liabilities	37,824	48,068	43,792	46,426	46,821
Provisions	3,786	4,235	4,384	4,516	4,651
Debt Funds	45,135	54,067	62,516	70,381	65,881
Other Liabilities	5,441	8,677	8,654	8,744	8,732
Equity Capital	543	544	554	554	554
Reserves & Surplus	36,232	39,439	39,415	41,251	44,088
Shareholder's Fund	36,775	39,983	39,969	41,805	44,642
Minority Interest	8,250	8,361	7,692	8,269	8,656
Total Liabilities	137,211	163,392	167,007	180,141	179,382
BVPS (Rs.)	337	366	361	364	389

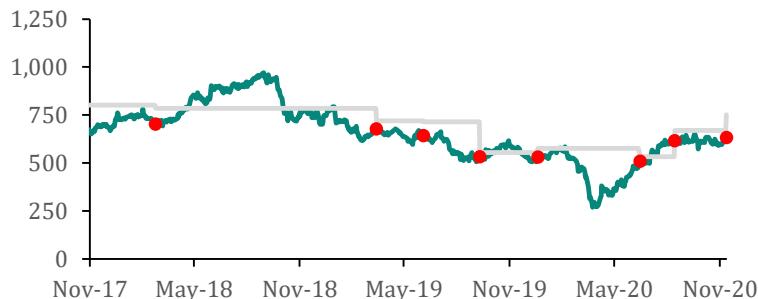
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	10,790	9,306	5,103	7,390	8,718
Non-cash adj.	(13,147)	(14,565)	(3,511)	(1,191)	4,986
Changes in W.C	3,039	911	(3,044)	2,390	(484)
C.F. Operation	682	(4,347)	(1,451)	8,589	13,221
Capital exp.	(5,791)	(7,198)	(6,794)	(3,859)	(6,636)
Change in inv.	197	(685)	(1,438)	(2,834)	(2,725)
Other invest.CF	126	715	1,331	3,907	459
C.F - Investment	(5,468)	(7,168)	(6,901)	(2,787)	(8,902)
Issue of equity	1,337	13	939	-	-
Issue/repay debt	6,461	15,037	8,151	7,865	(4,500)
Dividends paid	(963)	(1,134)	(1,398)	(474)	(640)
Other finance.CF	(521)	(723)	(760)	(804)	(828)
C.F - Finance	6,315	13,194	6,933	6,587	(5,968)
Chg. in cash	1,528	1,678	(1,419)	12,390	(1,649)
Closing cash	6,548	8,735	7,911	20,301	18,652

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	14.4	14.5	13.2	15.5	15.8
EBIT margin (%)	10.8	10.7	8.0	9.5	10.0
Net profit mgn.(%)	8.2	5.1	0.1	2.7	3.8
ROE (%)	20.4	13.3	0.3	5.5	7.8
ROCE (%)	11.0	11.0	6.9	6.8	7.7
W.C & Liquidity					
Receivables (days)	33.2	29.8	26.2	28.8	29.7
Inventory (days)	62.8	73.0	76.1	79.2	77.4
Payables (days)	123.0	125.6	102.6	127.8	124.2
Current ratio (x)	1.2	1.2	1.2	1.4	1.3
Quick ratio (x)	0.4	0.4	0.4	0.6	0.6
Turnover & Leverage					
Gross asset T.O (x)	2.0	2.1	1.7	1.4	1.4
Total asset T.O (x)	0.7	0.7	0.6	0.5	0.5
Int. coverage ratio (x)	2.5	2.2	1.3	1.3	1.4
Adj. debt/equity (x)	1.0	1.1	1.3	1.4	1.2
Valuation					
EV/Sales (x)	1.4	1.2	1.0	1.5	1.4
EV/EBITDA (x)	9.6	8.2	7.5	9.9	8.9
P/E (x)	16.5	14.1	15.0	31.4	20.9
P/BV (x)	2.2	1.8	0.8	1.7	1.6

Recommendation Summary



Dates	Rating	Target
23-Feb-18	HOLD	785
14-Mar-19	HOLD	720
4-Jun-19	HOLD	714
10-Sep-19	HOLD	555
20-Dec-19	HOLD	577
15-Jun-20	HOLD	533
14-Aug-20	HOLD	670
13-Nov-20	BUY	751

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0%-10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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