

Mahindra and Mahindra

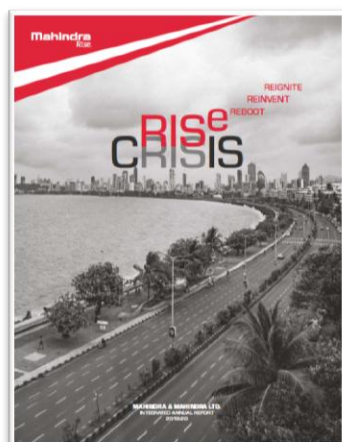
BSE SENSEX
37,419

S&P CNX
11,022

CMP: INR594

TP: INR695 (+17%)

Buy



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Bloomberg	MM IN
Equity Shares (m)	1,209
M.Cap.(INRb)/(USD\$)	737.9 / 9.8
52-Week Range (INR)	621 / 246
1, 6, 12 Rel. Per (%)	11/15/6
12M Avg Val (INR M)	2583
Free float (%)	81.1

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	455	417	490
EBITDA	58.0	51.9	65.6
Adj. PAT*	35.8	30.9	40.9
Adj. EPS (INR)	30.0	25.9	34.3
EPS Gr. (%)	-30.3	-13.7	32.4
BV/Sh. (INR)	290	310	336

Ratios

RoE (%)	9.7	8.2	10.1
RoCE (%)	5.9	7.5	9.3
Payout (%)	24	24	27

Valuations

P/E (x)	19.8	22.9	17.3
P/BV (x)	2.0	1.9	1.8
Div. Yield (%)	0.4	0.8	1.3
FCF Yield*	0.2	3.7	6.6

*(incl MVML)

Revisiting capital allocation

Current crisis a catalyst to reboot, reinvent and reignite value creation

Mahindra and Mahindra's (M&M) FY20 Annual Report highlights the company's recalibration of capital allocation to reduce losses and increase accountability of its various businesses. Besides listing out priority areas for the auto and FES businesses, it also explains future growth areas for farm mechanization and shared mobility/logistics. Key insights from the Annual Report highlighted below:

- M&M is focused on using the current crisis (in the form of substantial losses in global businesses) to reboot (streamline capital allocation policy and bring accountability), reinvent (realize the potential of few unlisted businesses) and reignite value creation for all its stakeholders.
- Positive sentiment in the rural economy should drive faster recovery for tractors/Auto sector. Besides potential demand-side challenges (lower incomes, job uncertainties, financing issues), supply-side bottlenecks (labor availability, limited working hours, social distancing norms) are also expected.
- It has identified priority areas for its core businesses such as strengthening of the core business, aggressive cost optimization, reorientation of capex and turnaround in global subsidiaries.
- M&M is taking appropriate steps to strengthen its UV portfolio through new product launches, introduction of petrol engines and leveraging the Ford JV.
- The tractor business saw green-shoots during Dec'19 to Feb'20 with ~9.7% volume growth, before the Covid-19 related lockdown hurt demand. Consistent growth in horticulture is also driving growth for tractors.
- M&M is continuing its focus on farm mechanization to address concerns of farm productivity and labor shortage. It has an active presence in the farm mechanization space and offers efficient and affordable mechanization solutions across the spectrum of farming operations.
- It has launched a unique delivery model – Farming-as-a-Service (FaaS) under the brand name *Krish-e* – to support farmers across the crop cycle. *Krish-e* aims to provide an integrated agronomy advisory, mechanized services and high-tech digital solutions to small farmers to reduce their cost of cultivation, enhance productivity and improve farming outcomes.
- M&M is also focusing on the shared logistics segment for both personal mobility as well as cargo logistics. It further expanded its presence in this segment by acquiring stake in *Meru* (shared personal mobility). This is in addition to its stake in *Zoomcar*, which it had acquired in FY19 (~16.1% stake).
- Mahindra Electric (subsidiary focused on EVs) achieved EBITDA break-even in FY20. e-3Ws offer good growth potential due to better operating economics and easy deployment for first/last mile connectivity (incl. at metro stations).
- **Valuation and view:** Implied Core P/E for M&M is ~12.8x FY22E S/A EPS and 1.3x Core P/BV. Our Jun'22E-based SOTP TP is ~INR695/share – an upside of ~17%. At our TP, implied Core P/E is ~15.2x (v/s 5-year average core P/E of ~15.9x and 10-year average of ~14.3x). Maintain **Buy**.

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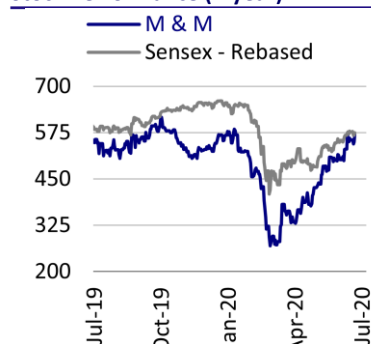
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	18.9	18.9	20.4
DII	26.9	23.2	22.5
FII	41.3	41.4	39.2
Others	12.9	16.6	17.9

FII Includes depository receipts

Stock Performance (1-year)**Recalibrating capital allocation to reignite value creation**

- Over the last two years, M&M's performance has been impacted by increasing losses in some of its international subsidiaries, which has worsened recently due to the COVID-19 pandemic and the consequent lockdowns.
- The company's main challenge lies in its global subsidiaries, some of which are making significant losses. However, it intends to use the crisis to rise and reach new heights by rebooting, reinventing and reigniting value creation.
- As part of its 'reboot' strategy, M&M has streamlined its capital allocation policy to maximize value creation for all stakeholders. It has not only clearly laid out criteria to allocate capital to existing businesses, but has also increased focus on improving the accountability of businesses to ensure that the outcome is in line with its plans.
- As part of its 'reinvent' strategy, the company has identified a set of unlisted businesses that hold promise and could become value creators over the next few years. M&M would focus on allocating the right resources to ensure that these businesses get the required inputs and capital to realize their true potential.
- With the revamped and stringent capital allocation process (rebooting), coupled with a strategy to identify and scale up value creators (reinventing), the company is aiming higher and maximizing value creation for all its stakeholders (reigniting).

Exhibit 1: Loss-making businesses/entities to be closely scrutinized and classified into 3 categories, viz. A, B and C

Category	A	B	C
Criteria	Entities with clear path to 18% RoE	Delayed or unclear path to profitability but quantifiable strategic impact	Unclear path to profitability and no quantifiable strategic impact
Action	Continue	Continue	Exit (Explore partnership) alliance or shut-down)

Source: Company

M&M delivered on project '3-2-3' initiated after 2002 crisis

INR b	FY02	FY05	Gr (x)
Revenues	32.1	66.6	2.1
EBITDA	2.9	7.7	2.7
PAT	1.3	5.0	3.8

Reigniting Value Creation 2002 – The turning point

In 2002, M&M's share price hit an all-time low. Concerned by this drop, the group made shareholder value creation one of its prime focus areas. It launched a project called '3-2-3' to increase profits by 3x and the top line by 2x over a period of 3 years. Believed to be an impossible task, the company eventually achieved this target for most of its group businesses.

Outlook: Rural to recover faster; risks to both demand and supply

- Sentiment for the rural economy is encouraging, driven by good Rabi output, robust reservoir levels and normal monsoon forecast by the IMD. This augurs well for Kharif crops as well as demand for tractors and farm machinery.
- Hence, M&M expects faster recovery in rural India. Moreover, rural demand should improve sales momentum for Auto sector while urban centers are expected to take a little longer to return to normalcy.
- Factors such as lower household incomes, employment uncertainties, higher cost of finance and difficulty in procuring finance as a result of the potential rise

in NPAs (in the Financial Sector) could result in demand constraints for discretionary items such as automobiles.

- M&M's loss of sales due to COVID-19 in Mar'20 is estimated at 23,400/vehicles/14,700 tractors, while for 1QFY21, it is estimated at 87,000 vehicles/30,000 tractors. While it is difficult to estimate the definite impact of COVID-19 on the business beyond 1QFY21, the economy should see demand constraints for discretionary items.
- On the supply side, short-to-medium term risks exist. This is because many suppliers are facing working capital issues in addition to labor availability challenges, limited working hours and adherence to COVID-19 safety norms. Production at the suppliers' end is resuming gradually and almost 100% are now operational.

Areas of priority for core businesses

- For the Auto business, M&M's future direction would involve (a) the launch of the new *Thar*, (b) redefining the dealer business model, (c) strategic re-prioritization of capital expenditure, (d) aggressive cost optimization, (e) synergy projects with Ford JV, (f) building a distinctive SUV brand, (g) launching new models, (h) leveraging LCV and EV portfolio, and (i) creating a path to profitability for its global subsidiaries.
- In FES, key priorities include (a) strengthening the domestic core business, (b) building farm machinery business in India, (c) turning around the global business, (d) leveraging its unique farming solutions delivery model 'Farming as a Service (FaaS)', and (e) launching its lightweight compact tractor platform 'K2'.
- The key elements of the strategy for its Automotive segment includes (a) strengthening the product portfolio, (b) refreshing and updating existing products, (c) strengthening research and development (R&D), and (d) technology capabilities.
- Farm sector's strategy is aligned to improve the state of farming through democratizing technology, especially for marginal farmers with small land holdings. It continues to invest in modern technologies for tractors to offer tractors with first-in-class features. M&M also offers matching implements with crop-specific mechanization solutions.

Auto business

- The UV segment's growth is driven by increased customer preference for UV-styled vehicles and a shift from compact cars to compact UVs (less than 4m length). All OEMs are now actively growing their UV portfolio by launching competitive products at attractive price points.
- Over the last two years (FY19-20), there were 13 new launches in the UV segment. In FY20, the new launches accounted for 34% of UV volumes. Compact UVs accounted for 45% of UV volumes during the last fiscal year.
- M&M's market share has been declining due to (a) higher competition in the UV segment over the past five years (all OEMs launched products in this segment), and (b) increased customer preference for compact 5-seater cars akin to UVs. M&M has taken appropriate steps toward strengthening its UV portfolio by working on new product platforms and launching new models. In FY19, it launched the *Marazzo*, *Alturas G4* and *XUV300*.

- It has developed BS6 diesel engines at highly competitive cost, thus, meeting aggressive time and cost targets. Also, it introduced a new range of BS6 gasoline engines, powered by the advanced TGD technology, offering the same drive experience as diesel engines.
- M&M's rank has improved to #2 (from #3) in the JD Power India Sales Satisfaction Index (Mass Market) study for CY19.
- M&M and Ford Motor Company have entered into a joint venture (with M&M owning 51% stake) to develop, market and distribute (a) Ford vehicles in India, and (b) Ford and Mahindra vehicles in emerging markets globally.

Tractor business

- The tractor business saw green-shoots during Dec'19 to Feb'20 with ~9.7% volume growth. This was due to (a) good Rabi outlook supported by robust reservoir levels, (b) increased Government spending in rural areas, and (c) improved liquidity conditions in the market. However, this recovery trend came to a grinding halt following the outbreak of the COVID-19 pandemic.
- While over 80% of tractor sales comes from the 31-50HP segment, over the past 10 years, the company has witnessed good growth in the >50 HP and <20HP segments. Growth in the >50HP segment is driven by the need for tractor versatility and evolution of farming practices, especially in case of farmers with large land holdings. Growth in the <20HP segment is a result of increased affordability amongst farmers with small-medium land holdings and the growing need for mechanization.
- Further, horticulture is a consistently growing segment in the agri economy over the last few years. Farmers are increasingly cultivating horticulture crops as it ensures better returns and diversifies their source of income. This has led to growing need for tractor and mechanization solutions suitable for orchards, vineyards and other horticulture crops.

Continues to invest and strengthen presence in farm mechanization space

- Indian agriculture is characterized by high degree of manual work and low productivity. Moreover, demand for farm labor is cyclic and there is shortage of labor in the peak season. Given these circumstances, the key to raising farm productivity is to increase the level of mechanization and improve farming practices. This, coupled with the government's focus to improve the state of agriculture in the country, is generating multiple opportunities in the space of farm mechanization, dissipation of agri know-how and crop specific solutions.
- M&M remains focused on farm mechanization as the space is an important enabler to address the concerns of farm productivity and labor shortage. It has active presence in the farm mechanization space and offers efficient and affordable mechanization solutions across the spectrum of farming operations. These include rotary tillers, cultivators, harvesters, balers, and rice trans-planter, amongst others.
- To strengthen its presence in the fast growing horticulture segment, M&M has increased its stake in M.I.T.R.A Agro Equipment to 40% (from 27%) for INR71m. This subsidiary offers specialized sprayers and caters to the need of horticulture farmers.

- The company has also acquired 11.25% stake in Gamaya, a Switzerland-based agri-technology firm, for INR302m. Gamaya SA is a start-up focused on precision agriculture solutions.
- M&M continues to leverage its acquisitions/partnerships to build its farm machinery portfolio for global markets and to get modern farm mechanization technologies to India. These technologies are developed in global centers of excellence – Japan (through Mahindra Mitsubishi for the rice value chain), Finland (Sampo Rosenlew for combine harvester) and Turkey (Hisarlar and Erkunt).
- Further, it has launched a unique delivery model, Farming-as-a-Service (FaaS), under the brand name *Krish-e* to support farmers across their full crop cycle. *Krish-e* aims to provide integrated agronomy advisory, mechanization services (tractors and crop specific mechanization rental) and high-tech digital solutions (precision farming) to small farmers to reduce the cost of cultivation, enhance productivity and improve farming outcomes.

Exhibit 2: M&M's centers of excellence for its farm mechanization businesses



Source: Company

Mahindra Electric achieves EBITDA break-even

- Mahindra Electric (subsidiary focused on EVs) achieved EBITDA break-even in FY20. It sold 14,602 EVs (966 4Ws and 13,636 3Ws) in FY20 as against 10,276 EVs (1,811 4Ws and 8,465 3Ws) in FY19.
- e-3Ws offer good growth potential due to improving operating economics and easy deployment for first/last mile connectivity, including at metro stations. Its e-3Ws constituted 2.7% of the Passenger 3W industry.
- It is investing over INR5b in its EV Project under the new EV Policy of the Government of Maharashtra. This investment will be utilized toward product development and capacity enhancement for EVs and related components.

Focus on shared logistics

- M&M is focusing on the shared logistics segment for both personal mobility as well as cargo logistics. It further expanded its presence in this segment by acquiring stake in *Meru* (shared personal mobility). This is in addition to the stake it had acquired in *Zoomcar* in FY19 (~16.1% stake).
- **Meru acquisition to increase M&M's presence in shared mobility:** In Dec'19, M&M acquired 36.63% stake in *Meru*, which operates in the 'ride hail' segment and has presence in the corporate transportation space. M&M is committed to enhance its stake in *Meru* by up to 55% (by investing up to INR2.02b). The

company has a 'call' option to acquire shares from certain existing investors of *Meru*. In turn, these existing investors of *Meru* have a 'put' option to sell shares to M&M. Investment in *Meru* would enable M&M to increase its presence in the corporate shared mobility segment, which is an area of strategic interest to the company.

- **Merger of subsidiary with Porter:** M&M is keen to grow its presence in the shared mobility logistics solutions' space, which is an area of strategic interest. M&M had merged a step-down subsidiary named Orizonte Business Solutions (load exchange marketplace) with Smartshift Logistics Solutions (Porter). As a result, the Mahindra group owned 40.2% stake in Porter. Subsequently, post the additional fund raise from existing and new investors, Mahindra group's stake has now reduced to 33.5%.

Analysis of FY20 financials

- M&M's FY20 standalone revenues (incl. MVML) declined 15% to ~INR448.8b, impacted by 17% decline in volumes (23% decline in UVs and 9% decline in tractors). Blended realizations improved 2.5% YoY, driven by price increase and mix.
- Gross margins improved ~140bp to 33.3%, helped by better mix (higher tractor contribution) and benign commodity prices. However, operating leverage offset this benefit and led to stable EBITDA margins at 14.2%. Lower other income and higher depreciation led to adj. PAT decline of 30% to ~INR35.6b.
- In FY20, it impaired its investments in Ssangyong and Genje (Mahindra Tractor Assembly Inc.), resulting in provision of ~INR33.8b.
- CFO declined 27% YoY to ~INR39.5b, impacted by weak operating performance as well as further increase in working capital. This coupled with capex of ~INR45.4b (v/s INR32.1b in FY19) resulted in negative FCFF of ~INR6b (v/s positive FCFF of ~INR21.8b in FY19).
- Further, it invested INR23b in subsidiaries/JVs/Associates in FY20 (v/s INR28.9b in FY19). Key areas of investments were (a) Holding company of Peugeot (INR6.3b), (b) Holding company of Pininfarina (INR5.1b), (c) Holding company of Erkunt, Hisarlar, North American Technical Center and US Auto business (INR4.1b), (d) Holding company of used car business, renewable energy and IT Services (INR3.94b).
- Consolidated performance remains impacted by significant losses at global subsidiaries. Net contribution from subsidiaries was a loss of ~INR17.9b to adj. PAT (v/s INR0.4b in FY19), resulting in consolidated adj. PAT declining 68% to ~INR17.9b.

Valuation and view

- M&M is witnessing a generational shift – both in its core business (led by agri reforms) and in its leadership. M&M should see faster recovery (v/s auto peers) led by higher rural exposure. Also, the company enjoys strong positioning in two of its three core businesses, resulting in robust profitability.
- Despite M&M's recent outperformance, valuations are still at substantial discount to its 5-year average (which captures both pain point of deterioration in UV market share and subsidiaries' performance).

- We believe M&M's valuations reflect (a) challenges of the Passenger UV business, and (b) lack of major changes on its capital allocation policy. Any positive surprise in the SUV business, positive evolution of the Ford India JV or correction of capital allocation by the new CEO should act as re-rating triggers.
- Implied Core P/E for M&M is ~12.8x FY22E S/A EPS (incl. MVML) and 1.3x Core P/BV, which implies ~20% discount to 5-year average P/E and ~31% discount to 5-year average P/B.
- Our Jun'22E-based SOTP TP is ~INR695/share – an upside of ~17%. At our TP, implied Core P/E is ~15.2x (v/s 5-year average core P/E of ~15.9x and 10-year average of ~14.3x). Maintain **Buy**.

Exhibit 3: On aggregate basis, subsidiaries have been a drag on consol. PAT (INR b) and RoEs (%)

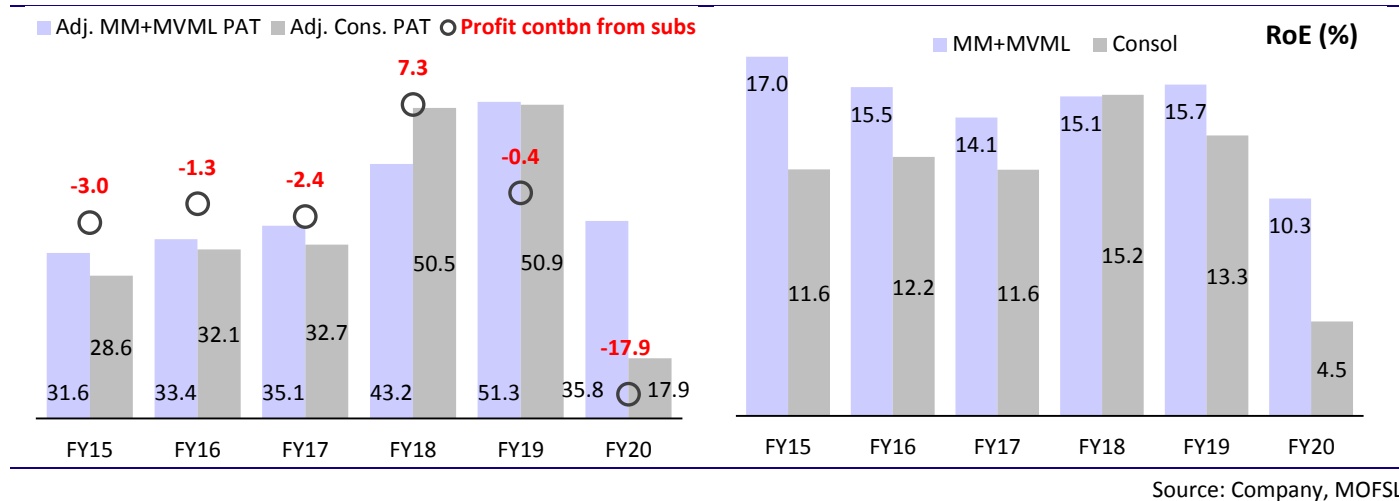


Exhibit 4: FCFF post investments in capex and subsidiaries/JVs/associates

S/A - INR m	FY16	FY17	FY18	FY19	FY20
CFO pre Work Cap	40,392	37,608	52,468	54,299	50,038
Work Cap Changes	14,393	-508	17,803	-5,060	-13,260
CFO	54,785	37,100	70,271	49,239	36,778
Capex	-21,597	-20,743	-26,688	-30,316	-39,437
Invest. In subs/JVs/Assoc.	-34,142	-33,388	-25,490	-2,794	-2,308
FCFF	-953	-17,030	18,093	16,129	-4,966

Source: Company, MOFSL

Exhibit 5: Headline financials of key core subsidiaries

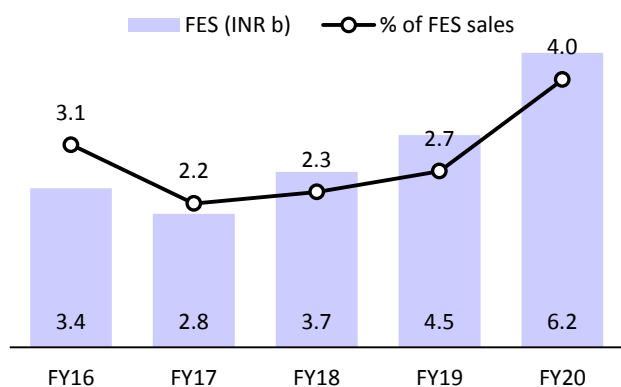
INR M	FY20		FY19		FY18		
Name of Subsidiary	Gross Sales	PAT	Gross Sales	PAT	Gross Sales	PAT	Business
Mahindra eMarket Limited	402	41	147	26	0	0	❖ Auto - Dealership
NBS International Limited	1,931	-79	1,673	-75	0	0	❖ Auto - Dealership
Mahindra Automobile Distributor	291	53	485	22	0	0	❖ Autos
Mahindra Heavy Engines Limited	10,076	391	10,792	526	0	0	❖ Autos
Mahindra Trucks and Buses Limited	2,236	321	2,003	26	0	0	❖ Autos
Mahindra Graphic Research Design S.r.l.			165	-96	0	0	❖ Autos - Engineering
Mahindra North American Technical Center, Inc.	3,568	-365	3,494	-80	454	-907	❖ Autos - Engineering
Mahindra Racing UK Limited	1,643	-142	1,348	-79	0	0	❖ Autos - Engineering
Automobili Pininfarina GmbH	404	-1,296	0	-1,009	0	0	❖ Autos - Overseas
Mahindra and Mahindra South Africa (Proprietary)	6,926	-107	6,236	-218	6,364	-17	❖ Autos - Overseas
Mahindra Automotive Australia Pty. Limited	730	-26	888	-53	0	0	❖ Autos - Overseas
Mahindra Automotive North America Inc.	1,229	-663	838	-302	0	0	❖ Autos - Overseas
Mahindra Europe S.r.l.	1,448	-4	1,579	-24	0	0	❖ Autos - Overseas
Mahindra Vehicle Sales and Service Inc.	2,906	-2,476	3,370	-1,269	73	-258	❖ Autos - Overseas
SsangYong Australia Pty Limited \$	1,734	-297	200	-148	0	0	❖ Autos - Overseas
Ssangyong European Parts Center B.V.	1,260	10	1,150	9	0	0	❖ Autos - Overseas
Ssangyong Motor Company	225,961	-21,082	226,000	-3,797	213,202	-5,484	❖ Autos - Overseas
SY Auto Capital Co.	1,277	323	2,364	187	0	0	❖ Autos - Overseas
Mahindra MSTC Recycling Private Limited	58	-54	12	-58	0	0	❖ Autos - Recycling
Mahindra First Choice Services Limited	1,098	-311	1,136	-355	926	-404	❖ Used car dealers
Mahindra First Choice Wheels Ltd	3,758	-70	2,280	-146	1,426	-319	❖ Used car dealers
Mahindra Electric Mobility Limited	2,789	-552	2,513	-530	1,294	-1,290	❖ Autos (EV)
Total Autos	271,752	-26,397	268,685	-7,482	223,738	-8,678	❖ Autos
Meru Mobility Tech Private Limited	1,160	-106					❖ Mobility as service
Meru Travel Solutions Private Limited	0	-103					❖ Mobility as service
Zoomcar Inc	NA	-446	NA	-263			❖ Mobility as service
Smartshift Logistics Solutions (Porter)	NA	-431	NA	-104			❖ Logistics as service
Total Mobility/Logistic as service	1,160	-1,086	0	-367	0	0	❖ Autos
Erkunt Sanayi A.S.	5,328	295	5,787	485	0	0	❖ FES - Implements
Erkunt Traktor Sanayii A.S.	3,219	-401	3,434	-468	6,459	-732	❖ FES - Implements
Gromax Agri Equipment Limited	1,397	-22	1,477	11	0	0	❖ FES - Tractors
Hisarlar İthalat İhracat Pazarlama Anonim Şirketi	1,445	-7	1,178	-7	0	0	❖ FES - Implements
Hisarlar Makina Sanayi ve Ticaret Anonim	2,212	-750	2,517	-782	1,483	-1,616	❖ FES - Implements
Mahindra do Brasil Industrial Ltda	716	-508	532	-259	474	-128	❖ FES - Tractors
Mahindra Mexico S. de. R. L	304	-447	342	-219	288	-41	❖ FES - Tractors
Mahindra USA Inc.	25,768	-5,071	23,181	-5,493	37,376	224	❖ FES - Tractors USA
Trringo.com Limited	13	1	19	-77	0	0	❖ FES - Others
Swaraj Engines	NA	247	NA	275			❖ FES - Tractors
Mitsubishi Mahindra Agricultural Machinery	NA	-1,491	NA	-363			❖ FES - Implements
Sampo Rosenlew Oy	NA	-265	NA	-574			❖ FES - Implements
M.I.T.R.A Agro Equipments Private Limited	NA	13					❖ FES - Implements
Total FES	40,402	-8,404	38,467	-7,470	46,079	-2,294	❖ FES

Note: Above financials are not on pro-rata basis and not adjusted for inter-segment; Source: Company, MOFSL

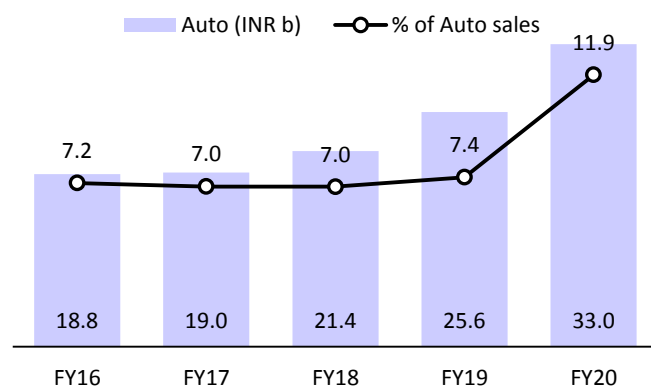
Exhibit 6: Headline financials for key non-core subsidiaries

INR Mn	FY20		FY19		FY18		
Name of Subsidiary	Gross Sales	PAT	Gross Sales	PAT	Gross Sales	PAT	Business
Mahindra Two Wheelers Limited	259	7	315	8	0	0	❖ 2W - Domestic
Classic Legends Private Limited	4,114	-61	13	-188	9	-12	❖ 2W - Domestic
BSA Company Limited	4	-2	5	-2	0	0	❖ 2W - Domestic
Total 2Ws - Domestic	4,377	-56	333	-181	9	-12	❖ 2W - Domestic
Peugeot Motocycles S.A.S.	8,165	-2,444	8,358	-2,820	1,038	-1,723	❖ 2W - Overseas
Peugeot Motocycles Deutschland GmbH	1,413	4	1,244	3	0	0	❖ 2W - Overseas
Mahindra Tractor Assembly Inc. (Genze)	523	-2,216	677	-1,387	245	-1,345	❖ 2W - Overseas
Peugeot Motocycles Italia S.p.A.	333	-118	506	3	0	0	❖ 2W - Overseas
PMTC Engineering SpA	50	-30	102	-24	0	0	❖ 2W - Overseas
Mahindra Two Wheelers Europe Holdings	0	-2,306	0	-2,025	0	-3	❖ 2W - Overseas
Total 2Ws – Overseas	10,484	-7,110	10,888	-6,250	1,284	-3,071	❖ 2W - Overseas
Mahindra Aerostructures Private Limited	921	-86	714	-196	489	-524	❖ Aerospace
Gippaero Pty Limited	526	-1,069	618	-982	533	-1,008	❖ Aerospace
Mahindra Aerospace Private Limited	2	-3,194	24	-1,798	22	-1,331	❖ Aerospace
Mahindra Aerospace Australia Pty	0	-2,685	1	-896	15	-837	❖ Aerospace
Mahindra Airways Limited	38	-8	0	-8	0	0	❖ Aerospace
Total Aerospace	1,487	-7,042	1,357	-3,880	1,060	-3,700	❖ Aerospace
Total Agri	13,052	-267	11,422	-944	4,387	-633	❖ Agri
M&MFSL	102,451	9,064	88,098	15,571	0	0	❖ BFSI
Mahindra Rural Housing Finance Limited	15,276	1,486	13,840	2,505	0	0	❖ BFSI
Mahindra Insurance Brokers Limited	3,369	534	3,234	715	0	0	❖ BFSI
Mahindra Asset Management Company	170	-379	281	-395	234	-381	❖ BFSI
Mahindra–BT Investment Company (Mauritius)	32	28	28	20	0	0	❖ BFSI
Total BFSI	121,298	10,732	105,481	18,415	234	-381	❖ BFSI
Total Defence	3,907	120	3,382	169	0	0	
Total Hospitality	24,087	-1,100	22,389	773	0	0	
Total Logistics	35,130	555	39,132	812	0	0	
Total Real Estate	13,430	-3,926	14,400	1,518	0	0	
Total Retail	1,474	-214	1,641	-227	1,365	-395	
Total Steel Processing	13,949	88	19,985	731	0	0	
Total Renewable Energy	24,596	274	29,001	729	0	0	

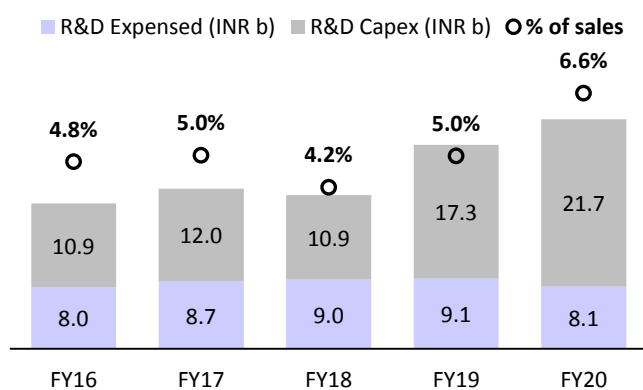
Note: Above financials are not on pro-rata basis and not adjusted for inter-segment; Source: Company, MOFSL

Exhibit 7: Capex in Tractor business is low, but rose in FY20

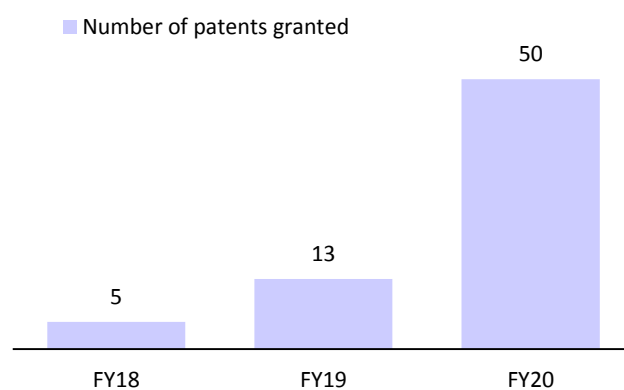
Source: Company, MOFSL

Exhibit 8: FY20 capex high for Auto business on BS6 and upcoming product launches

Source: Company, MOFSL

Exhibit 9: R&D investments have increased in FY20

Source: Company, MOFSL

Exhibit 10: Trend in grant of patents

Source: Company, MOFSL

Exhibit 11: Domestic tractor industry HP-wise profile

HP	Industry Share	Growth
<20	3.4%	-15.70%
20-30	6.5%	-0.40%
30-40	33.3%	-15.90%
40-50	48.7%	-7.20%
>50	8.0%	-3.80%
Total	100%	-9.90%

Source: Company, MOFSL

Exhibit 12: Domestic tractor industry state-wise profile

Rank	States	F20	
		Industry Share	Growth
1	Uttar Pradesh	17.4%	-10.9%
2	Madhya Pradesh	12.4%	1.5%
3	Rajasthan	9.7%	5.1%
4	Maharashtra	8.7%	-2.9%
5	Gujarat	7.8%	-0.5%
6	Bihar	6.1%	-25.3%
7	Telangana	5.9%	11.2%
8	Karnataka	5.7%	-3.5%
9	Haryana	5.5%	-5.5%
10	Punjab	3.9%	1.3%
11	Chattisgarh	3.6%	12.2%
12	Tamil Nadu	3.3%	-15.3%
13	West Bengal	2.9%	-23.1%
14	Andhra Pradesh	2.6%	-57.8%
15	Odisha	2.2%	-25.7%
16	Jharkhand	1.2%	-42.2%
17	Assam	1.3%	-44.4%
All India		-	-9.90%

Source: Company, MOFSL

Exhibit 13: M&M – Sum-of-parts (INR/share)

INR/sh	Target P/E (x)	FY21E	FY22E	FY23E
Tractors	16	331	393	438
Autos	12.5	34	83	89
Others	10	38	45	64
Value of Core Business		403	521	591
Value of subs post hold-co	40% Discount	157	157	157
- Tech Mahindra		79	79	79
- M&MFSL		36	36	36
- Mah. Lifespaces		3	3	3
- Mah. Holidays		7	7	7
- SYMC		13	13	13
- Mah. Logistics		9	9	9
- Others		9	9	9
Fair Value (INR/sh)		559	678	747

Source: MOFSL

Operating metrics

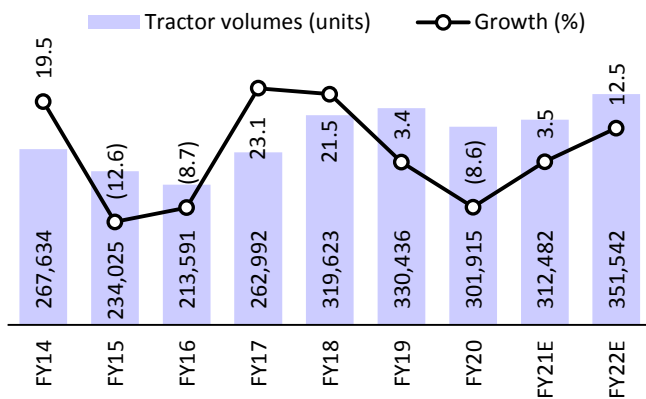
Exhibit 14: Snapshot of Revenue model

000 units	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Tractors	214	263	320	330	302	312	352
Growth (%)	-8.7	23.1	21.5	3.4	-8.6	3.5	12.5
% of total volumes	30.3	34.3	36.8	35.2	38.8	45.5	44.5
Autos							
Pick-up/LCVs (<3.5t)	156	168	200	229	188	160	200
Growth (%)	6.7	7.7	19.1	14.9	-18.1	-15.0	25.0
SUVs	233	223	235	237	179	146	163
Growth (%)	-41.4	-4.4	5.7	0.9	-24.4	-18.5	11.6
3-Ws	55	52	55	67	62	39	43
Growth (%)	-3.2	-4.9	4.4	22.1	-6.8	-37.0	10.0
LCVs (>3.5t)	6	8	8	8	6	4	5
Growth (%)	20.6	18.7	1.6	8.6	-26.5	-40.0	30.0
M&HCVs (MTBL)	6	7	9	11	5	3	4
Growth (%)	63.1	17.7	41.2	14.3	-53.0	-45.0	25.0
Others & Exports	36	47	42	56	35	22	24
Growth (%)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Autos	492	504	549	609	476	374	439
Growth (%)	6.1	2.5	8.9	10.8	-21.8	-21.5	17.3
% of total volumes	69.7	65.7	63.2	64.8	61.2	54.5	55.5
Total volumes ('000 units)	705	767	869	939	778	686	790
Growth (%)	1.3	8.8	12.9	8.1	-17.2	-11.8	15.1
ASP (INR '000/Unit)	571	572	560	571	580	608	620
Growth (%)	5.2	0.3	-2.1	1.9	1.5	4.0	2.0
Net Sales (INR b)	404	441	487	536	451	417	490
Growth (%)	6.6	9.1	10.5	10.1	-15.9	-8.3	17.4

Source: Company, MOFSL

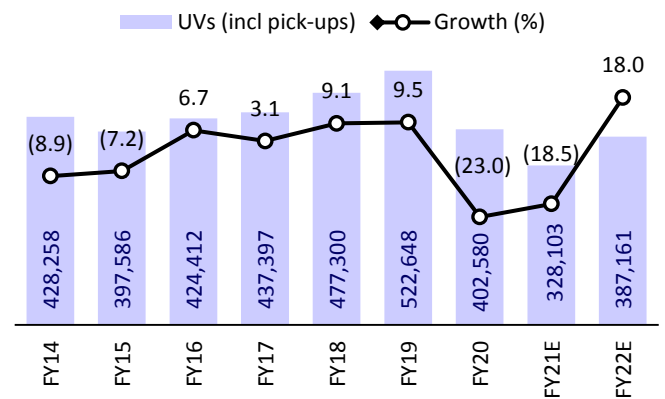
Story in charts

Exhibit 15: Trend in tractor volumes



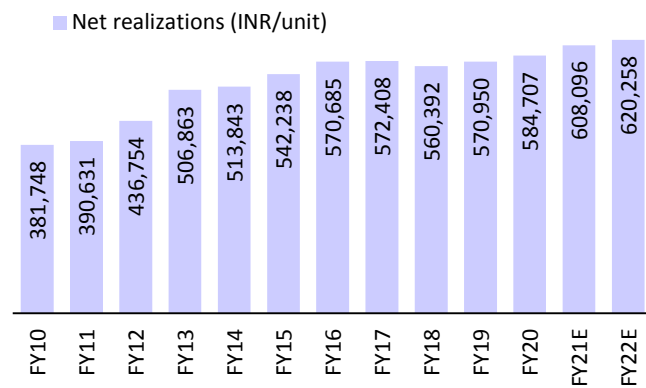
Source: Company, MOFSL

Exhibit 16: New product launches to drive UV sales



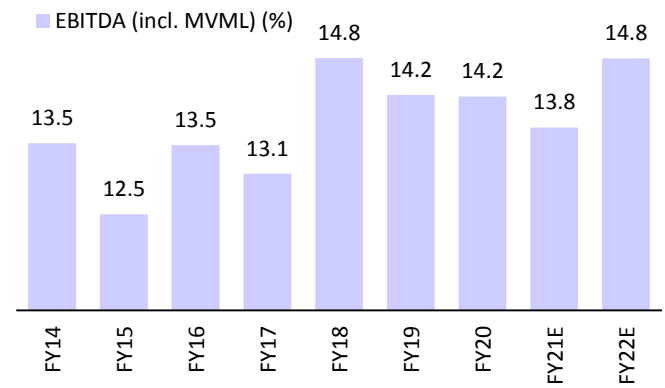
Source: Company, MOFSL

Exhibit 17: Realization trend



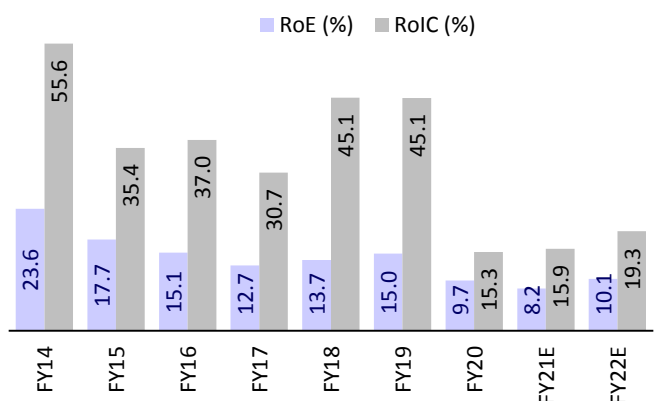
Source: Company, MOFSL

Exhibit 18: Trend in EBITDA margins



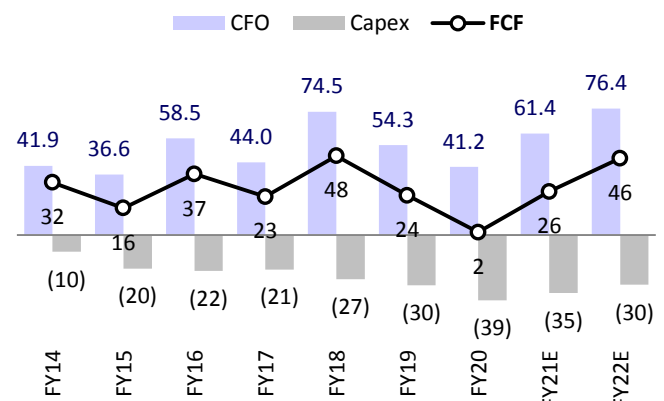
Source: Company, MOFSL

Exhibit 19: Trend in return profile



Source: Company, MOFSL

Exhibit 20: FCF to improve despite high capex plans (INR b)



Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Net Op. Income	408,751	440,535	486,856	536,140	454,878	417,320	490,080
Change (%)	6.3	7.8	10.5	10.1	-15.2	-8.3	17.4
Total Expenditure	362,551	395,388	424,615	469,744	396,897	365,390	424,468
EBITDA	46,199	45,147	62,240	66,396	57,981	51,930	65,612
Margins (%)	11.3	10.2	12.8	12.4	12.7	12.4	13.4
Margins (% incl MVML)	13.5	13.1	14.8	14.2	14.2	13.8	14.8
Depreciation	10,681	15,264	14,794	18,604	22,226	25,624	29,769
EBIT	35,518	29,883	47,446	47,792	35,754	26,306	35,843
Deferred Revenue Exp.	0	0	0	0	0	0	0
Int. & Finance Charges	1,861	1,596	1,122	1,134	1,132	1,381	1,247
Other Income	8,499	13,455	10,364	16,890	16,678	13,953	16,569
Non-recurring Income	687	5,485	4,336	-297	-20,140	0	0
Profit before Tax	42,845	47,226	61,024	63,250	31,160	38,878	51,165
Eff. Tax Rate (%)	25.2	22.9	28.6	24.2	57.3	25.0	25.0
Profit after Tax	32,046	36,434	43,560	47,960	13,306	29,159	38,374
Adj. Profit after Tax	31,532	31,130	39,220	48,260	33,450	29,159	38,374
Change (%)	(1.2)	(1.3)	26.0	23.0	(30.7)	(12.8)	31.6
Adj. PAT (incl MVML)	33,394	35,133	43,202	51,288	35,770	30,880	40,878
Balance Sheet							(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	2,963	2,968	5,950	5,958	5,965	5,965	5,965
Reserves	221,269	264,888	296,991	336,135	338,713	360,940	388,917
Net Worth	224,232	267,856	302,941	342,093	344,679	366,906	394,882
Deferred tax	-54	2,548	2,772	6,341	14,082	14,082	14,082
Loans	18,436	27,729	28,644	25,713	30,680	30,680	28,680
Capital Employed	242,614	298,134	334,357	374,147	389,440	411,667	437,644
Application of Funds							
Gross Fixed Assets	139,386	154,778	182,295	223,122	248,477	308,571	338,571
Less: Depreciation	63,426	77,068	103,700	122,304	144,531	170,155	199,923
Net Fixed Assets	75,960	77,710	78,594	100,818	103,946	138,416	138,648
Capital WIP	15,622	20,404	31,287	24,198	40,095	15,000	15,000
Investments	135,474	179,084	205,830	220,160	199,381	207,029	219,029
Curr.Assets, L & Adv.	123,286	125,034	158,457	181,795	161,599	163,793	191,492
Inventory	26,879	27,580	27,017	38,393	34,009	29,884	35,094
Sundry Debtors	25,116	29,388	31,730	39,463	29,990	27,440	32,224
Cash & Bank Bal.	22,870	16,875	28,937	37,317	42,365	49,168	65,377
Loans & Advances	17,103	5,406	10,182	7,110	6,509	8,575	10,070
Others	31,317	45,784	60,591	59,513	48,726	48,726	48,726
Current Liab. & Prov.	107,728	104,098	139,811	152,824	115,581	112,571	126,525
Sundry Creditors	66,780	68,811	86,034	96,782	67,858	68,601	80,561
Other Liabilities	30,300	21,388	38,485	40,326	32,537	32,537	32,537
Provisions	10,648	13,899	15,292	15,716	15,185	11,433	13,427
Net Current Assets	15,558	20,935	18,646	28,971	46,018	51,222	64,967
Application of Funds	242,614	298,134	334,357	374,147	389,440	411,667	437,644

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
Fully diluted EPS	26.6	26.2	33.0	40.5	28.0	24.4	32.2
FD EPS (incl MVML)	28.2	29.6	36.3	43.0	30.0	25.9	34.3
Cash EPS	35.6	39.1	45.4	56.1	46.7	45.9	57.1
Book Value per Share	189.2	225.6	254.6	293.7	290.3	310.3	335.9
DPS	6.0	6.5	7.5	8.5	2.4	5.0	7.5
Payout (Incl. Div. Tax) %	26.3	12.3	23.8	24.5	24.5	23.8	27.1
Valuation (x)							
P/E	21.1	20.1	16.3	13.8	19.8	22.9	17.3
Cash P/E	16.7	15.2	13.1	10.6	12.7	12.9	10.4
EV/EBITDA	7.0	7.2	10.7	10.0	11.5	12.8	9.9
EV/Sales	0.8	0.7	1.4	1.2	1.5	1.6	1.3
Price to Book Value	3.0	2.6	2.3	2.0	2.0	1.9	1.8
Dividend Yield (%)	1.0	1.1	1.3	1.4	0.4	0.8	1.3
Profitability Ratios (%)							
RoE	15.1	12.7	13.7	15.0	9.7	8.2	10.1
RoCE	13.4	12.4	13.0	13.8	5.9	7.5	9.3
ROIC	37.0	30.7	45.1	45.1	15.3	15.9	19.3
Turnover Ratios							
Debtors (Days)	23	24	24	27	24	24	24
Inventory (Days)	24	23	20	26	27	26	26
Creditors (Days)	60	57	65	66	54	60	60
Working Capital (Days)	14	17	14	20	37	45	48
Asset Turnover (x)	1.7	1.5	1.5	1.4	1.2	1.0	1.1
Leverage Ratio							
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
(INR M)							
OP/(Loss) before Tax	41,612	41,742	56,688	63,547	51,300	26,306	35,843
Int./Dividends Received	-3,027	-9,800	-8,084	-13,184	-14,327	13,953	16,569
Depreciation & Amort.	11,086	15,264	14,794	18,604	22,226	25,624	29,769
Direct Taxes Paid	-9,279	-9,929	-12,887	-14,341	-10,823	-9,720	-12,791
(Inc)/Dec in Wkg. Capital	14,393	-508	17,803	-5,060	-13,260	1,599	2,464
Other Items		332	1,957	-327	1,662		
CF from Oper. Activity	54,785	37,100	70,271	49,239	36,778	57,762	71,853
(Inc)/Dec in FA+CWIP	-21,597	-20,743	-26,688	-30,316	-39,437	-35,000	-30,000
Free Cash Flow	33,189	16,358	43,583	18,923	-2,658	22,762	41,853
(Pur)/Sale of Invest.	-13,865	-7,076	-24,416	4,826	13,672	-7,648	-12,000
CF from Inv. Activity	-35,461	-27,818	-51,104	-25,490	-25,764	-42,648	-42,000
Change in Net Worth	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-9,500	-1,742	592	-3,725	3,289	0	-2,000
Interest Paid	-2,110	-1,482	-1,695	-1,710	-1,570	-1,381	-1,247
Dividends Paid	-8,461	-8,391	-9,230	-10,117	-11,874	-6,133	-9,116
CF from Fin. Activity	-20,071	-11,615	-10,333	-15,552	-10,155	-7,514	-12,362
Inc/(Dec) in Cash	-747	-2,333	8,834	8,196	859	7,601	17,491
Add: Beginning Balance	20,648	22,870	16,875	14,180	22,376	42,365	49,168
Closing Balance	20,069	20,705	25,876	22,376	23,235	49,966	66,659

E: MOFSL Estimates

NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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