

**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.**

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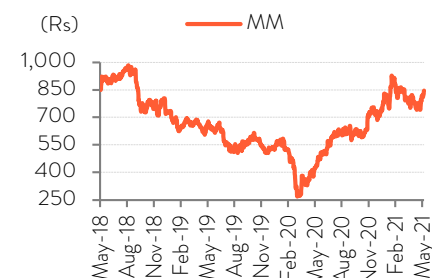
**Q4 in line:** Revenues for MM+MVML declined 5% QoQ to Rs 133.4bn, marginally ahead of our estimate as realisations for the auto/farm segments improved by 7%/2% QoQ. Gross margin slipped 70bps QoQ, EBITDA margin shrank 230bps to 14.7% and EBITDA declined 18% QoQ to Rs 19.6bn. MM reported one-off impairment 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.

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

**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.

## STOCK PERFORMANCE



**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.

## 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

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Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE – MM + MVML**

Y/E Mar (Rs)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Revenues</b>	<b>133,382</b>	<b>90,047</b>	<b>48.1</b>	<b>140,565</b>	<b>(5.1)</b>	<b>445,745</b>	<b>448,655</b>	<b>(0.6)</b>
Raw Materials	92,255	57,898	59.3	96,292	(4.2)	301,766	298,668	1.0
% of Net Sales	69.2	64.3	-	68.5	-	67.7	66.6	-
Personnel	7,964	7,127	11.7	8,841	(9.9)	32,429	32,237	0.6
% of Net Sales	6.0	7.9	-	6.3	-	7.3	7.2	-
Manufacturing & Other Exp	13,559	12,748	6.4	11,576	17.1	41,785	54,245	(23.0)
% of Net Sales	10.2	14.2	-	8.2	-	9.4	12.1	-
Total Expenditure	113,778	77,773	46.3	116,709	(2.5)	375,980	385,150	(2.4)
<b>EBITDA</b>	<b>19,604</b>	<b>12,275</b>	<b>59.7</b>	<b>23,856</b>	<b>(17.8)</b>	<b>69,765</b>	<b>63,506</b>	<b>9.9</b>
<b>EBITDA Margin (%)</b>	<b>14.7</b>	<b>13.6</b>	<b>-</b>	<b>17.0</b>	<b>-</b>	<b>15.7</b>	<b>14.2</b>	<b>-</b>
Depreciation	5,899	6,172	(4.4)	6,043	(2.4)	23,624	23,631	(0.0)
EBIT	13,705	6,103	124.6	17,814	(23.1)	46,141	39,875	15.7
Interest Expenses	971	359	170.7	1,039	(6.6)	3,957	1,245	217.8
Non-operating income	1,178	3,155	(62.7)	5,618	(79.0)	11,973	15,391	(22.2)
Extraordinary Expenses/ (Income)	8,398	35,776	(76.5)	12,140	(30.8)	31,744	28,112	12.9
<b>PBT</b>	<b>5,514</b>	<b>(26,877)</b>	<b>(120.5)</b>	<b>10,253</b>	<b>(46.2)</b>	<b>22,413</b>	<b>25,910</b>	<b>(13.5)</b>
Tax-Total	3,888	5,673	(31.5)	4,944	(21.4)	13,183	18,513	(28.8)
Tax Rate (%) - Total	70.5	(21.1)	(434.1)	48.2		58.8	71.5	(17.7)
<b>Reported PAT</b>	<b>1,626</b>	<b>(32,550)</b>	<b>(105.0)</b>	<b>5,309</b>	<b>(69.4)</b>	<b>9,230</b>	<b>7,397</b>	<b>24.8</b>
<b>Adj. PAT</b>	<b>10,024</b>	<b>3,226</b>	<b>210.7</b>	<b>17,448</b>	<b>(42.6)</b>	<b>40,974</b>	<b>35,509</b>	<b>15.4</b>
PAT Margin	7.5	3.6	-	12.4	-	9.2	7.9	-

Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

Y/E Mar (Rs)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Sales Volume (nos)	202,233	216,816	(6.7)	223,978	(9.7)	706,789	777,958	(9.1)
Net Realisation/Vehicle	659,546	415,316	58.8	627,586	5.1	630,662	576,709	9.4
Material Cost/Vehicle	456,182	267,036	70.8	429,919	6.1	426,954	383,912	11.2
Gross Profit/Vehicle	203,364	148,280	37.1	197,667	2.9	203,708	192,797	5.7
Employee Cost/Vehicle	39,380	32,872	19.8	39,473	(0.2)	45,882	41,438	10.7
Other Expenses/Vehicle	67,046	58,796	14.0	51,683	29.7	59,119	69,728	(15.2)
EBITDA/Vehicle	96,938	56,613	71.2	106,511	(9.0)	98,707	81,631	20.9
Net Profit/Vehicle	49,567	14,880	233.1	77,902	(36.4)	57,972	45,643	27.0

Source: Company, BOBCAPS Research

**FIG 3 – SEGMENT-WISE PERFORMANCE**

Y/E Mar (Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Segment Revenue</b>								
Automotive Segment	78,581	55,058	42.7	83,111	(5.4)	245,652	278,083	(11.7)
Farm Equipment Segment	49,755	31,110	59.9	52,815	(5.8)	184,333	154,025	19.7
Other Segments	5,904	4,518	30.7	5,359	10.2	17,923	19,377	(7.5)
(Less) Inter-segment revenues	859	639	34.3	720	19.3	2,163	2,829	(23.5)
<b>Total</b>	<b>133,382</b>	<b>90,047</b>	<b>48.1</b>	<b>140,565</b>	<b>(5.1)</b>	<b>445,744</b>	<b>448,655</b>	<b>(0.6)</b>
<b>EBIT (After Exceptional Item)</b>								
Automotive Segment	3,900	2,253	73.1	6,441	(39.4)	8,265	16,824	(50.9)
Farm Equipment Segment	10,950	5,488	99.5	12,359	(11.4)	41,927	29,262	43.3
Other Segments	(192)	89	(315.1)	380	(150.6)	261	726	(64.1)
<b>Total</b>	<b>14,657</b>	<b>7,831</b>	<b>87.2</b>	<b>19,180</b>	<b>(23.6)</b>	<b>50,453</b>	<b>46,812</b>	<b>7.8</b>
<b>EBIT Margins (%)</b>								
Automotive Segment	5.0	4.1	-	7.7	-	3.4	6.1	-
Farm Equipment Segment	22.0	17.6	-	23.4	-	22.7	19.0	-
Other Segments	(3.3)	2.0	-	7.1	-	1.5	3.7	-

Source: Company, BOBCAPS Research

## Valuation methodology

In FY21, despite posting a 9% YoY increase in blended realisation, MM reported 110bps gross margin erosion. We bake in 6% higher blended realisations over FY21-FY23, which puts our revenue forecasts broadly in line with consensus. Nevertheless, we are 15% lower than the street on EBITDA as we factor in gross margin weakness due to input cost inflation and the inability of OEMs to fully pass on the steep cost increase. We also project higher growth in the less profitable auto segment which would restrict profitability. Our EPS estimates are thus 22% lower than consensus.

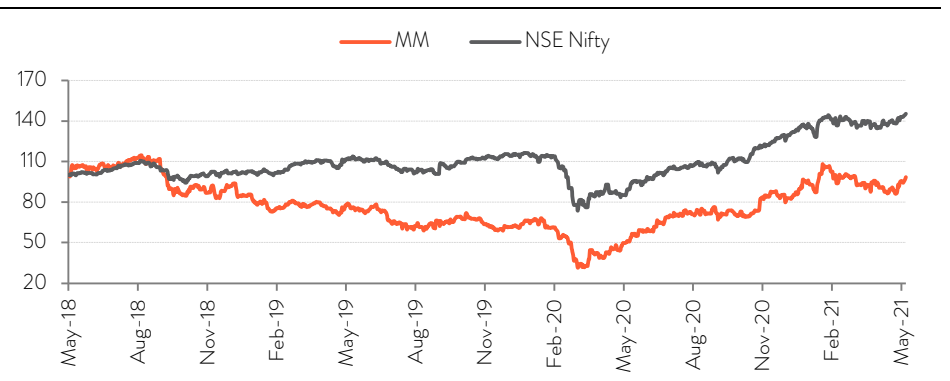
We estimate a 13% revenue CAGR for MM over FY21-FY23, though margin headwinds are expected to cap earnings growth at 5%. We continue to value the core business at 14x FY23E EPS (at par with its long-term average) and assign a 30% holding company discount to subsidiaries, yielding an unchanged Mar'22 target price of Rs 630. Retain SELL as current valuations look rich at 23x FY23E core EPS.

**FIG 4 – SOTP VALUATION**

Business	Fair Value (Rs)	Comment
Core business	400	14x FY23E Core EPS
Value of subsidiaries	230	30% hold-co discount
<b>Total</b>	<b>630</b>	

Source: Company, BOBCAPS Research

**FIG 5 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- A significant increase in MM's UV market share led by its upcoming launches can pose upside risks to our estimates.
- Softening of raw material prices from current levels can provide a boost to operating margins.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>528,482</b>	<b>448,655</b>	<b>445,744</b>	<b>530,988</b>	<b>573,361</b>
EBITDA	75,301	63,506	69,766	71,175	80,415
Depreciation	20,030	23,631	23,624	28,415	33,468
EBIT	71,573	55,266	58,115	59,475	64,787
Net interest income/(expenses)	1,467	1,245	3,957	4,000	4,000
Other income/(expenses)	16,303	15,391	11,973	16,715	17,840
Exceptional items	(227)	(28,111)	(31,745)	0	0
EBT	70,106	54,021	54,158	55,475	60,787
Income taxes	15,867	18,513	13,183	13,980	15,318
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>54,012</b>	<b>7,397</b>	<b>9,229</b>	<b>41,495</b>	<b>45,469</b>
Adjustments	227	28,111	31,745	0	0
<b>Adjusted net profit</b>	<b>54,239</b>	<b>35,509</b>	<b>40,974</b>	<b>41,495</b>	<b>45,469</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	103,607	72,006	106,438	115,224	123,531
Other current liabilities	38,713	30,229	48,845	21,437	19,135
Provisions	16,152	15,781	15,077	15,077	15,077
Debt funds	26,803	31,530	72,143	72,143	72,143
Other liabilities	6,062	7,274	8,898	8,898	8,898
Equity capital	5,958	5,965	5,974	5,974	5,974
Reserves & surplus	343,979	340,326	347,239	379,418	415,572
Shareholders' fund	349,937	346,291	353,212	385,392	421,546
<b>Total liabilities and equities</b>	<b>541,272</b>	<b>503,111</b>	<b>604,613</b>	<b>618,172</b>	<b>660,330</b>
Cash and cash eq.	38,321	42,365	62,555	36,921	36,839
Accounts receivables	38,119	29,012	22,012	37,169	34,402
Inventories	47,631	40,408	47,827	58,409	63,070
Other current assets	48,700	37,496	45,920	47,789	51,603
Investments	206,262	175,329	222,862	222,862	252,862
Net fixed assets	144,967	169,093	181,325	192,910	199,442
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(7,896)	(15,068)	(14,497)	(14,497)	(14,497)
Other assets	25,168	24,475	36,609	36,609	36,609
<b>Total assets</b>	<b>541,272</b>	<b>503,111</b>	<b>604,613</b>	<b>618,172</b>	<b>660,330</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	74,269	59,139	64,598	69,910	78,937
Interest expenses	1,467	1,245	3,957	4,000	4,000
Non-cash adjustments	(16,303)	(15,391)	(11,973)	(16,715)	(17,840)
Changes in working capital	(6,824)	(11,015)	32,992	(46,229)	297
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>52,610</b>	<b>33,978</b>	<b>89,574</b>	<b>10,966</b>	<b>65,394</b>
Capital expenditures	(34,928)	(47,757)	(35,856)	(40,000)	(40,000)
Change in investments	(12,263)	30,933	(47,533)	0	(30,000)
Other investing cash flows	16,303	15,391	11,973	16,715	17,840
<b>Cash flow from investing</b>	<b>(30,887)</b>	<b>(1,433)</b>	<b>(71,415)</b>	<b>(23,285)</b>	<b>(52,160)</b>
Equities issued/Others	8	7	9	0	0
Debt raised/repaid	(5,339)	4,728	40,613	0	0
Interest expenses	(1,467)	(1,245)	(3,957)	(4,000)	(4,000)
Dividends paid	(12,035)	(3,327)	(10,868)	(9,315)	(9,315)
Other financing cash flows	3,339	7,172	(571)	0	0
<b>Cash flow from financing</b>	<b>(15,494)</b>	<b>7,334</b>	<b>25,225</b>	<b>(13,315)</b>	<b>(13,315)</b>
<b>Changes in cash and cash eq.</b>	<b>6,228</b>	<b>39,879</b>	<b>43,384</b>	<b>(25,635)</b>	<b>(82)</b>
<b>Closing cash and cash eq.</b>	<b>38,321</b>	<b>42,365</b>	<b>62,555</b>	<b>36,921</b>	<b>36,839</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	43.7	28.6	33.0	33.4	36.6
Adjusted EPS	43.7	28.6	33.0	33.4	36.6
Dividend per share	8.5	2.4	8.8	7.5	7.5
Book value per share	281.7	278.8	284.4	310.3	339.4

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	2.0	2.3	2.2	1.8	1.7
EV/EBITDA	13.7	15.9	14.2	13.4	12.3
Adjusted P/E	19.4	29.6	25.6	25.3	23.1
P/BV	3.0	3.0	3.0	2.7	2.5

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	77.0	13.7	17.0	74.8	74.8
Interest burden (PBT/EBIT)	98.0	97.7	93.2	93.3	93.8
EBIT margin (EBIT/Revenue)	13.5	12.3	13.0	11.2	11.3
Asset turnover (Revenue/Avg TA)	145.9	116.9	108.8	117.9	118.3
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.2	1.2	1.2
Adjusted ROAE	16.5	2.1	2.6	11.2	11.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	11.1	(15.1)	(0.6)	19.1	8.0
EBITDA	6.9	(15.7)	9.9	2.0	13.0
Adjusted EPS	29.5	(34.5)	15.4	1.3	9.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.2	14.2	15.7	13.4	14.0
EBIT margin	13.5	12.3	13.0	11.2	11.3
Adjusted profit margin	10.3	7.9	9.2	7.8	7.9
Adjusted ROAE	16.6	10.2	11.7	11.2	11.3
ROCE	14.4	8.8	10.0	9.3	9.4
<b>Working capital days (days)</b>					
Receivables	24	27	21	20	23
Inventory	41	54	53	37	39
Payables	100	107	108	109	109
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.4	0.5	0.5	0.5
Current ratio	1.1	1.3	1.0	1.2	1.2
Net interest coverage ratio	48.8	44.4	14.7	14.9	16.2
Adjusted debt/equity	0.1	0.1	0.2	0.2	0.2

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%

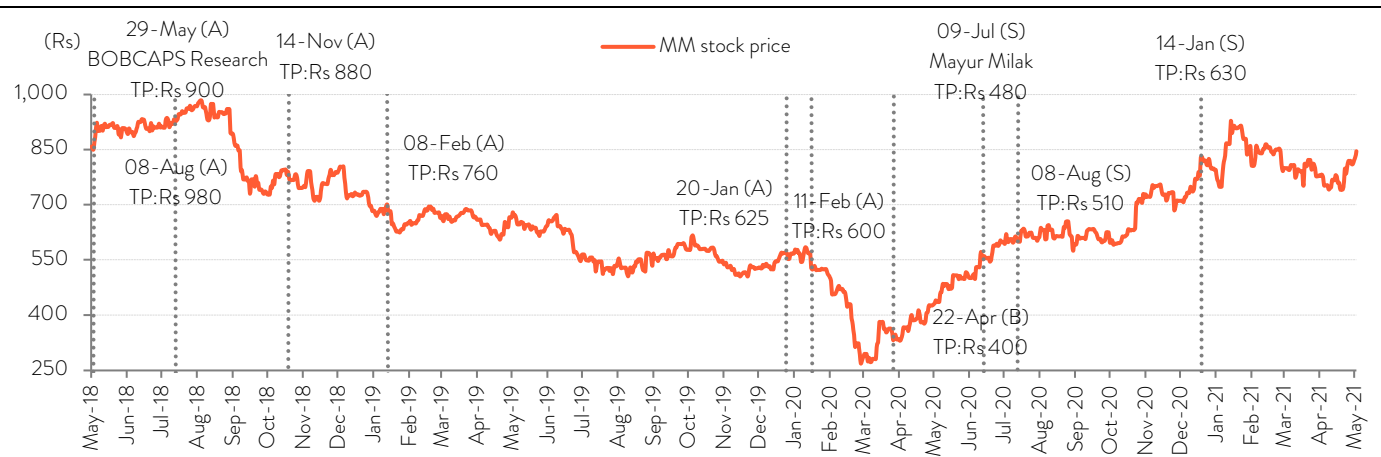
**REDUCE** – Expected return from -5% to +5%

**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.

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): MAHINDRA & MAHINDRA (MM IN)



B – Buy, A – Add, R – Reduce, S – Sell

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