

Company Update
Automobile
Mahindra and Mahindra Ltd.
BUY

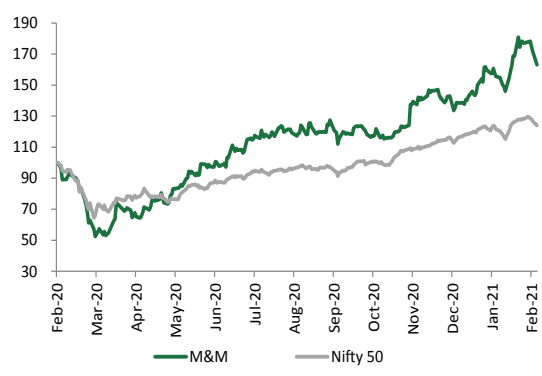
CMP (Rs)	850
Target Price (Rs)	1,087
Potential Upside	27.9%
Sensex	50,782
Nifty	14,982

Key Stock data

BSE Code	500520
NSE Code	M&M
Bloomberg	MM:IN
Shares o/s, Cr (FV 5)	119.2
Market Cap (Rs Cr)	105,621
3M Avg Volume	62,37,465
52 week H/L	952/245

Shareholding Pattern

(%)	Jun-20	Sep-20	Dec-20
Promoter	19.6	19.6	19.4
FII	34.6	34.7	37.9
DII	29.6	30.9	28.5
Others	16.2	14.8	14.2

1 Year relative price performance

Research Analyst

Rohit Khatri, MBA
 rohit.khatri@religare.com

On a strong footing

Established in 1945, Mahindra and Mahindra (M&M) is the flagship company of the Mahindra Group. It is one of the leading conglomerates which operate in various segments such as Automotive (PVs, CVs, 2W and 3W), Farm Equipment, Hospitality, Information Technology, Financial Services, Real Estate, Retail and Logistics. It has business presence in over 100 countries with 63 manufacturing facilities around the world. M&M is the market leader in Tractors and Utility Vehicles (UV) segment which is a part of its core business (Farm equipment and Auto).

Investment Rationale:

- Tractor industry to drive growth:** The domestic tractor industry has witnessed healthy growth recovery from Dec-19 (volumes were impacted due to lockdown in March and April) led by increase in Kharif sowing area, thereby indicating a bumper harvest, good monsoons, higher government spending and favourable base effect. We believe the trend is expected to continue on the back of expected normal monsoons, a good Rabi crop season and increase in MSP. Further, the supply side issues faced recently due to restrictions has eased considerably. The positive tractor industry growth prospect bodes well for M&M given its market leadership (41.2% market share), strong product portfolio, wide distribution network and new launches. Further, farm equipment being a major contributor to its operational profits (68.7% as on FY20), we believe it to be a key driver to M&M earnings growth.
- M&M's UV business to witness challenges, LCV better placed:** While we expect the UV industry to revive gradually (still underperforming the overall PV industry) on the back of cyclical recovery, the increased competitive intensity (from existing as well as new players) and product gaps would continue to remain a key challenge for M&M. On the contrary, in the LCV segment (M&M market share 42.6%), M&M is better placed due to its strong brand positioning and increased preference towards the Hub and Spoke model.

Outlook & Valuation

We continue to maintain our positive stance on M&M given its strong rural presence through Farm equipment and automotive business. The management has mentioned that the capital allocation plan is more or less complete and it has managed to reduce or turnaround its loss making businesses. Further, the management has laid out a plan to strengthen M&M's position through new product launches, redefine its UV positioning and leverage platform synergy to optimise capex. Factoring the strong performance in Q3FY21, we have raised our estimates for M&M and expect revenue and PAT to grow at 12.9% and 22.5% CAGR over FY20-23E. We value the core business at 16x FY23E EPS of Rs. 51.5 and arrive at a SOTP based target price of Rs. 1087.

Financial Summary - standalone

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	45,488	46,079	57,138	65,537
EBITDA	5,798	6,635	7,799	9,175
EBITDAM (%)	12.7	14.4	13.7	14.0
APAT	3,345	3,379	5,058	6,148
APATM (%)	7.4	7.3	8.9	9.4
EPS (Rs)	28.0	28.3	42.4	51.5
PE (x)	30.3	30.0	20.1	16.5
RoE (%)	9.7	9.8	13.8	14.9

Source : Company; RBL Research

P & L Account - standalone

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Net sales	45,488	46,079	57,138	65,537
Expenditure				
Total raw material cost	31,633	31,288	39,368	45,155
Employee cost	2,880	2,995	3,571	4,063
Other expenses	5,177	5,161	6,399	7,144
Total expenditure	39,690	39,444	49,339	56,362
EBITDA	5,798	6,635	7,799	9,175
EBITDAM (%)	12.7	14.4	13.7	14.0
Other income	1,668	1,192	1,610	1,851
Depreciation	2,223	2,267	2,448	2,644
PBIT	5,243	5,561	6,961	8,382
Interest expenses	113	362	217	185
PBT	5,130	5,198	6,743	8,197
Tax	1,785	1,819	1,686	2,049
Adjusted profit	3,345	3,379	5,058	6,148
Exceptional items	(2,014)	(2,777)	-	-
Reported PAT	1,331	602	5,058	6,148
Adjusted PATM (%)	7.4	7.3	8.9	9.4

Source : Company; RBL Research

Balance sheet - standalone

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Share Capital	596.5	596.5	596.5	596.5
Reserves & Surplus	33,871	33,937	38,100	43,114
Total Shareholder's Fund	34,468	34,533	38,696	43,711
Non-Current Liabilities				
Total borrowings	3,068	3,118	2,903	2,580
Other long term liabilities	698	698	698	698
Deferred tax liabilities	1,408	1,408	1,408	1,408
Long term provision	923	923	923	923
Current Liabilities				
Trade payables	6,786	6,874	8,524	9,777
Other current liabilities	3,151	3,184	3,839	4,344
Total liabilities	50,502	50,739	56,991	63,441
Fixed Assets	7,981	9,325	10,377	10,932
Current work in process	4,009	3,859	3,859	3,859
Intangible assets	2,414	2,534	2,654	2,774
Non current investment	17,748	18,522	19,301	20,080
Other non-current assets	3,208	3,462	3,723	3,984
Current Assets				
Inventories	3,401	3,705	4,594	5,272
Trade receivables	2,999	3,038	3,767	4,321
Cash & Cash equivalents	4,237	1,758	3,475	6,408
Other current assets	2,315	2,346	2,908	3,336
Total assets	50,502	50,739	56,991	63,441

Source : Company; RBL Research

Cashflow - standalone

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Reported PBT	5,130	5,198	6,743	8,197
Depreciation	2,223	2,267	2,448	2,644
Tax paid	(1,785)	(1,819)	(1,686)	(2,049)
Working capital Change	(423)	(252)	(19)	(43)
Operating Cash Flow (a)	5,144	5,394	7,487	8,750
Capex	(4,125)	(3,581)	(3,620)	(3,320)
Free Cash Flow	1,019	1,813	3,867	5,430
Investments	1,168	(1,028)	(1,040)	(1,040)
Investing Cash Flow (b)	(2,957)	(4,609)	(4,660)	(4,360)
Debt Issuance/ (Repaid)	497	50	(215)	(323)
Dividend Paid	(336)	(537)	(895)	(1,133)
Share Capital Issuance, QIP	(736)	-	-	-
Others	(1,107)	(2,777)	-	-
Financing Cash Flow (c)	(1,682)	(3,263)	(1,110)	(1,456)
Net Cash Flow (a + b + c)	505	(2,479)	1,717	2,933
Closing Cash	4,237	1,758	3,475	6,408

Source : Company; RBL Research

Key Financial ratios - standalone

Particulars (cr)	FY20	FY21E	FY22E	FY23E
Per Share Ratios				
Dividend per share Rs	2.4	4.5	7.5	9.5
EPS Rs	28.0	28.3	42.4	51.5
CEPS Rs	46.7	47.3	62.9	73.7
Book value per share Rs	288.9	289.5	324.3	366.4
Profitability Ratios				
EBITDA Margin (%)	12.7	14.4	13.7	14.0
PBT Margin (%)	11.3	11.3	11.8	12.5
Net Profit Margin (%)	7.4	7.3	8.9	9.4
RoCE (%)	13.7	14.3	17.0	18.5
RoE (%)	9.7	9.8	13.8	14.9
Efficiency				
Fixed Asset Turnover (x)	0.9	0.9	1.1	1.1
Debtors Velocity (Days)	24	24	24	24
Inventory (Days)	27	29	29	29
Creditor (Days)	54	54	54	54
Interest Cover Ratio (x)	46.3	15.3	32.0	45.4
Debt-Equity Ratio (x)	0.1	0.1	0.1	0.1
Valuation Ratios				
P/E (x)	30.3	30.0	20.1	16.5
P/B (x)	2.9	2.9	2.6	2.3
EV/EBIDTA (x)	17.3	15.5	12.9	10.6
Dividend Yield (%)	0.3	0.5	0.9	1.1

Source : Company; RBL Research

Before you use this research report, please ensure to go through the disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 and Research Disclaimer at the following link : <https://www.religareonline.com/disclaimer>

Specific analyst(s) specific disclosure(s) inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 is/are as under:

Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I/we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above, are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

Copyright in this document vests exclusively with RBL. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from RBL. We do not guarantee the integrity of any emails or attached files and are not responsible for any changes made to them by any other person.

Research Disclaimer: <https://www.religareonline.com/disclaimer>