

## Capital calls taken under broader 18% RoE framework

We attended the virtual analyst meet hosted by M&M wherein the company provided a business update on notably three domains: (i) Update on potential investor coming on board of SsangYong Motors and potential financial implication for M&M (equity & debt exposure) (ii) amicable calling off of JV with Ford Motors (announced in October 2019) and (iii) supply side constraints (semi-conductor chips) impacting volumes in the near term.

### SsangYong Motors: potential investor likely to materialise

M&M shared that it is in advanced discussions with a potential investor coming on board in its ailing South Korean automobile arm SsangYong Motors, thereby owning majority stake in the company. Consequent to the transaction, M&M expects its stake to reduce to ~30% with the deal expected to close in about two month. As far as financial implications for M&M is concerned, M&M's equity investment as on date in SsangYong Motors is at ~₹ 980 crore with direct debt advances at ~₹ 250 crore and ~₹ 680 crore as guarantor for debt raised by SsangYong Motors. Hence, in total, equity exposure in SsangYong is pegged at ~₹ 980 crore while total debt exposure is at ~₹ 950 crore. Actual amount of write downs i.e. equity or debt will depend upon the deal contours as and when they materialise. As far as cash implication is concerned, total fresh cash outflow in worst case is limited to ~₹ 680 crore i.e. debt guaranteed by M&M. Given that SsangYong Motors' labour union is on board the restructuring exercise, the M&M management is confident that the write-down or cash outflow will be limited in nature. Going forward, from FY22E onwards, since M&M intends to be a minority shareholder in SsangYong, it will not have to consolidate SsangYong numbers leading a positive rub off in its own consolidated PAT. SsangYong clocked sales of ~₹ 20,000 crore in FY20 with corresponding (PAT) loss at ~₹ 3,000 crore with loss attributable to M&M at ~₹ 2,300 crore

### Increase in capital outflow- chief reason for JV call off with Ford

M&M announced a JV with Ford in October 2019 and we were quite enthused by M&M's access to Ford's automobile capacity in India. M&M, however, has notified that it is amicably calling off the JV with Ford amid increase in capital requirement for the proposed JV (initially envisaged at ~₹ 1,400 crore). M&M has not made any meaningful investments on this front nor has it deployed any major resources for the proposed JV.

### Valuation & Outlook

M&M is a conglomerate with varied business interest. However, the company has now commenced its path on RoE accretion as it realises that healthy capital efficiency is paramount for long term self-sustenance of its business model as well as to create wealth for its shareholders. In the recent past, M&M has taken the hard calls and we remain constructive on it. We continue to maintain **BUY** rating on M&M with an unchanged target price of ₹ 870 valuing it using SOTP valuation methodology (Exhibit 1).

#### Key Financial Summary

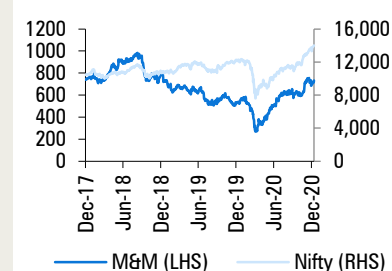
Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20 -23E)
Net Sales	53,614.0	45,487.8	42,765.8	51,585.1	57,662.5	8.2%
EBITDA	6,639.6	5,798.0	5,879.4	7,201.1	8,194.3	12.2%
EBITDA Margins (%)	12.4	12.7	13.7	14.0	14.2	
Net Profit	4,796.1	1,330.4	2,558.1	4,614.8	5,279.6	58.3%
Adjusted Net Profit	4,818.6	2,190.4	3,295.9	4,614.8	5,279.6	34.1%
EPS (₹)	40.2	11.2	21.4	38.7	44.3	
P/E	18.2	65.6	34.1	18.9	16.5	
RoNW (%)	14.1	6.4	9.1	11.6	12.1	
RoCE (%)	12.3	8.8	8.5	10.6	11.7	

Source: Company, ICICI Direct Research

#### Particulars

Particular	Amount
Market Capitalization (₹ crore)	91,002.2
Total Debt (FY20, ₹ crore)	3,068.0
Cash and Inv (FY20, ₹ crore)	6,426.1
EV (FY20, ₹ crore)	87,644.2
52 week H/L (₹)	764 / 246
Equity capital (₹ crore) (FY20)	596.5
Face value (₹)	₹ 5

#### Price Performance



#### Key highlights

- Capital efficiency to its core, management taking all hard calls to walk the path of ~18% RoE (consol)
- Remain constructive, retain BUY with unchanged target price of ₹ 870/share

#### Risks to our call

- Elongation of intermediate supply side constrains resulting in more than anticipated loss of sales volume
- Inability to pass on rise in input costs to customers leading to suppressed gross and operating margins

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## Other analyst meet highlights

- The company is well focused on its core SUV portfolio with recent launch new Thar receiving encouraging customer response. Total bookings for new Thar as on date were at ~32,000 units
- M&M is working on electric SUVs both fresh complete electric SUVs as well as ICE convert electric SUVs
- M&M intends to incur a capex of ~₹ 9,000 crore over the next three years (vs. ~₹ 12,000 incurred in last three years) largely on projects & product development and not on any major capacity expansions
- It is currently working on two SUV platforms i.e. Z-101 & W-601
- For all major powertrains, the engine I.P. is owned by M&M and is not dependent on either SsangYong Motors or Ford for its captive requirements
- The company is witnessing supply side constraints due to unavailability of semi-conductor chips, a key component of electronic control units (ECU). The situation is currently fluid and is improving MoM

### Exhibit 1: SoTP valuation

Valuation Matrix (SOTP)					
Automotive Business (UV+PV+CV+Tractors)	₹crore		₹/share		Remark
<b>Standalone business</b>					
FY23E EBITDA	8,194				
Assigning EV/EBITDA Multiple of 7.25x	7.25				
Enterprise Value	59,409		498		
Net Debt (FY23E)	(7,544)		-63		
<b>Value of Standalone Business (A)</b>	<b>66,952</b>		<b>561</b>		
<b>Mahindra Vehicle Manufacturers Ltd</b>					
Investment made by M&M (wholly owned subsidiary)	4,065				
Assigning 0.5x P/B on investment value	0.5				
<b>Value of MVML attributable to M&amp;M (B)</b>	<b>2,033</b>		<b>17</b>		
<b>Total value of automobile business (C= A+B)</b>			<b>580</b>		
Value of Investments (listed companies)	M&M stake (%)	Estimated value ₹ crore	Contribution to M&M ₹crore	₹/share	Remark
Tech Mahindra	26	89,374	23,290.73	195	Current market cap
M&M Financial Services	51	21,623	11,071	93	Current market cap
Mahindra Life space	52	1,796	925	8	Current market cap
Mahindra CIE	11	6,443	737.1	6	Current market cap
Mahindra Holidays & Resorts	67	2,843	1913.3	16	Current market cap
Other subsidiaries & investments			8,571	72	
<b>Total Value of subsidiaries &amp; associates (D)</b>			<b>46,508.2</b>	<b>390</b>	
<b>Value of investments post 25% holding company discount (E = 0.75*D)</b>				<b>290</b>	
<b>M&amp;M Target Price (value of equity per share , C+E)</b>				<b>870</b>	

Source: ICICI Direct Research

### Exhibit 2: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	53,614	10.1	40.2	14.7	18.1	13.1	14.1	12.3
FY20	45,488	(15.2)	11.2	(72.3)	39.9	15.1	6.4	8.8
FY21E	42,766	(6.0)	21.4	92.3	26.5	14.8	9.1	8.5
FY22E	51,585	20.6	38.7	80.4	18.9	11.9	11.6	10.6
FY23E	57,662	11.8	44.3	14.4	16.5	10.2	12.1	11.7

Source: Company, ICICI Direct Research

## Financial summary (Standalone)

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>45,487.8</b>	<b>42,765.8</b>	<b>51,585.1</b>	<b>57,662.5</b>
Growth (%)	-15.2	-6.0	20.6	11.8
Raw Material Expenses	31,632.6	29,728.5	35,898.7	40,035.1
Employee Expenses	2,880.1	2,888.9	3,094.9	3,272.1
Other Expenses	5,177.1	4,269.0	5,390.3	6,160.9
Total Operating Expenditure	39,689.8	36,886.4	44,383.9	49,468.1
<b>EBITDA</b>	<b>5,798.0</b>	<b>5,879.4</b>	<b>7,201.1</b>	<b>8,194.3</b>
Growth (%)	-12.7	1.4	22.5	13.8
Depreciation	2,222.6	2,245.2	2,321.3	2,450.7
Interest	113.3	310.7	193.1	119.7
Other Income	1,667.8	1,524.0	1,482.8	1,434.2
<b>PBT</b>	<b>5,129.9</b>	<b>4,847.4</b>	<b>6,169.5</b>	<b>7,058.3</b>
Others (incl exceptional item)	2,014.0	1,085.2	0.0	0.0
Total Tax	1,785.5	1,204.2	1,554.7	1,778.7
<b>PAT</b>	<b>1,330.4</b>	<b>2,558.1</b>	<b>4,614.8</b>	<b>5,279.6</b>
<b>Adjusted PAT</b>	<b>2,190.4</b>	<b>3,295.9</b>	<b>4,614.8</b>	<b>5,279.6</b>
Growth (%)	-72.3	92.3	80.4	14.4
<b>EPS (₹)</b>	<b>11.2</b>	<b>21.4</b>	<b>38.7</b>	<b>44.3</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>3,344.4</b>	<b>2,558.1</b>	<b>4,614.8</b>	<b>5,279.6</b>
Add: Depreciation	2,222.6	2,245.2	2,321.3	2,450.7
(Inc)/dec in Current Assets	2,621.7	1,235.7	-2,144.7	-1,074.2
Inc/(dec) in CL and Provisions	-3,857.5	200.7	1,893.3	1,312.5
<b>CF from operating activities</b>	<b>4,331.2</b>	<b>6,239.6</b>	<b>6,684.7</b>	<b>7,968.5</b>
(Inc)/dec in Investments	82.3	-3,250.0	-1,500.0	-2,000.0
(Inc)/dec in Fixed Assets	-4,125.1	-2,500.0	-3,000.0	-3,500.0
Others	791.7	10.2	-33.2	-22.9
<b>CF from investing activities</b>	<b>(3,251.1)</b>	<b>(5,739.8)</b>	<b>(4,533.2)</b>	<b>(5,522.9)</b>
Issue/(Buy back) of Equity	-94.0	0.0	0.0	0.0
Inc/(dec) in loan funds	496.5	600.0	-900.0	-750.0
Dividend paid & dividend tax	-336.4	-656.2	-1,133.4	-1,372.0
Others	-641.5	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(575.4)</b>	<b>(56.2)</b>	<b>(2,033.4)</b>	<b>(2,122.0)</b>
Net Cash flow	504.8	443.7	118.2	323.6
Opening Cash	3,731.6	4,236.4	4,680.1	4,798.3
<b>Closing Cash</b>	<b>4,236.4</b>	<b>4,680.1</b>	<b>4,798.3</b>	<b>5,121.9</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	596.5	596.5	596.5	596.5
Reserve and Surplus	33,871.3	35,773.2	39,254.7	43,162.2
<b>Total Shareholders funds</b>	<b>34,467.8</b>	<b>36,369.8</b>	<b>39,851.2</b>	<b>43,758.8</b>
Total Debt	3,068.0	3,668.0	2,768.0	2,018.0
Deferred Tax Liability	1,408.2	1,408.2	1,408.2	1,408.2
Others	1,621.2	1,524.2	1,838.5	2,055.1
<b>Total Liabilities</b>	<b>40,565.3</b>	<b>42,970.2</b>	<b>45,865.9</b>	<b>49,240.1</b>
<b>Assets</b>				
Gross Block	24,510.1	29,019.5	32,019.5	35,519.5
Less: Acc Depreciation	14,115.5	16,360.7	18,682.0	21,132.7
<b>Net Block</b>	<b>10,394.6</b>	<b>12,658.8</b>	<b>13,337.5</b>	<b>14,386.8</b>
Capital WIP	4,009.5	2,000.0	2,000.0	2,000.0
Total Fixed Assets	14,404.0	14,658.8	15,337.5	16,386.8
Other investments	17,748.5	20,248.5	21,248.5	22,248.5
Liquid Investments	2,189.7	2,939.7	3,439.7	4,439.7
Inventory	3,400.9	2,929.2	3,533.2	3,949.5
Debtors	2,999.0	2,343.3	3,533.2	3,949.5
Loans and Advances	512.0	481.4	580.7	649.1
Other current assets	1,297.0	1,219.4	1,470.9	1,644.1
<b>Cash</b>	<b>4,236.4</b>	<b>4,680.1</b>	<b>4,798.3</b>	<b>5,121.9</b>
Total Current Assets	12,951.7	12,159.8	14,422.6	15,820.5
Creditors	6,785.8	7,030.0	8,479.7	9,478.8
Provisions	595.6	617.0	744.2	831.9
Total Current Liabilities	7,381.4	7,647.0	9,224.0	10,310.7
<b>Net Current Assets</b>	<b>5,570.4</b>	<b>4,512.8</b>	<b>5,198.7</b>	<b>5,509.8</b>
<b>Application of Funds</b>	<b>40,565.3</b>	<b>42,970.2</b>	<b>45,865.9</b>	<b>49,240.1</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	11.2	21.4	38.7	44.3
Cash EPS	29.8	40.3	58.1	64.8
BV	288.9	304.8	334.0	366.8
DPS	2.4	5.5	9.5	11.5
Cash Per Share	35.5	39.2	40.2	42.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.7	13.7	14.0	14.2
PBT / Net sales	7.9	8.5	9.5	10.0
PAT Margin	2.9	6.0	8.9	7.9
Inventory days	27.3	25.0	25.0	25.0
Debtor days	24.1	20.0	25.0	25.0
Creditor days	54.5	60.0	60.0	60.0
Net Working Capital days	-3.1	-15.0	-10.0	-10.0
<b>Return Ratios (%)</b>				
RoE	6.4	9.1	11.6	12.1
RoCE	8.8	8.5	10.6	11.7
RoIC	11.9	10.9	13.7	15.2
<b>Valuation Ratios (x)</b>				
P/E	65.6	34.1	18.9	16.5
EV / EBITDA	15.1	14.8	11.9	10.2
EV / Net Sales	1.9	2.0	1.7	1.4
Market Cap / Sales	2.0	2.1	1.8	1.6
Price to Book Value	2.5	2.4	2.2	2.0
<b>Solvency Ratios</b>				
Debt/Equity	0.1	0.1	0.1	0.0
Current Ratio	0.9	0.8	0.8	0.8
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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