

**CMP: INR 846**

**Rating: Accumulate**

**Target Price: INR 995**

**Stock Info**

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (INR)	5
Equity Capital (INR mn)	5,965
Mkt Cap (INR mn)	10,51,554
52w H/L (INR)	952/431
Avg Yearly Vol (in 000')	6079

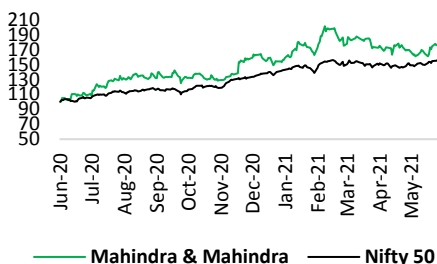
**Shareholding Pattern %**

(As on March, 2020)

Promoters	19.45
Public & Others	80.55

Stock Performance (%)	3m	6m	12m
M&M	4.89	17.1	92.06
Nifty	6.24	19.02	62.6

**M&M Vs Nifty**



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M&M + MVML has reported a good set of numbers in Q4FY21. The result above our estimates on all fronts. Profit for the quarter grew by 210% YoY/-42.5% QoQ to INR 10,024 Mn during Q4FY21 against our estimate of INR 9,916 led by 58% growth in tractor volumes and a 60% revenue increase in the Auto business. Net sales stood at INR. 1,33,382 mn (48.1% YoY / -5.1% QoQ) against our estimate of 1,29,374. EBITDA was at INR 19,605 mn (59.7% YoY / -17.8% QoQ) vs our estimate of INR 15,303 mn. EBITDA margin of 14.7% (11bps YoY / -23bps QoQ) against our estimate of 12%. The total volumes (auto + tractors) grew by 33.3% YoY/-1.2% QoQ to 2,02,223 units. Total tractor volume grew by 58.4% YoY/-7.7% QoQ to 93,894 units. The Automotive Sector continued its focus on cost optimization and reduced its fixed expenses by over INR 900 crores over the last two years & hence keeping its margin resilience even under challenging times. The company's board recommended a dividend of INR 875 (175 %) per share for FY21.

**Investment Rationales**

- The roadmap for the automotive business is focused on brand strengthening and aggressive plans for new launches. M&M focuses on expanding its utility vehicle (UV) business, leveraging brand recall, and improving returns on capital investment.
- The company has mild tractor industry growth to the single-digit growth rate in FY2022. The company is anticipated to benefit from the reversal of its loss-making subsidiaries and make strong cash flows going forward.
- Management is confident that demand will rebound by June-July. Tractor demand will come back by June, while auto sector demand is likely to come back by July. however, reiterated that concerns remain around semiconductor shortage, localized lockdowns, and commodity price increase.
- The revenue and profitability will be impacted in line with the fall in volumes. However, the company is taking various cost optimization measures to limit the adverse impact. The company, it said, is carefully reviewing the demand and supply situation and re-calibrating its operations accordingly while protecting the interest of its customers, dealers, and suppliers.

**Outlook and valuation**

M&M has reported a good set of numbers in Q4FY21 and beat our estimates on all fronts. Considering the beat Q4FY21 result. M&M's automotive and tractor performance slightly came on the same paths total automotive volumes are up 17.2% YoY, while tractors are up 58.4% YoY in Q4FY21. Going ahead, Company the strategy revolves around tighter capital allocation, turning around of loss-making subsidiaries, and focusing on core automobile and farm businesses through new launches and become future-ready for the emerging EV business.

Key risk: Chip shortage has led to Engine ECU shortage leading to prioritizing of production favored towards Thar, Scorpio, XUV300 than Pick-ups and then Marazzo. The issue still persists

We value M&M at PE of 10x to its FY23E EPS of INR 74. We assign our Accumulate rating on the stock and value it with SOTP valuation for a target price of INR 995.

INR in Mn	FY19	FY20	FY21	FY22E*	FY23E*
Revenue	5,28,482	4,48,655	4,45,744	5,47,533	6,11,607
EBITDA	75,301	63,506	69,766	81,702	92,363
EBITDA margin(%)	14.20%	14.20%	15.70%	14.92%	15.10%
PAT	54,239	35,509	40,974	78,992	88,302
PATM (%)	10.30%	7.90%	9.20%	14.4%	14.4%
EPS (in INR)	45.5	29.8	34.3	66.2	74.0
PE(x)	18.6	28.4	24.6	12.8	11.4

Source: Company, Arihant Research

\*Bloomberg Estimates

## Conference Call Highlights

- Tractor Industry is expected to grow by low single digits for FY22. In second wave, rural markets are affected more in 2<sup>nd</sup> wave however; the company is seeing some positive change in sentiment from last few days in tractor buying.
- Indian Tractor industry is expected to see cyclicity with CAGR of 8-9% in longer period of time with CAGR of 8-9% in longer period of time with volatile growth on yearly basis. There is immense growth opportunity in farm machinery capacity in India.
- Automotive: Thar demand is going strong with 5-6k booking per month and total booking of 55k+ (47% booking for Automatic Transmission). Waiting period of 10 months. XUV300 is getting 6k+ bookings, with 90% plus YoY growth in booking in 2HFY21. and waiting period of 12 weeks.
- Chip shortage has led to Engine ECU shortage leading to prioritizing of production favored towards Thar, Scorpio, XUV300 than Pick-ups and then Marazzo. The issue still persists.

### Subsidiaries

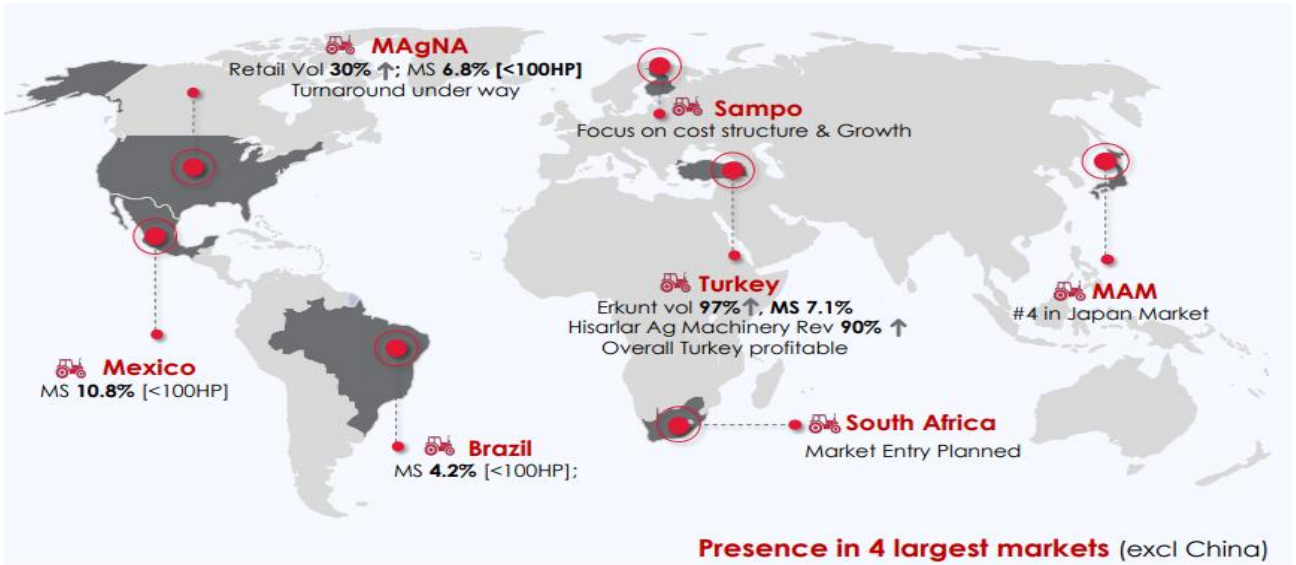
- All farm subsidiaries are showing strong improvement and MAGNA is expected to give positive return from FY23.
- MANA cost restructuring work is done almost so, from now on losses will be reduced.
- PMTC is showing traction coming back to normal post easing of COVID-19 situation in Europe.
- The company is aiming to deliver revenue growth 15-20% and ROE 18% in long run.
- The company is working on bringing additional capacity on swaraj side and also it will be enhancing capacities for its suppliers. On M&M's farm business it will only increase number of shifts and no capacity addition to be done.
- The company is readying its born EV platform in 3-5 year timeline.
- In auto business, fixed expenses are reduces like brand spends, travel etc. and is expected to continue at same level going ahead. Domestic marketing expenses for the company were around INR 500 cr for FY21.
- Investment and Capex: Investments of INR15bn and INR28bn debt repaid in FY21, Investment of INR11.5bn expected in FY22 for auto and farm subsidiaries. Total domestic capex in FY21 of INR33.1bn and INR16.4bn in subsidiaries. Total 120bn capex and 50bn investment expected over FY22-24.
- Auto capex of INR90bn (of which EV is INR30bn). Farm capex of INR30bn. Investments in auto and farm subsidiaries: INR15bn and Group companies: INR35bn.
- Farm capex will be done on expanding supplier capacity and on brand building of Swaraj and farm equipment EV capex will be primarily on building product portfolio and BMS and other allied products will be bought through partnerships.
- Operating cash generation of INR100bn in FY21 against 45bn in last year (35bn due to WC improvement) and INR65bn is a sustainable number as per management. FCF generation of INR67bn in FY21.

## Quarterly results summary (MM + MVML) Q4FY21

INR Mn	Q4FY21	Q3FY21	Q4FY20	YoY %	QoQ %
Net Sales	1,33,382	1,40,565	90,047	48.1%	-5.1%
Cost of material consumed	92,255	96,292	57,898	59.3%	-4.2%
Staff Cost	7,964	8,841	7,127	11.7%	-9.9%
Other expenses	13,559	11,576	12,748	6.4%	17.1%
Total expenses	1,13,777	1,16,709	77,773	46.3%	-2.5%
<b>EBITDA</b>	<b>19,605</b>	<b>23,856</b>	<b>12,275</b>	59.7%	-17.8%
Depreciation	5,899	6,043	6,172	-4.4%	-2.4%
EBIT	13,706	17,814	6,103	124.6%	-23.1%
Interest	971	1,039	359	170.8%	-6.6%
Other Income	1,178	5,618	3,155	-62.7%	-79.0%
PBT	13,913	22,393	8,899	56.3%	-37.9%
Tax	3,888	4,944	5,673	-31.5%	-21.4%
<b>PAT</b>	<b>10,024</b>	<b>17,448</b>	<b>3,226</b>	210.7%	-42.5%
Extraordinary	(8,399)	(12,140)	(35,776)	-76.5%	-30.8%
<b>Reported PAT</b>	<b>1,625</b>	<b>5,309</b>	<b>(32,550)</b>	-105.0%	-69.4%
EPS	0.4	0.3	-21.0	-102.0%	57.7%
Margins	Q4FY21	Q3FY21	Q4FY20	YoY %	QoQ %
Gross margins	30.8%	31.5%	35.7%	-49bps	-7bps
EBITDA	14.7%	17.0%	13.6%	11bps	-23bps
PAT	7.5%	12.4%	3.6%	39bps	-49bps
Tax Rate	27.9%	22.1%	63.7%	-358bps	59bps
Tractor Segment	Q4FY21	Q3FY21	Q4FY20	YoY %	QoQ %
Total Tractors Volume	93,894	1,01,701	59,290	58.4%	-7.7%
Total Automotive Volume	1,08,329	1,02,967	92,423	17.2%	5.2%
Total Volume (Auto + Farm)	2,02,223	2,04,668	1,51,713	33.3%	-1.2%
Aveg Relizations (Auto)	74,870	8,07,162	8,03,246	-90.7%	-90.7%
Aveg Relizations (FES)	5,62,500	5,19,320	7,21,506	-22.0%	8.3%
Blended realisation	3,27,782	6,90,316	8,02,656	-59.2%	-52.5%

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

Operational turnaround in international tractor division businesses

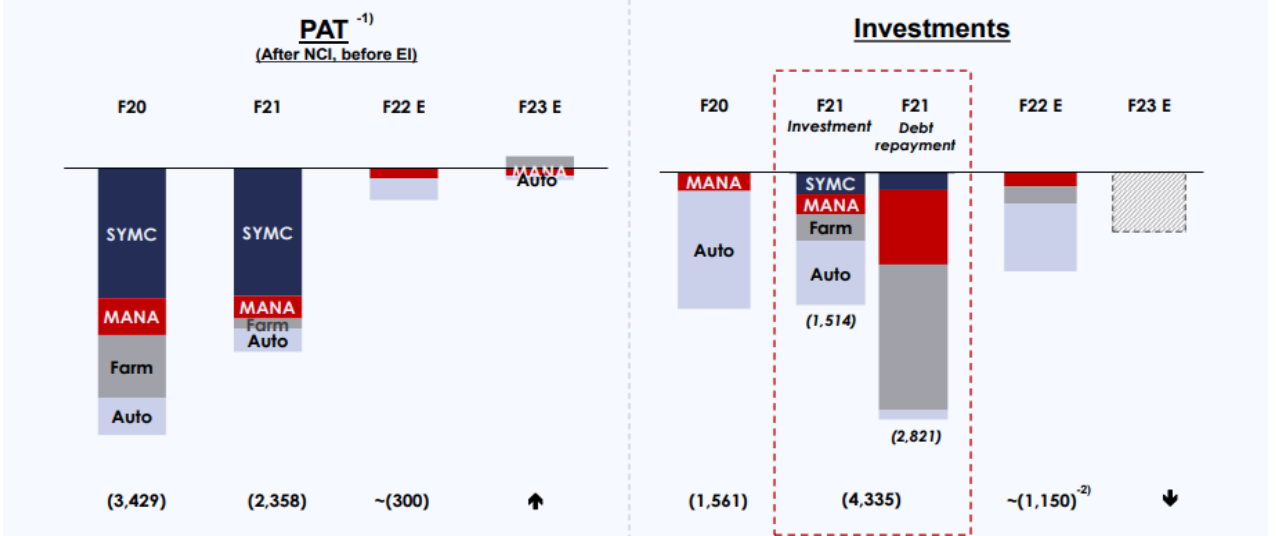


Capital Allocation Update



International Auto and Farm operations

Rs Cr



Source: Company, Arianth Capital Markets

International Auto and Farm operations

Rs Cr

**PAT** <sup>-1)</sup>  
(After NCI, before EI)

	F20	F21		Q4 F20	Q4 F21	
<b>Key farm subsidiaries</b>	<b>(807)</b>	<b>(131)</b>	↑	<b>(353)</b>	<b>9</b>	↑
• MAgNa	(483)	(128)	↑	(265)	(30)	↑
• Erkunt (Traktor+Foundry)	(55)	11	↑	(18)	28	↑
• Hisarlar	(57)	12	↑	(2)	9	↑
• MAMJP	(78)	(7)	↑	(37)	11	↑
• Others	(134)	(20)	↑	(30)	(10)	↑
<b>Key auto subsidiaries</b>	<b>(966)</b>	<b>(586)</b>	↑	<b>(373)</b>	<b>(143)</b>	↑
• Automobili Pininfarina	(123)	(181)	↓	(21)	(54)	↓
• MANA	(474)	(291)	↑	(196)	(80)	↑
• PMTC	(219)	(44)	↑	(75)	(20)	↑
• GENZe	(109)	(31)	↑	(63)	(1)	↑
• Others	(41)	(39)	↑	(17)	12	↑

Listed



**Logistics**  
Market Cap: ~\$500M



**Hospitality**  
Market Cap: ~\$475M



**Real estate**  
Market Cap : ~\$375M

Value creation



**Accelo**



**Renewables**



**Agri**



**Rural Housing Fin**



**Classic Legends**



**Bristlecone**

**\$1Bn Market Cap in 3-5 years**

Nine new products planned in SUV from three different platforms by 2026



**9 NEW PRODUCTS BY 2026**

Electric Powertrain  
 Born EV

## 14 New Products To Strengthen #1 Position



Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (Rs Mn)	Value/share
Tech Mahindra Limited		1,026	2515,48,691	26.0	2,58,152	217
Mahindra & Mahindra Financial Services		160	3162,07,660	51.2	50,514	42
Mahindra Holidays & Resorts		258	898,90,615	67.3	23,201	19
Mahindra Lifespace Developers		522	264,39,850	51.5	13,802	12
Mahindra CIE Automotive Limited.		193	214,17,617	11.4	4,134	3
Ssangyong Motor Company*		-	-	0.0	-	-
CIE Automotive SA (CMP €24.56 x 88.27 Euro/INR)		2,168	95,90,706	7.4	20,792	17
Mahindra EPC Irrigation		148	151,44,433	54.6	2,248	2
Swaraj Engines		1,528	40,39,206	34.8	6,170	5
<i>Listed Subsidiaries (Rs mn)</i>					3,79,012	319
<i>Total Subsidiaries (Rs Mn)</i>					3,79,012	319
<b>Sub Valuations Post Discount (20%)</b>			20%		<b>3,03,210</b>	<b>255</b>
<b>Core auto business @ 10x</b>	<b>Core FY23EPS</b>	<b>74</b>				<b>740</b>
<b>Value/Share</b>						<b>995</b>
					CMP	846
					Upside	18%

Financial Performance

Exhibit 1: Revenue trend

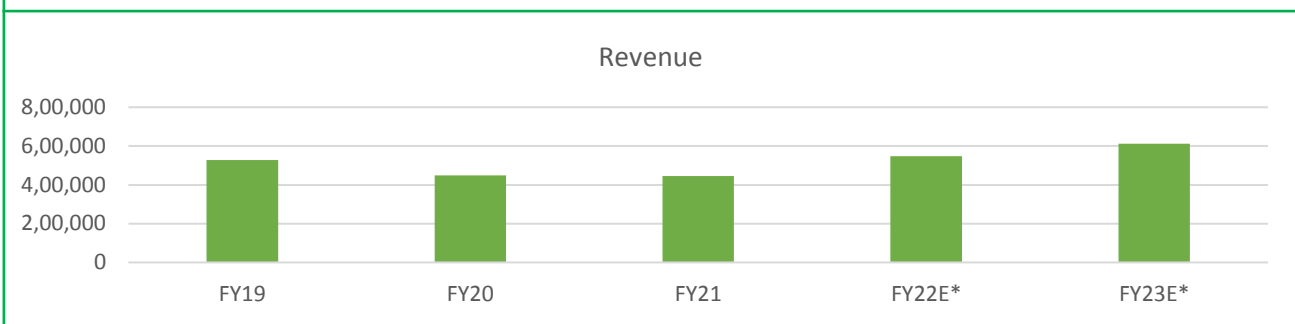


Exhibit 2: EBITDA Trend

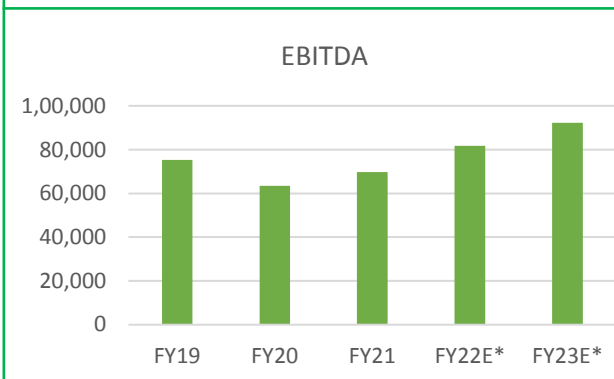


Exhibit 3: PAT trend

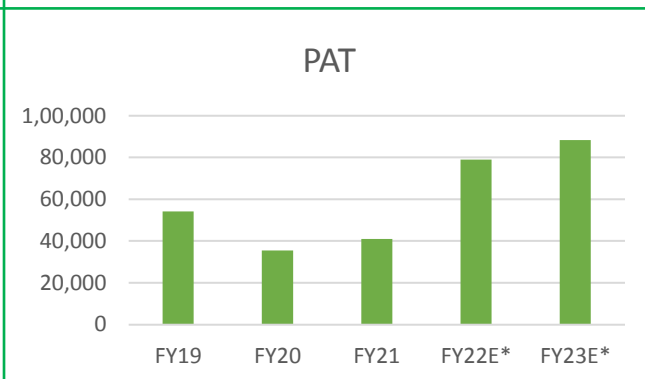


Exhibit 4: EBITDA Margin Trend

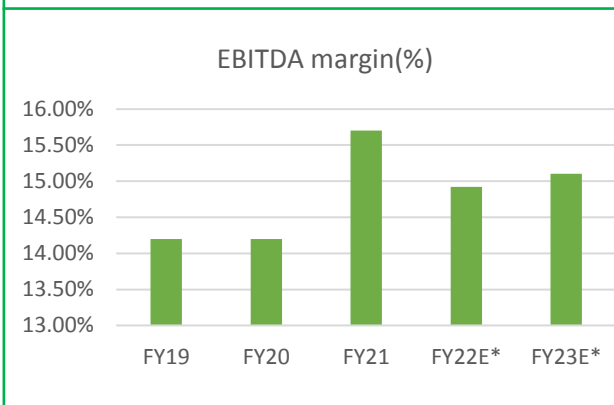


Exhibit 5: PAT Margin trend

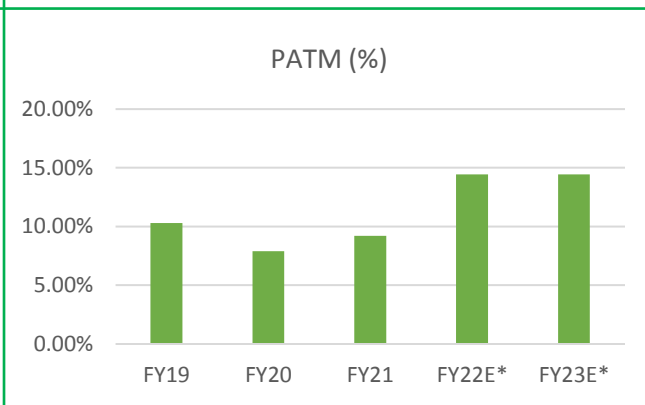


Exhibit 6: EPS Trend

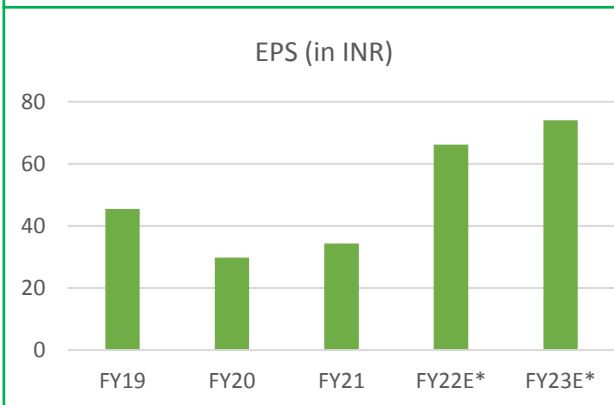
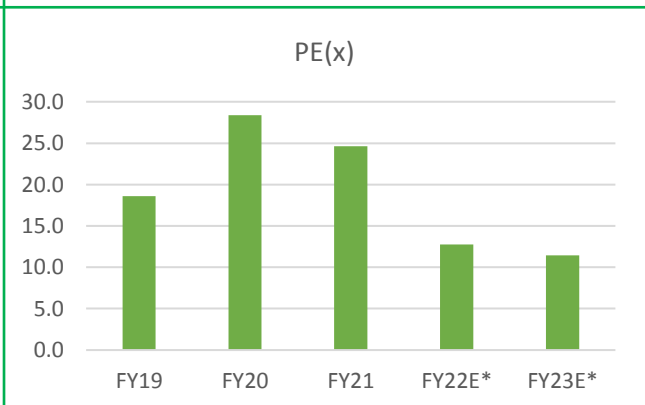


Exhibit 7: PE Trend



Source: Company, Arianth Research

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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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