

CMP: Rs 866

Rating: BUY

Target Price: Rs 1038

Stock Info

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (Rs)	5
Equity Capital (Rs mn)	5,965
Mkt Cap (Rs mn)	10,32,576
52w H/L (Rs)	894/245
Avg Yearly Vol (in 000')	6528

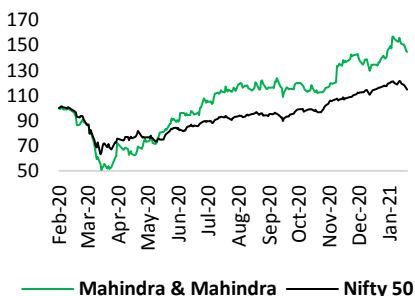
Shareholding Pattern %

(As on Dec, 2020)

Promoters	19.44
Public & Others	80.56

Stock Performance (%)	3m	6m	12m
M&M	50.5	53.8	62.2
Nifty	23.3	34.8	24.9

M&M Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

M&M + MVML has reported good set of numbers in Q3FY21. Result above our estimates all fronts. Profit for the quarter grew by 92.4% YoY/42.2% to INR 17,448 Mn during Q3FY21 led by 20% growth in tractor volumes and a 12% revenue increase in the Auto business. Net sales stood at INR. 1,40,565 mn (+13.9% YoY / 20% QoQ). EBITDA was at INR 23,856 mn (44.6% YoY / 26.2% QoQ) with margin of 17.0% (36bps YoY / 8bps QoQ). The total volumes (auto + tractors) de-grew by -5.6% YoY/improve +10.5% QoQ to 2,04,668 units. Total tractor volume grew by 20.4% YoY/9.1% QoQ to 1,01,701 units led by the robust rural story. Management expect strong demand to continue. The blended realization has seen an decrease of -36.2% YoY/-48.4% QoQ to 3,23,866.

Concall highlights

- The company expects industry to log ~20% YoY volume growth in the tractor segment for FY21E. Outlook for domestic tractor industry in near to medium term stays healthy on account of good water reservoir levels, high crop acreage (Rabi acreage at highest level of 65 million hectares), procurement (Kharif procurement up 27% YoY in 9MFY21) and remunerative prices.
- Thar: Currently 39K+ Bookings: Thar started with 2000/ month after that 3000/ month and now focus on ramping up 4000/ month.
- No Supply issue currently only semi-conductor issue and this is the overall industry issue.
- M&M is doing well in electric 3-W (three to four months orderbook for Treo Zor demonstrates commercial feasibility) while in the medium term electric XUV300 would be one of the offerings. Its 'Born EV' strategy would prepare the company for meaningful EV transition in the core portfolio over longer term (expects charging infrastructure to be well established by 2025-26).
- M&M believes that the upcoming scrappage policy needs to be incentive-based to have meaning impact on volumes.
- On the Auto side the problem continues little bit due to prioritisation of portfolio segments to combat various supply related and inventory management issues. Retail demand for pickups has been robust due to continued offtake from intracity and last mile pockets. However, the same is not reflected in wholesale numbers due to supply chain issues. Tractor market share crossed 40% mark in January 2021 again.

Outlook and valuation

At CMP of Rs 866, M&M is trading at a FY23 PE of 18.6x. M&M has reported a good set of numbers in Q3FY21 and beat our estimates on all fronts. Considering the beat Q3FY21 result, we have slightly increased our revenue and PAT estimates for FY21-FY23. M&M's automotive and tractor performance continues to be on divergent paths total automotive volumes are down -22.2% YoY, while tractors are up 20.4% YoY in Q3FY21 but a strong response to new Thar and XUV300 (> 39,000 bookings & 2-2.5 months orderbook, respectively) are encouraging. Intensified input cost pressures are set to start impacting financials from Q4FY21E. The company has undertaken price increases recently, it said that even further hikes would be unable to completely offset ongoing squeeze given its sharpness. Management focuses more on digital transformation and doubling down the EV segment, which is the positive step for M&M.

We value M&M at PE of 20.5x to its FY23E EPS (Core) of Rs 39. **We maintain our Buy rating on the stock and value it with SOTP valuation for a target price of Rs 1038.**

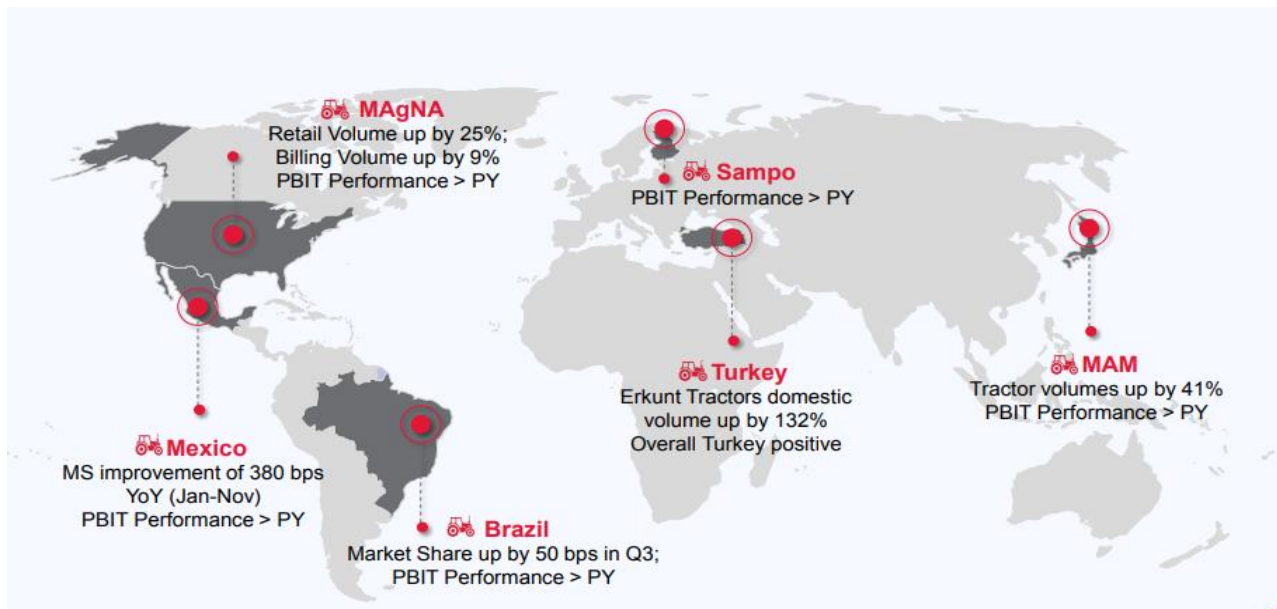
Q3FY21 results summary (MM + MVML)

Quarterly results summary (MM + MVML) Q3FY21

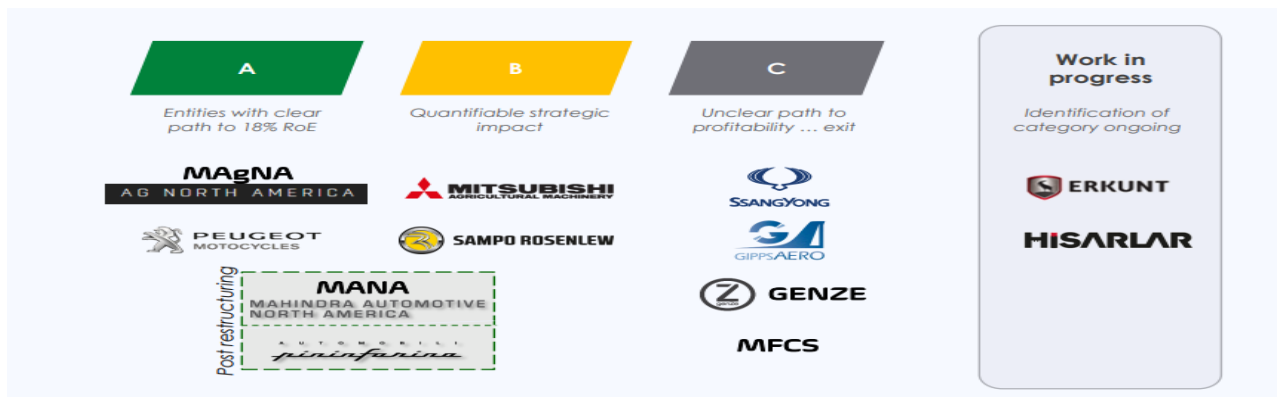
Rs Mn	Q3FY21	Q2FY21	Q3FY20	YoY %	QoQ %
Net Sales	1,40,565	1,17,105	1,23,453	13.9%	20.0%
Cost of material consumed	96,292	80,923	86,492	11.3%	19.0%
Staff Cost	8,841	7,012	7,594	16.4%	26.1%
Other expenses	11,576	10,272	12,872	-10.1%	12.7%
Total expenses	1,16,709	98,206	1,06,958	9.1%	18.8%
EBITDA	23,856	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: Arian Research, Company Filings, Ace Equity, Bloomberg

Operational turnaround in international tractor division businesses



Capital Allocation Update



Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (Rs Mn)	Value/share
Tech Mahindra Limited		959	2515,48,691	26.0	2,41,336	203
Mahindra & Mahindra Financial Services		177	3162,07,660	51.2	55,953	47
Mahindra Holidays & Resorts		236	898,90,615	67.3	21,192	18
Mahindra Lifespace Developers		457	264,39,850	51.5	12,082	10
Mahindra CIE Automotive Limited.		162	214,17,617	11.4	3,470	3
Ssangyong Motor Company*		-	-	0.0	-	-
CIE Automotive SA (CMP €23.14 x 87.24 Euro/INR)		2,018	95,90,706	7.4	19,354	16
Mahindra EPC Irrigation		153	151,44,433	54.6	2,322	2
Swaraj Engines		1,299	40,39,206	34.8	5,247	4
Listed Subsidiaries (Rs mn)					3,60,954	303
Total Subsidiaries (Rs Mn)					3,60,954	303
Sub Valuations Post Discount (20%)			20%		2,88,763	243
Core auto business @ 20.5x	Core FY23EPS	39				795
Value/Share						1038
					CMP	866
					Upside	20%

*SsangYong Motor now classified as discontinued operation, not to be consolidated into financials

Source: Company, Arianth Capital Markets

P&L (Rs 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 (Rs 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

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880