FIRST LIGHT

31 May 2021

RESEARCH

Mahindra & Mahindra | Target: Rs 630 | –26% | SELL

Adverse sales mix and rising input cost to hurt earnings

Power

Asian utilities say ESG critical and India a key market

SUMMARY

Mahindra & Mahindra

M&M's (MM) Q4FY21 revenue was in line at Rs 133.4bn (–5% QoQ). EBITDA margin contracted 230bps QoQ to 14.7% and EBITDA/adj. PAT fell 18%/43% QoQ to Rs 19.6bn/Rs 10bn. EBIT margins for the auto/tractor segments dipped to 5%/22%. We expect these two segments to log a volume CAGR of 15%/5% over FY21-FY23. An adverse sales mix coupled with higher RM costs is likely to curtail EBITDA margins. We continue to value MM's core business at 14x FY23E EPS (at par with the long-term average) and maintain our TP at Rs 630. SELL.

Click here for the full report.

Power

We attended Sembcorp Industries' (SCI SP, Not Rated) Investor Day and spoke to the IR team of CLP Holdings (2 HK, Not Rated). Both regional utilities own assets in the Indian market. Our key takeaways: (1) ESG an increasingly crucial factor for investors, (2) India offers scale, long-term earnings visibility and diversification, (3) renewables a technology-intensive industry, and (4) TPWR our top pick.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,620
Ajanta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.61	3bps	8bps	95bps
India 10Y yield (%)	5.99	2bps	(7bps)	20bps
USD/INR	72.59	0.3	3.0	3.9
Brent Crude (US$/bbl)	68.41	(0.7)	4.2	98.2
Dow	34,465	0.4	0.8	34.3
Shanghai	3,609	0.4	3.4	26.7
Sensex	51,115	0.2	6.6	61.4
India FII (US$ mn)	**25 May**	**MTD**	**CYTD**	**FYTD**
FII-D	(40.9)	203.7	(2,188.6)	(161.3)
FII-E	205.3	(27.3)	5,809.9	(1,516.4)

Source: Bank of Baroda Economics Research

BOBCAPS Research
researchreport@bobcaps.in

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 630 | ∀ 26%

MAHINDRA & MAHINDRA | Automobiles | 28 May 2021

Adverse sales mix and rising input cost to hurt earnings

M&M's (MM) Q4FY21 revenue was in line at Rs 133.4bn (–5% QoQ). EBITDA margin contracted 230bps QoQ to 14.7% and EBITDA/adj. PAT fell 18%/43% QoQ to Rs 19.6bn/Rs 10bn. EBIT margins for the auto/tractor segments dipped to 5%/22%. We expect these two segments to log a volume CAGR of 15%/5% over FY21-FY23. An adverse sales mix coupled with higher RM costs is likely to curtail EBITDA margins. We continue to value MM's core business at 14x FY23E EPS (at par with the long-term average) and maintain our TP at Rs 630. SELL.

Mayur Milak | Nishant Chowhan, CFA
researchreport@bobcaps.in

Q4 in line: Revenues for MM+MVML declined 5% QoQ to Rs 133.4bn, marginally ahead of our estimate as realisations for the auto/farm segments improved by 7%/2% QoQ. Gross margin slipped 70bps QoQ, EBITDA margin shrank 230bps to 14.7% and EBITDA declined 18% QoQ to Rs 19.6bn. MM reported one-off impairment charges of Rs 8.3bn in Q4, adjusting for which PAT was at Rs 10bn. EBIT margins for the auto/tractor segments declined 270bps/140bps QoQ to 5%/22% in Q4.

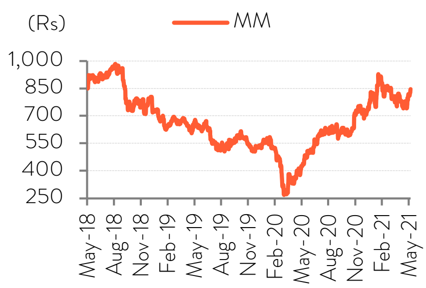
Spiking RM cost, adverse sales mix to weigh on profitability: We expect MM's auto/tractor segments to witness a 15%/5% volume CAGR over FY21-FY23. Rising commodity costs are likely to erode gross margins where we pencil in a 180bps decline over FY21-FY23. Also, supply chain issues and erratic lockdowns due to Covid-19 could impact demand and must be monitored. A rising mix of low-margin auto segment sales is also likely to hamper profitability.

Maintain SELL: We estimate a 13% revenue CAGR for MM over FY21-FY23, though margin headwinds are expected to cap earnings growth at 5%. We continue to value the core business at 14x FY23E EPS (at par with its long-term average) and assign a 30% holding company discount to subsidiaries, yielding an unchanged Mar'22 TP of Rs 630. Retain SELL.

Ticker/Price	MM IN/Rs 846
Market cap	US$ 14.5bn
Shares o/s	1,243mn
3M ADV	US$ 53.3mn
52wk high/low	Rs 952/Rs 431
Promoter/FPI/DII	19%/39%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	528,482	448,655	445,744	530,988	573,361
EBITDA (Rs mn)	75,301	63,506	69,766	71,175	80,415
Adj. net profit (Rs mn)	54,239	35,509	40,974	41,495	45,469
Adj. EPS (Rs)	43.7	28.6	33.0	33.4	36.6
Adj. EPS growth (%)	29.5	(34.5)	15.4	1.3	9.6
Adj. ROAE (%)	16.6	10.2	11.7	11.2	11.3
Adj. P/E (x)	19.4	29.6	25.6	25.3	23.1
EV/EBITDA (x)	13.7	15.9	14.2	13.4	12.3

Source: Company, BOBCAPS Research | P – Provisional

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

POWER

28 May 2021

Asian utilities say ESG critical and India a key market

Tarun Bhatnagar
researchreport@bobcaps.in

We attended Sembcorp Industries' (SCI SP, Not Rated) Investor Day and spoke to the IR team of CLP Holdings (2 HK, Not Rated). Both regional utilities own assets in the Indian market. Our key takeaways:

ESG an increasingly crucial factor for investors: Both SCI and CLP will not build any new coal plants and are committed to halving emissions intensity by 2030, as measured by carbon emissions in kilograms per unit. Environmental, social and governance (ESG) criteria have become key factors over the last few years, with Europe followed by the US and increasingly Asia-based equity/debt investors taking the time to understand plans for emission reduction and other ESG aspects at investee companies. Even "passive" index funds now want to have a dialogue with the companies on this issue.

India offers scale, long-term earnings visibility and diversification: Both utility companies regard India as a large market that helps them earn decent long-term returns and diversify their risks. In our view, India with its size, attractive 25-year renewable PPAs, 35-year transmission concessions and relatively open market offers a good opportunity for regional players. At the same time, these companies want to exercise discipline in project investment and steer clear of being tied to an asset addition target.

Renewables a technology-intensive industry: SCI highlighted the importance of developing inhouse technology and digitisation to manage costs and maximise PLFs in the renewables space. The company highlighted its experience in the UK where the judicious use of storage batteries has helped maximise returns in the merchant market. This underlines the importance of technology and the fact that subscale players who have assets but not the means to create these technology tools may fail to maximise earnings from renewable assets. Larger players who buy these assets may be able to generate better project returns.

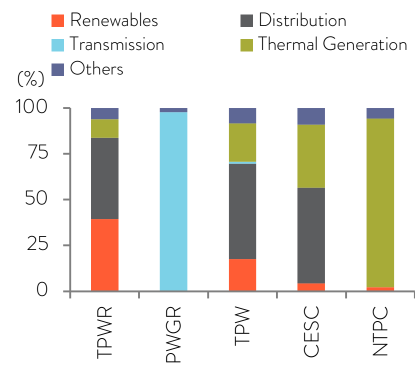
TPWR our top pick: In our recent initiation report **Power: Cleaning up its act**, we highlight how the growing importance of ESG and favourable economics is driving India towards a future dominated by renewable energy. Tata Power (TPWR, TP: Rs 131, BUY) is our top pick in the power sector as we believe the company is swiftly aligning its business towards renewables. Stock catalysts include the announcement of new external investments into the renewable business, disinvestment of non-core assets, and group restructuring to save costs.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
TPWR IN	106	131	BUY
PWGR IN	228	261	ADD
TPW IN	430	461	ADD
CESC IN	670	721	ADD
NTPC IN	110	111	REDUCE

Price & Target in Rupees | Price as of 27 May 2021

FY22E EBITDA mix



Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 30 April 2021, out of 90 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 16 have ADD ratings, 5 are rated REDUCE and 26 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such.

Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.