

SELL

TP: Rs 630 | ▼ 27%

**MAHINDRA &
MAHINDRA**

Automobiles

05 February 2021

Healthy Q3, valuations expensive – maintain SELL

M&M's (MM) Q3FY21 revenue was in line at Rs 140.6bn (+16% YoY). EBITDA margin beat our estimate at 17% and EBITDA/PAT increased 33%/78% YoY to Rs 23.9bn/Rs 17.4bn. Tractors performed well, clocking 23.4% EBIT margins (+400bps YoY); auto margins also expanded 40bps. We expect MM's tractor/auto segments to log a volume CAGR of 5%/15% over FY21-FY23, but a gross margin downtrend could curtail EBITDA margins. We continue to value the core business at 14x Mar'23E EPS and maintain our TP at Rs 630. SELL.

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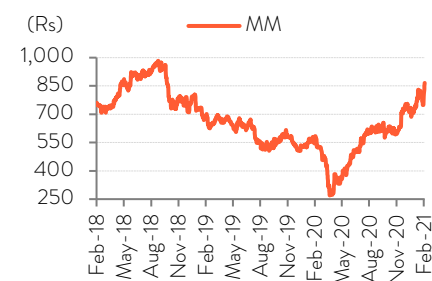
Healthy operating performance: Revenues for MM+MVML grew 16% YoY to Rs 140.6bn, meeting our estimates. Below-expected gross margins were more than offset by better operating efficiencies, resulting in EBITDA growth of 33% YoY to Rs 23.9bn (Rs 20bn est.) and an EBITDA margin of 17% (+220bps YoY). A significant jump in interest burden was nullified by higher other income, resulting in adj. PAT growth of 78% YoY to Rs 17.4bn. MM reported one-off impairment charges of Rs 12.1bn in Q3.

Ticker/Price	MM IN/Rs 867
Market cap	US\$ 14.7bn
Shares o/s	1,242mn
3M ADV	US\$ 66.1mn
52wk high/low	Rs 894/Rs 245
Promoter/FPI/DII	20%/34%/24%

Source: NSE

Spiking RM costs to weigh on operating performance: We expect MM's tractor/auto segments to witness a 5%/15% volume CAGR over FY21-FY23. Rising commodity costs are likely to impact gross margins. Steel forms ~60% of the raw material used in a car. Since Sep'20, steel prices have surged >90%, which can have a devastating impact on margins, alongside the rise in rubber and crude derivative prices.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We estimate a 12% revenue CAGR for MM over FY21-FY23, though margin headwinds are expected to cap earnings growth at 5%. We continue to value the core business at 14x Mar'23E EPS and assign a 30% holding company discount to subsidiaries, yielding a Mar'22 TP of Rs 630. Retain SELL as current valuations look rich at 23x FY23E core EPS (adj. for subs. Value of Rs. 230).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	528,482	448,655	430,558	497,341	539,596
EBITDA (Rs mn)	75,301	63,506	67,844	69,237	75,143
Adj. net profit (Rs mn)	54,239	35,509	41,625	42,228	45,778
Adj. EPS (Rs)	43.7	28.6	33.5	34.0	36.9
Adj. EPS growth (%)	29.5	(34.5)	17.2	1.4	8.4
Adj. ROAE (%)	16.6	10.2	11.9	11.4	11.5
Adj. P/E (x)	19.8	30.3	25.9	25.5	23.5
EV/EBITDA (x)	14.0	16.3	15.3	15.2	14.0

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – MM + MVML

Y/E Mar (Rs)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenues	140,565	121,203	16.0	115,903	21.3	312,363	358,608	(12.9)
Raw Materials	96,292	81,591	18.0	76,979	25.1	209,511	240,770	(13.0)
% of Net Sales	68.5	67.3	-	66.4	-	67.1	67.1	-
Personnel	8,841	8,300	6.5	7,920	11.6	24,465	25,110	(2.6)
% of Net Sales	6.3	6.8	-	6.8	-	7.8	7.0	-
Manufacturing & Other Exp	11,576	13,425	(13.8)	10,432	11.0	28,226	41,497	(32.0)
% of Net Sales	8.2	11.1	-	9.0	-	9.0	11.6	-
Total Expenditure	116,709	103,315	13.0	95,330	22.4	262,202	307,377	(14.7)
EBITDA	23,856	17,888	33.4	20,573	16.0	50,161	51,231	(2.1)
EBITDA Margin (%)	17.0	14.8	-	17.8	-	16.1	14.3	-
Depreciation	6,043	5,900	2.4	5,870	2.9	17,725	17,459	1.5
EBIT	17,814	11,988	48.6	14,703	21.2	32,436	33,772	(4.0)
Interest Expenses	1,039	254	309.7	1,179	(11.8)	2,986	886	236.9
Non-operating income	5,618	2,092	168.6	3,839	46.4	10,795	12,236	(11.8)
Extraordinary Expenses/ (Income)	12,140	6,006	102.1	11,495	5.6	23,346	(7,665)	(404.6)
PBT	10,253	7,821	31.1	5,869	74.7	16,899	52,787	(68.0)
Tax-Total	4,944	4,019	23.0	4,252	16.3	9,295	12,840	(27.6)
Tax Rate (%) - Total	48.2	51.4	(6.2)	72.4	-	55.0	24.3	126.1
Reported PAT	5,309	3,802	39.6	1,618	228.2	7,604	39,947	(81.0)
Adj. PAT	17,448	9,808	77.9	13,112	33.1	30,950	32,282	(4.1)
PAT Margin	12.4	8.1	-	11.3	-	9.9	9.0	-

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

Y/E Mar (Rs)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Sales Volume (nos)	223,978	216,816	3.3	185,270	20.9	504,556	626,245	(19.4)
Net Realisation/Vehicle	627,586	559,012	12.3	625,591	0.3	619,085	572,632	8.1
Material Cost/Vehicle	429,919	376,312	14.2	415,495	3.5	415,239	384,466	8.0
Gross Profit/Vehicle	197,667	182,700	8.2	210,096	(5.9)	203,846	188,166	8.3
Employee Cost/Vehicle	39,473	38,282	3.1	42,747	(7.7)	48,487	40,096	20.9
Other Expenses/Vehicle	51,683	61,917	(16.5)	56,304	(8.2)	55,942	66,264	(15.6)
EBITDA/Vehicle	106,511	82,501	29.1	111,044	(4.1)	99,416	81,807	21.5
Net Profit/Vehicle	77,902	45,234	72.2	70,773	10.1	61,341	51,549	19.0

Source: Company, BOBCAPS Research

FIG 3 – SEGMENT-WISE PERFORMANCE

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Segment Revenue								
Automotive Segment	83,111	74,238	12.0	63,565	30.7	167,071	223,024	(25.1)
Farm Equipment Segment	52,815	42,778	23.5	48,354	9.2	134,578	122,915	9.5
Other Segments	5,359	4,757	12.7	4,455	20.3	12,019	14,859	(19.1)
(Less) Inter-segment revenues	720	571	26.1	471	52.8	1,305	2,190	(40.4)
Total	140,565	121,203	16.0	115,903	21.3	312,363	358,608	(12.9)
EBIT (After Exceptional Item)								
Automotive Segment.	6,441	5,417	18.9	4,117	56.4	4,365	14,571	(70.0)
Farm Equipment Segment	12,359	8,309	48.8	11,795	4.8	30,977	23,775	30.3
Other Segments	380	168	125.9	127	199.6	453	636	(28.8)
Total	19,180	13,894	38.0	16,039	19.6	35,795	38,982	(8.2)
EBIT Margins (%)								
Automotive Segment.	7.7	7.3	-	6.5	-	2.6	6.5	-
Farm Equipment Segment	23.4	19.4	-	24.4	-	23.0	19.3	-
Other Segments	7.1	3.5	-	2.8	-	3.8	4.3	-

Source: Company, BOBCAPS Research

Valuation methodology

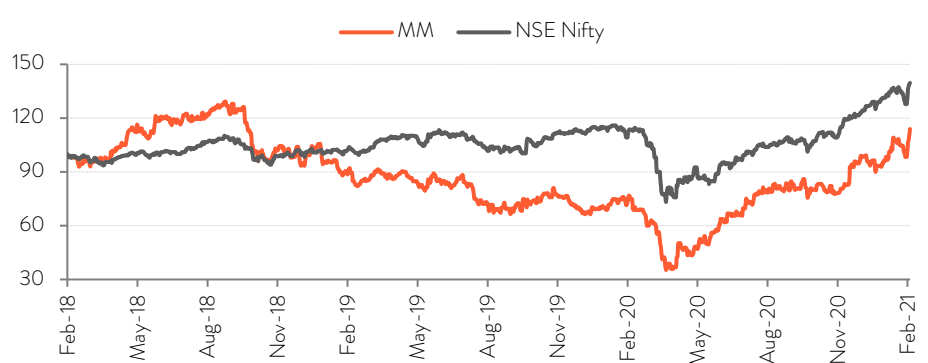
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FIG 4 – SOTP VALUATION

Business	Fair Value (Rs)	Comment
Core business	400	14x Mar'23E Core EPS
Value of subsidiaries	230	30% hold-co discount
Total	630	

Source: Company, BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Significant increase in MM’s UV market share led by its upcoming launches can pose upside risks to our estimates.
- Control over losses in subsidiaries and recurring investments therein will help MM’s consolidated earnings and return ratios to improve.
- Softening of raw material prices from current levels can provide a boost to operating margins.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	528,482	448,655	430,558	497,341	539,596
EBITDA	75,301	63,506	67,844	69,237	75,143
Depreciation	20,030	23,631	23,250	26,359	28,599
EBIT	55,271	39,875	44,593	42,878	46,545
Net interest income/(expenses)	(1,467)	(1,245)	(4,099)	(3,153)	(3,153)
Other income/(expenses)	16,303	15,391	13,564	16,729	17,809
Exceptional items	(227)	(28,112)	(23,346)	0	0
EBT	70,106	54,021	54,058	56,454	61,201
Income taxes	15,867	18,513	12,433	14,226	15,423
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	54,012	7,397	18,279	42,228	45,778
Adjustments	227	28,112	23,346	0	0
Adjusted net profit	54,239	35,509	41,625	42,228	45,778

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	103,607	72,006	84,932	98,106	107,919
Other current liabilities	38,713	30,229	27,013	36,176	37,772
Provisions	16,151	15,781	12,917	14,920	16,188
Debt funds	26,802	31,530	31,530	31,530	31,530
Other liabilities	6,062	7,274	7,274	7,274	7,274
Equity capital	5,958	5,965	5,965	5,965	5,965
Reserves & surplus	343,979	340,326	350,109	381,717	404,903
Shareholders' fund	349,937	346,291	356,074	387,682	410,868
Total liabilities and equities	541,272	503,111	519,740	575,688	611,551
Cash and cash eq.	70,746	64,262	45,350	63,212	59,083
Accounts receivables	38,119	29,012	33,029	35,427	39,915
Inventories	47,631	40,408	38,927	44,965	50,264
Other current assets	48,700	37,496	38,750	44,761	48,564
Investments	173,836	153,433	173,433	193,433	213,433
Net fixed assets	144,967	169,093	180,843	184,484	190,885
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	1
Deferred tax assets, net	(7,896)	(15,068)	(15,068)	(15,068)	(15,068)
Other assets	25,168	24,475	24,475	24,475	24,475
Total assets	541,272	503,111	519,740	575,688	611,552

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	74,042	31,028	41,529	68,587	74,377
Interest expenses	(1,467)	(1,245)	(4,099)	(3,153)	(3,153)
Non-cash adjustments	7,900	37,221	27,445	3,153	3,153
Changes in working capital	(11,074)	(12,920)	3,056	9,894	(913)
Other operating cash flows	1,156	(26,899)	(23,346)	0	0
Cash flow from operations	70,557	27,184	44,584	78,481	73,464
Capital expenditures	(34,928)	(47,756)	(35,000)	(30,000)	(35,000)
Change in investments	(19,212)	20,403	(20,000)	(20,000)	(20,000)
Other investing cash flows	6,949	10,529	0	0	0
Cash flow from investing	(47,190)	(16,824)	(55,000)	(50,000)	(55,000)
Equities issued/Others	8	7	0	0	0
Debt raised/repaid	(5,339)	4,728	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(12,035)	(3,327)	(8,496)	(10,620)	(22,593)
Other financing cash flows	3,078	(7,723)	0	0	0
Cash flow from financing	(14,288)	(6,316)	(8,496)	(10,620)	(22,593)
Changes in cash and cash eq.	9,079	4,045	(18,911)	17,861	(4,129)
Closing cash and cash eq.	77,695	74,791	45,350	63,212	59,083

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	43.5	6.0	14.7	34.0	36.9
Adjusted EPS	43.7	28.6	33.5	34.0	36.9
Dividend per share	8.5	2.4	6.0	7.5	8.5
Book value per share	281.7	278.8	286.7	312.1	330.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.0	2.3	2.4	2.1	2.0
EV/EBITDA	14.0	16.3	15.3	15.2	14.0
Adjusted P/E	19.8	30.3	25.9	25.5	23.5
P/BV	3.1	3.1	3.0	2.8	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	77.0	13.7	33.8	74.8	74.8
Interest burden (PBT/EBIT)	126.8	135.5	121.2	131.7	131.5
EBIT margin (EBIT/Revenue)	10.5	8.9	10.4	8.6	8.6
Asset turnover (Revenue/Avg TA)	97.6	89.2	82.8	86.4	88.2
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	16.6	10.2	11.9	11.4	11.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	11.1	(15.1)	(4.0)	15.5	8.5
EBITDA	6.9	(15.7)	6.8	2.1	8.5
Adjusted EPS	29.5	(34.5)	17.2	1.4	8.4
Profitability & Return ratios (%)					
EBITDA margin	14.2	14.2	15.8	13.9	13.9
EBIT margin	10.5	8.9	10.4	8.6	8.6
Adjusted profit margin	10.3	7.9	9.7	8.5	8.5
Adjusted ROAE	16.6	10.2	11.9	11.4	11.5
ROCE	20.1	14.6	15.2	14.8	14.9
Working capital days (days)					
Receivables	26	24	28	26	27
Inventory	41	41	41	41	42
Payables	83	68	85	84	85
Ratios (x)					
Gross asset turnover	3.8	2.9	2.5	2.7	2.9
Current ratio	1.3	1.5	1.2	1.3	1.2
Net interest coverage ratio	37.7	32.0	10.9	13.6	14.8
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

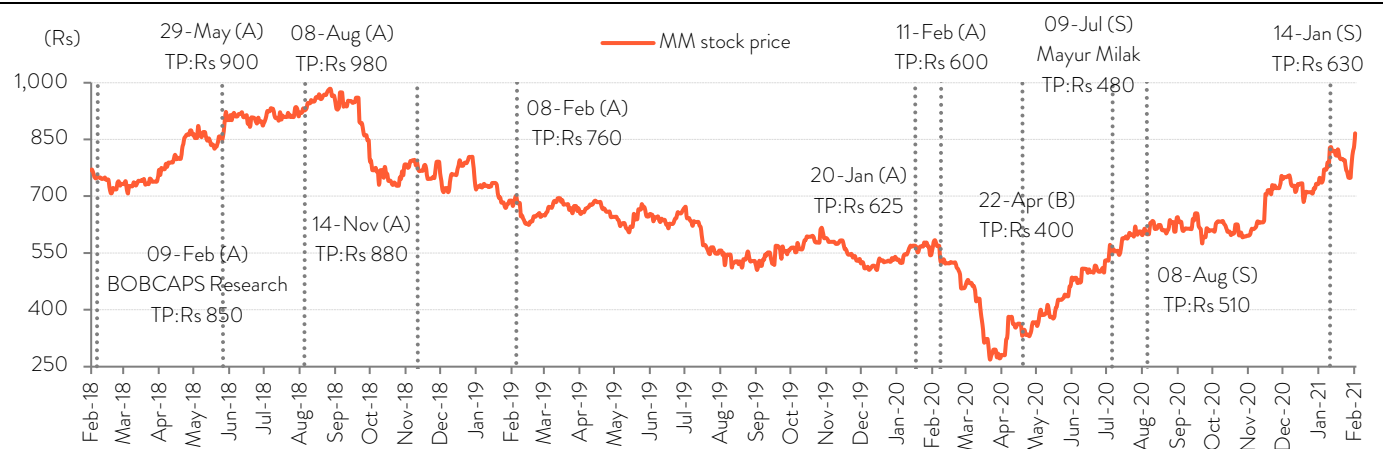
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): MAHINDRA & MAHINDRA (MM IN)



B – Buy, A – Add, R – Reduce, S – Sell

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