

Business/ Operational

- Semi-conductor shortage is impacting currently on the automotive and expected situation would be improved somewhat by post June.
- February sales numbers were lower than expected due to semiconductor shortage on the auto side and Hopefully March sales number could be similarly to January month.

Product: -

- Thar launch has been very successful and waiting period is 8-10 months.
- Two-three month waiting period for XUV300.
- Upcoming product in the pipeline W601, Z101

On profitability: -

- Commodity cost have been rising, to counter that company has taken price increase across tractor and auto segment in January and if needed will take further hike in the coming quarter.
- On profitability in Q3FY21: Company continues to have strong performance for domestic farm business and has continued to maintain industry leading OPM for both auto & Farm business.

M&HCV:-

- The cycle is reversing, seeing some bounce back in M&HCVs.

Ssangyong:-

- M&M has taken a one-time write-off of INR. 1,200cr in Q3FY21.
- SYMC filed an application before the Bankruptcy Court for commencement of rehabilitation proceedings on 21st December 2020. It is now preparing and plans to submit a pre-packaged rehabilitation plan ("p-plan") with equity investment from an investor and debt from local lenders. There is no increase in M&M exposure as compared to Q2 FY21.

EV Strategy for the company is as follows-

- Company is focusing on last mile connectivity for EVs with products like TREO/TREO ZOR (Electric 3W)
- In the short to medium term company has plans to convert some of the ICV UV into Electric UV (e-XUV300)
- Large scale adoption in the long term. The company will come out with Born electric EV platform.

Capital allocation

- Auto and farm capital will be ploughed back only into those businesses.
- Capex: Will spend INR 9,000cr on auto and farm equipment business in FY22-FY24.

Farm Equipment Sector: -

- Demand for tractors is very robust.
- Tractor Industry is expected to grow at 18-20% in FY21 and total volume to cross 800,000 lakh.

Outlook and valuation

At CMP of INR 840, M&M is trading at a FY23 PE of 18.6x. M&M's performance is very robust for both auto & Farm businesses. On the Automotive front, Thar continues to have 8-10 months waiting period. Overall automotive segment affected due to shortage of the semi-conductor supply and is expected to be resolve by post Jun as mentioned by the management. Commodity cost have been rising, to counter that company has taken price increase across tractor and auto segment in January and if needed will take further hike in the coming quarter. M&M would also be launching W601, Z101. **We have a Buy rating on the stock with a target price of Rs 1038 (based on SOTP valuation PE of 20.5x to its FY23E EPS (Core)of INR 39).**

Q3FY21 results summary (MM + MVML)

Quarterly results summary (MM + MVML) Q3FY21

INR Mn	Q3FY21	Q2FY21	Q3FY20	YoY %	QoQ %
Net Sales	1,40,565	1,17,105	1,23,453	13.9%	20.0%
Cost of material consumed	96,292	80,923	86,492	11.3%	19.0%
Staff Cost	8,841	7,012	7,594	16.4%	26.1%
Other expenses	11,576	10,272	12,872	-10.1%	12.7%
Total expenses	1,16,709	98,206	1,06,958	9.1%	18.8%
EBITDA	23,856	18,898	16,495	44.6%	26.2%
Depreciation	6,043	5,545	5,537	9.1%	9.0%
EBIT	17,814	13,354	10,958	62.6%	33.4%
Interest	1,039	1,091	224	363.8%	-4.8%
Other Income	5,618	3,926	2,063	172.4%	43.1%
PBT	22,393	16,188	12,796	75.0%	38.3%
Tax	4,944	3,922	3,725	32.7%	26.1%
PAT	17,448	12,267	9,071	92.4%	42.2%
Extraordinary	(12,140)	(11,495)	(6,006)		
Reported PAT	5,309	772	3,065	73.2%	587.7%
EPS	0.3	0.7	7.6	-96.6%	-60.0%
Margins	Q3FY21	Q2FY21	Q3FY20	YoY %	QoQ %
Gross margins	31.5%	30.9%	29.9%	16bps	6bps
EBITDA	17.0%	16.1%	13.4%	36bps	8bps
PAT	12.4%	10.5%	7.3%	51bps	19bps
Tax Rate	22.1%	24.2%	29.1%	-70bps	-21bps
Tractor Segment	Q3FY21	Q2FY21	Q3FY20	YoY %	QoQ %
Total Tractors Volume	1,01,701	93,246	84,454	20.4%	9.1%
Total Automotive Volume	1,02,967	92,024	1,32,361	-22.2%	11.9%
Total Volume (Auto + Farm)	2,04,668	1,85,270	2,16,815	-5.6%	10.5%
Aveg Relizations (Auto)	78,769	6,90,748	5,20,758	-84.9%	-88.6%
Aveg Relizations (FES)	5,19,320	5,18,561	4,29,994	20.8%	0.1%
Blended realisation	3,23,866	6,28,132	5,07,880	-36.2%	-48.4%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

P&L (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	5,28,482	4,48,655	4,42,938	5,59,244	6,21,983
YoY (%)	11.1	(15.1)	(1.3)	26.3	11.2
Raw material cost	3,59,977	2,98,668	3,11,651	4,04,893	4,47,206
Employee Cost	32,830	32,237	28,675	31,341	32,595
Admin Expenses	60,375	54,245	38,824	55,924	60,643
Total expenses	4,53,182	3,85,150	3,79,150	4,92,158	5,40,444
EBIDTA	75,301	63,506	63,789	67,085	81,539
(%)	14.2%	14.2%	14.4%	12.0%	13.1%
Depreciation	20,030	23,631	24,621	25,154	27,321
EBIT	55,271	39,875	39,168	41,931	54,218
Interest	1,467	1,245	3,816	3,252	2,786
Other income	16,303	15,391	17,307	20,328	21,542
PBT	70,106	54,021	52,658	59,007	72,975
(-) Tax	15,867	18,513	12,638	14,457	17,514
Tax/ PBT	22.6	34.3	24.0	24.5	24.0
PAT	54,239	35,509	40,020	44,550	55,461
YoY (%)	29.5	(34.5)	12.7	11.3	24.5
PAT(%)	10.3%	7.9%	9.0%	8.0%	8.9%
Extraordinary	227	28112	27128	0	0
Reported Profit	54,012	7,397	12,893	44,550	55,461

B/Sheet (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	5,958	5,965	5,965	5,965	5,965
Reserves	3,43,979	3,40,326	3,49,708	3,87,823	4,36,848
Net worth	3,49,937	3,46,291	3,55,673	3,93,789	4,42,813
Total Loans	26,803	31,530	29,530	27,530	25,530
Def Tax Liability	7,896	15,068	15,068	15,068	15,068
Total Liabilities	3,84,636	3,92,889	4,00,271	4,36,387	4,83,411
Gross Block	2,45,023	3,07,168	3,69,313	4,31,458	4,93,603
Less: Acc. depreciation	96,238	1,12,697	1,37,318	1,62,472	1,89,793
Net block	1,48,786	1,94,471	2,31,995	2,68,986	3,03,811
Investments	2,06,262	1,62,668	1,58,790	1,45,048	1,20,437
Inventories	47,631	40,408	34,154	44,372	49,009
Debtors	38,119	29,012	25,484	37,538	42,602
Cash	38,329	42,365	41,487	24,273	46,841
Loans and advances	38,119	26,042	20,597	26,005	31,099
Other Current assets	23,864	13,694	15,063	16,569	18,226
Current assets	1,86,062	1,51,521	1,36,784	1,48,757	1,87,777
Current liabilities	1,40,319	99,990	1,11,718	1,06,734	1,06,735
Provisions	16,154	15,781	15,580	19,671	21,878
Net current assets	29,589	35,750	9,486	22,352	59,164
Total Assets	3,84,636	3,92,889	4,00,271	4,36,387	4,83,411

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Cash Flow	FY19	FY20	FY21E	FY22E	FY23E
Net profit	54,012	7,397	12,893	44,550	55,461
Depreciation	20,030	23,631	24,621	25,154	27,321
Deferred tax	0	0	0	0	0
Change in W/C	-38,347	-2,124	25,385	-30,080	-14,244
Operating cash flow	35,695	28,903	62,899	39,624	68,538
Capex	-35,406	-62,145	-62,145	-62,145	-62,145
Investments	23,087	43,594	3,878	13,742	24,612
Investing cash flow	-12,319	-18,551	-58,267	-48,403	-37,533
Free Cash Flow	288	-33,242	754	-22,521	6,393
Dividend	-11,817	-4,819	-3,510	-6,435	-6,436
Equity	2,868	-6,224	0	0	0
Debt	-5,339	4,728	-2,000	-2,000	-2,000
Financing cash flow	-14,288	-6,316	-5,510	-8,435	-8,436
Net change in cash	9,087	4,036.30	-878	-17,214	22,568
Opening cash	29,242	38,329	42,365	41,487	24,273
Closing cash	38,329	42,365	41,487	24,273	46,841

Key Ratios	FY19	FY20	FY21E	FY22E	FY23E
EPS	45.5	29.8	33.5	37.3	46.5
P/E (Standalone)	19.0	29.1	25.8	23.2	18.6
EV/EBDITA (x)	10.8	13.5	13.5	13.3	10.9
Book value	294	290	298	330	371
P/B (x)	2.9	3.0	2.9	2.6	2.3
Subsidiary Valuation	243	243	243	243	243
EPS (Core EPS)	38.8	28.7	27.4	30.8	38.8
P/E (Core)	16.1	21.7	22.7	20.2	16.1
EV/EBITDA (Core)	9.3	11.2	11.1	10.6	8.3
ROCE	15.3%	9.5%	11.1%	11.4%	12.7%
ROE	16.6%	10.2%	11.4%	11.9%	13.3%
Days					
Inventory	41	54	40	40	40
Debtor	24	27	21	25	25
Creditor	68	71	60	60	60

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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