

Retail Equity Research

Mahindra & Mahindra Limited

Automobile

BSE CODE: 500520

NSE CODE: M&M

Bloomberg CODE: MM:IN

SENSEX: 37,877

12M Investment period

Rating as per Large Cap

CMP Rs. 615

TARGET Rs. 670

RETURN 9% ↑

(Closing: 14-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Demand and supply shock in parallel

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

- Q1FY21 consolidated revenue declined 37.3% YoY with major impact in automotive segment sales (down by 52.0% YoY). On a positive note farm equipment segment performed better than all other segments.
- Overall, EBIT margin contracted due to lower sales while farm equipment segment margin was higher than expected.
- We expect recovery from hereon as markets open up. The management is focusing to clear supply chain constraints and increase utilization level to meet up the demand. We reiterate our HOLD rating on the stock with a revised TP of Rs. 670 based on 23.5x FY22E adj. EPS.

Zero sales in April 2020

Q1FY21 revenue declined 37.3% YoY to Rs. 16,321cr owing to decline in sales brought by the nationwide lockdown with first ever zero sales in the month of April 2020. The timely relaxation of the lockdown for the agricultural sector along with positive rural sentiment led positive growth in tractor sales in the month of May and June 2020. Automotive segment being the worst impacted segment with sales dropping to Rs. 6,509cr (down 52.0% YoY), partially offset by financial services division which gained 7.4% YoY to Rs. 3,032cr. Total vehicles sold in the quarter were 27,565 (-78.0% YoY); while tractors sold were 64,140 (-22.0% YoY), pulled up by positive growth in May and June 2020; Exports were at 3,109 (-72.0% YoY). Consolidated EBITDA came in at Rs. 1,724cr (-49.8% YoY) with margin contracting 260bps YoY to 10.6%, due to lower sales in most of the segments. As a result, adjusted loss reported at Rs. 863cr excluding exceptional income mainly from gain on sale of non-current assets by a subsidiary.

Farm equipment segment continues to drive growth

With its domestic business ramped up and plants operating at over 90% capacity utilization, the farm equipment business should continue driving growth for rest of the year. We expect the management to pick up some strategies to regain its market share in tractors business by stabilizing the supply-chain and raw material supplies. Industry outlook is positive in terms of tractors segment due to good monsoon and healthy Kharif sowing. In the Automotive division, SCV demand is picking up due to demand in SCV ambulance; Bolero and Scorpio witnessed a sharp recovery in volume June onwards, from key states like Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan.

Key concall highlights

- The government package of Rs. 20tn will positively prevent distress, increase demand and support more stressed sectors.
- The company is looking for investors in Mahindra Electric and expects ~\$100mn towards product development costs over the next few years.
- The all new Thar would be launched in early half of FY21, whereas further UV launches are set to take place in Q1FY22E and Q3FY22E.

Outlook and Valuation

A combination of lower incomes and heightened uncertainty is expected to drag consumer spending and business investment in FY21. High frequency indicators suggest that economic activity has seen a strong sequential recovery in May-June 2020. With gradual uptick in tractor volumes on the back of positive growth expected in the agro sector, aided by a reasonably better monsoon season and bumper harvest, we reiterate our HOLD rating on the stock with a revised target price of Rs. 670 based on 23.5x FY22E adj. EPS.

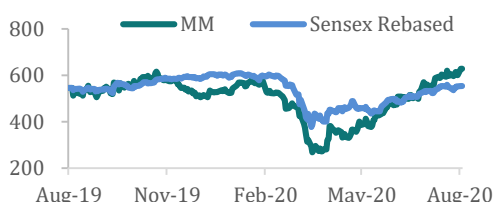
Company Data

Market Cap (cr)	Rs. 69,793
Enterprise Value (cr)	Rs. 131,497
Outstanding Shares (cr)	110.9
Free Float	78.0%
Dividend Yield	0.4%
52 week high	Rs. 641
52 week low	Rs. 246
6m average volume (lacs)	2.5
Beta	1.4
Face value	Rs. 5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	19.9	19.9	19.6
FII's	34.0	33.9	34.6
MFs/Insti	32.4	32.7	33.8
Public	9.9	9.6	9.2
Others	3.9	4.0	2.8
Total	100.0	100.0	100.0
Promoters' pledge	1.7	3.0	3.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	62.8%	19.1%	15.3%
Absolute Sensex	20.7%	-6.8%	1.6%
Relative Return*	42.1%	26.0%	13.7%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	95,179	85,274	90,629
Growth (%)	(9.1)	(10.4)	6.3
EBITDA	12,564	13,098	14,008
EBITDA Margin (%)	13.2	15.4	15.5
Adj. PAT	2,101	1,877	3,161
Growth (%)	(58.7)	(10.6)	68.4
Adj. EPS	19.0	17.3	29.1
Growth (%)	(59.4)	(8.7)	68.4
P/E	15.0	36.4	21.6
P/B	0.8	1.6	1.5
EV/EBITDA	7.5	10.0	9.5
ROE (%)	0.3	6.3	7.1
D/E	1.3	1.2	1.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	16,321	26,041	(37.3)	20,182	(19.1)
EBITDA	1,724	3,435	(49.8)	2,415	(28.6)
EBITDA margins	10.6	13.2	(260bps)	12.0	(140bps)
Depreciation	1,163	1,241	(6.3)	1,203	(3.3)
EBIT	561	2,194	(74.4)	1,212	(53.7)
Interest	1,608	1,425	12.9	1,576	2.1
Share of profit from Associate	251	287	(12.4)	68	267.8
Other Income	199	248	(20.0)	317	(37.3)
Exceptional Items	766	139	451.9	(1,783)	n.m.
PBT	168	1,442	(88.3)	(1,761)	n.m.
Tax	114	548	(79.3)	(7)	n.m.
Minority Interest	152	(19)	n.m.	(420)	n.m.
Reported PAT	(98)	914	n.m.	(1,335)	92.7
Adjustments	(766)	(139)	(451.9)	1,783	n.m.
Adj. PAT	(863)	775	n.m.	448	n.m.
No. of shares	108.5	111.1	(2.4)	110.8	(2.1)
Adj. EPS (Rs.)	(8.0)	7.0	n.m.	4.0	n.m.

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	90,168	95,620	85,274	90,629	(5.4)	(5.2)
EBITDA	12,764	13,806	13,098	14,008	2.6	1.5
Margins (%)	14.2	14.4	15.4	15.5	120bps	110bps
Adj. PAT	1,689	3,462	1,877	3,161	11.2	(8.7)
Adj. EPS	15.2	31.2	17.3	29.1	13.6	(6.7)

PROFIT & LOSS

Y.E December (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	92,094	104,721	95,179	85,274	90,629
% change	9.9	13.7	(9.1)	(10.4)	6.3
EBITDA	13,226	15,207	12,564	13,098	14,008
% change	25.6	18.0	(13.3)	13.1	7.8
Depreciation	3,280	3,991	4,976	5,080	5,261
EBIT	9,946	11,216	7,588	8,018	8,747
Interest	3,987	5,021	6,065	6,662	6,918
Other Income	4,366	2,676	131	3,061	2,866
PBT	10,326	8,871	1,655	4,417	4,696
% change	62.6	(14.1)	(81.3)	166.9	6.3
Tax	2,368	2,854	1,976	1,113	1,183
Tax Rate (%)	22.9	32.2	119.4	25.2	25.2
Reported PAT	7,510	5,315	127	2,643	3,161
Adj*	(2,628)	(224)	1,974	(766)	-
Adj PAT	4,882	5,091	2,101	1,877	3,161
% change	50.2	4.3	(58.7)	(10.6)	68.4
No. of shares (cr)	109.1	109.1	110.8	108.5	108.5
Adj EPS (Rs.)	44.8	46.6	19.0	17.3	29.1
% change	(25.1)	4.2	(59.4)	(8.7)	68.4
DPS (Rs.)	7.5	8.5	2.4	4.9	5.8
CEPS (Rs.)	74.8	83.2	63.8	64.1	77.6

CASH FLOW

Y.E December (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	10,790	9,306	5,103	7,723	8,422
Non-cash adj.	(13,147)	(14,565)	(3,511)	2,588	(835)
Changes in W.C	3,039	911	(3,044)	(2,730)	554
C.F. Operation	682	(4,347)	(1,451)	7,581	8,141
Capital exp.	(5,791)	(7,198)	(6,794)	(5,116)	(6,566)
Change in inv.	197	(685)	(1,438)	(2,136)	(2,097)
Other invest.CF	126	715	1,331	705	707
C.F - Investment	(5,468)	(7,168)	(6,901)	(6,547)	(7,956)
Issue of equity	1,337	13	939	-	-
Issue/repay debt	6,461	15,037	8,151	-	-
Dividends paid	(963)	(1,134)	(1,398)	(497)	(750)
Other finance.CF	(521)	(723)	(760)	(834)	(866)
C.F - Finance	6,315	13,194	6,933	(1,332)	(1,617)
Chg. in cash	1,528	1,678	(1,419)	(298)	(1,432)
Closing cash	6,548	8,735	7,911	7,613	6,181

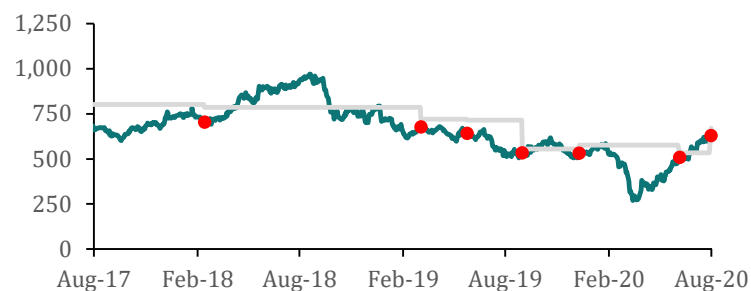
BALANCE SHEET

Y.E December (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	6,548	8,735	7,911	7,613	6,181
Accounts Receivable	8,490	8,678	6,928	7,675	7,250
Inventories	9,336	12,200	11,112	9,648	10,311
Other Cur. Assets	34,703	39,793	38,094	36,818	40,107
Investments	10,668	12,161	12,915	13,720	14,487
Gross Fixed Assets	48,079	51,420	58,214	63,331	69,897
Net Fixed Assets	20,820	22,227	24,417	23,211	23,082
CWIP	1,815	2,454	2,552	2,552	2,552
Intangible Assets	7,816	9,061	9,577	10,820	12,255
Def. Tax (Net)	842	1,503	1,291	779	828
Other Assets	36,174	46,579	52,210	52,422	52,685
Total Assets	137,211	163,392	167,007	165,257	169,737
Current Liabilities	37,824	48,068	43,792	39,666	41,095
Provisions	3,786	4,235	4,384	4,472	4,561
Debt Funds	45,135	54,067	62,516	62,516	62,516
Other Liabilities	5,441	8,677	8,654	8,137	8,336
Equity Capital	543	544	554	554	554
Reserves & Surplus	36,232	39,439	39,415	41,561	43,972
Shareholder's Fund	36,775	39,983	39,969	42,115	44,526
Minority Interest	8,250	8,361	7,692	8,352	8,704
Total Liabilities	137,211	163,392	167,007	165,257	169,737
BVPS (Rs.)	337	366	361	388	411

RATIOS

Y.E December	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	14.4	14.5	13.2	15.4	15.5
EBIT margin (%)	10.8	10.7	8.0	9.4	9.7
Net profit mgn.(%)	8.2	5.1	0.1	3.1	3.5
ROE (%)	20.4	13.3	0.3	6.3	7.1
ROCE (%)	11.0	11.0	6.9	7.1	7.6
W.C & Liquidity					
Receivables (days)	33.2	29.8	26.2	32.4	28.8
Inventory (days)	62.8	73.0	76.1	76.1	76.1
Payables (days)	123.0	125.6	102.6	91.0	91.0
Current ratio (x)	1.2	1.2	1.2	1.3	1.3
Quick ratio (x)	0.4	0.4	0.4	0.5	0.5
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	1.2	1.3
Adj. debt/equity (x)	1.0	1.1	1.3	1.2	1.2
Valuation					
EV/Sales (x)	1.4	1.2	1.0	1.5	1.5
EV/EBITDA (x)	9.6	8.2	7.5	10.0	9.5
P/E (x)	16.5	14.1	15.0	36.4	21.6
P/BV (x)	2.2	1.8	0.8	1.6	1.5

Recommendation Summary



Dates	Rating	Target
8-Jun-17	BUY	801
23-Feb-18	HOLD	785
14-Mar-19	HOLD	720
4-Jun-19	HOLD	714
12-Sep-19	HOLD	555
20-Dec-19	HOLD	577
18-Jun-20	HOLD	533
14-Aug-20	HOLD	670

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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