

Mahindra & Mahindra

NEUTRAL

Shifting sands

We reinstate coverage on Mahindra & Mahindra (M&M) with a NEUTRAL and a SOTP based Sep-21 TP of Rs 570. After outperforming the PV industry over the past decade, we expect growth rates for SUVs to converge. Further, as competition remains intense, M&M's automotive segment margins are expected to remain under pressure. However, the expected revival in tractor demand (on the back of healthy monsoons) will partially offset the impact from the above. We would advise investors to turn constructive on the stock after further clarity emerges on BSVI/favorable market responses to new launches.

- SUV growth to converge:** After growing at over 15% CAGR over the past decade, we believe SUV growth will converge with the broader PV industry. The segment sales have exceeded 1mn units from ~276k units in FY10 due to product innovation led growth.
- The contribution of SUVs to overall PV sales has risen from ~11% in FY11 to ~37% currently. We witnessed a similar trend in two wheelers, where scooter sales grew off a low base and reached one third of the market. At such a time, any change in industry dynamics/technology impacts growth rates. In our view, as the industry transitions to BSVI, the relative attractiveness of diesel vehicles will reduce. This could lead to consumers deferring the purchase of SUVs.
- M&M is witnessing aggressive competition in SUVs** led by new entrants/product launches. The market is fragmented with multiple OEMs present across

different sub categories. (Market share- M&M: 21%, MSIL: 25%, Hyundai: 20%). To defend market share, M&M is collaborating with Ford. We believe that M&M will likely retain market share at lower levels of 20-25% with its new product refreshes. We estimate a 10% YoY decline in SUV sales in FY20 due to a weak demand environment.

- Tractors segment – The cash cow:** With an above normal monsoon, we believe that tractor demand will benefit from improved Rabi sowing prospects. We expect industry sales to revive in CY20 (we estimate 7% growth in tractor sales in FY21-22). Further, M&M enjoys healthy EBIT margins of ~19%, which partially offsets the pressure on the automotive division.
- Turnaround in automotive/FES subsidiaries to aid ROE improvement:** Group cos such as Ssangyong/MUSA are not profitable due to unfavorable market dynamics. Management's restructuring efforts towards the same and encouraging response to new refreshes will improve return ratios for Mahindra.

Financial Summary: M&M + MVML

YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	475,774	528,482	482,464	526,712	585,447
EBITDA	70,434	75,301	67,063	72,160	81,377
APAT	42,330	54,216	43,292	46,565	52,006
Adj. EPS (Rs)	35.6	45.5	36.3	39.1	43.6
APAT Growth (%)	23.4	28.1	(20.1)	7.6	11.7
P/E (x)	14.8	11.6	14.5	13.5	12.0
RoE (%)	14.8	16.6	11.6	11.3	11.6

Source: Company, HDFC sec Inst Research

INDUSTRY	AUTOS
CMP (as on 04 Dec 2019)	Rs 526
Target Price	Rs 570
Nifty	12,043
Sensex	40,850

KEY STOCK DATA			
Bloomberg	MM IN		
No. of Shares (mn)	1,192		
MCap (Rsbn) / (\$ mn)	627/8,756		
6m avg traded value (Rsmn)	2,220		

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 814/503		
	3M	6M	12M
Absolute (%)	3.9	(19.2)	(29.0)
Relative (%)	(7.3)	(21.2)	(42.1)

SHAREHOLDING PATTERN (%)		
	Jun-19	Sep-19
Promoters	19.9	19.8
FIs & Local MFs	28.7	32.5
FPIs	34.5	34.2
Public & Others	16.9	13.5
Pledged Shares	0.58	0.58

Source : BSE

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SUVs contribution has risen to ~37% of PV sales

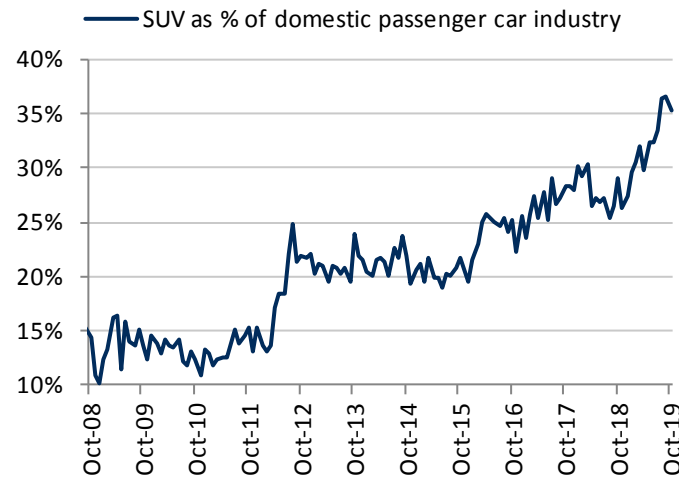
Growing demand for compact SUVs and several new entrants have contributed to rising SUV sales

New sub segments were introduced including sub 4m SUVs, mid-sized MPVs and urban SUVs

SUVs: A mainstream segment now

- SUV sales in India have witnessed rising penetration with their contribution to overall Passenger Vehicle (PV) sales rising from ~11% in FY11 to ~37% of the market currently. The penetration of SUVs within the target segment is even higher at 40% of sales as of Oct-19 (excluding the entry level car segment)

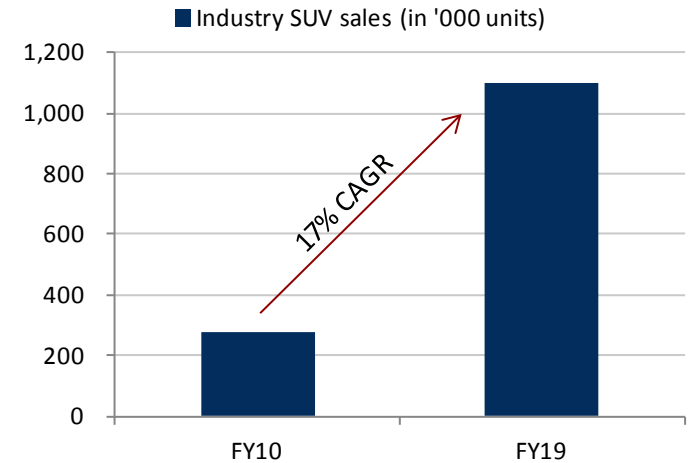
Rising contribution of SUVs in domestic PV vol mix



Source: SIAM, HDFC sec Inst Research

- The growth in sales has been driven by several factors including (1) Proliferation of compact SUV models. This segment now accounts for 3/4th of total SUV market, (2) New sub segments were introduced including sub 4m SUVs (Brezza), mid-sized MPVs (Ertiga) and urban SUVs (Creta) (3) Multiple new entrants entered the segment (without having a presence in passenger car (Eg: Kia, MG).

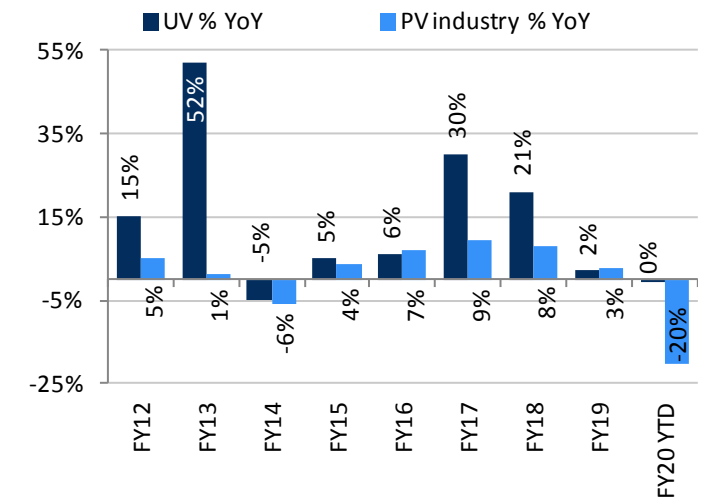
Industry SUV sales exceeded 1mn units



Source: SIAM, HDFC sec Inst Research

- The resultant sales of SUVs have now exceeded 1mn units (including exports) from just about ~370k units in FY11.

PV Industry growth rate (%)



Source: SIAM, HDFC sec Inst Research

SUV segment is now over 1mn units in annual sales

Various models compete with the hatchbacks and sedans in their respective categories

Sub 4.4M SUVs are now 76% of the market (up from 32% in FY11)

- The growth of SUVs was driven by product innovation such as the compact SUVs (Brezza), mass segment MPVs (Ertiga), urban SUV (Hyundai Creta) and the recently launched small MPV (Renault Triber). Various models compete with the hatchbacks and sedans in their respective categories.

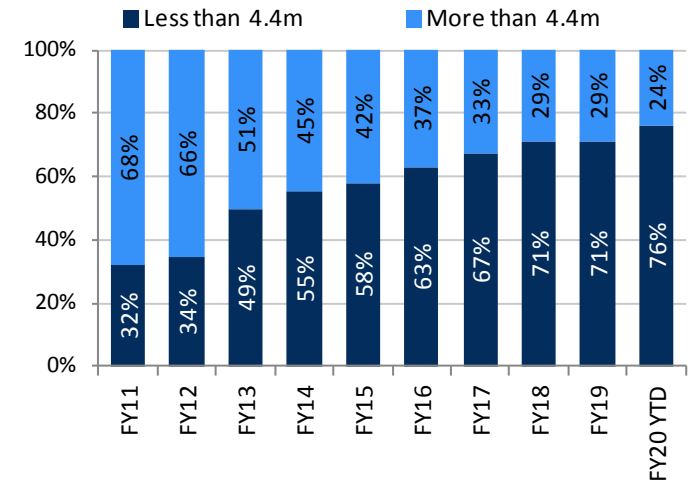
SUV key model launches

OEM	Model	Launch	Competition
Hyundai	Creta	FY16	Mid-size sedan
Maruti	Brezza	FY16	Premium hatch
Jeep	Compass	FY18	Premium sedans
Mahindra	Marazzo	FY19	-
Renault	Triber	FY20	Premium hatch

Source: Industry, HDFC sec Inst Research

- Due to these new launches, the small SUVs (sub 4.4m) expanded significantly and now comprise more than 3/4th of the SUV market as compared to just 32% in FY11.

Compact SUVs are dominant



Source: SIAM, HDFC sec Inst Research

- The market leaders in the passenger car segment i.e. Maruti, Hyundai have ramped up their presence in the SUV segment over the past few years with multiple new model launches. Maruti has introduced Ertiga, Brezza, XL6 and S-Cross over FY14-20, while Hyundai has launched Creta, Venue alongside its premium SUV Hyundai Tucson.
- Also, new competitors like MG Motors and Kia have entered the Indian market with new launches in the SUV segment.

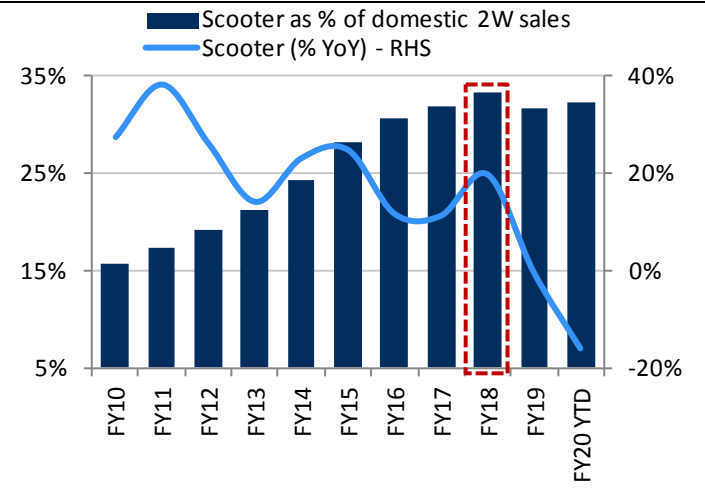
We believe that the SUV growth will normalize after growing at over 15% CAGR over the past decade

We witnessed a similar trend in two wheelers, where scooter sales grew off a low base and reached one third of the market.

SUV growth to converge?

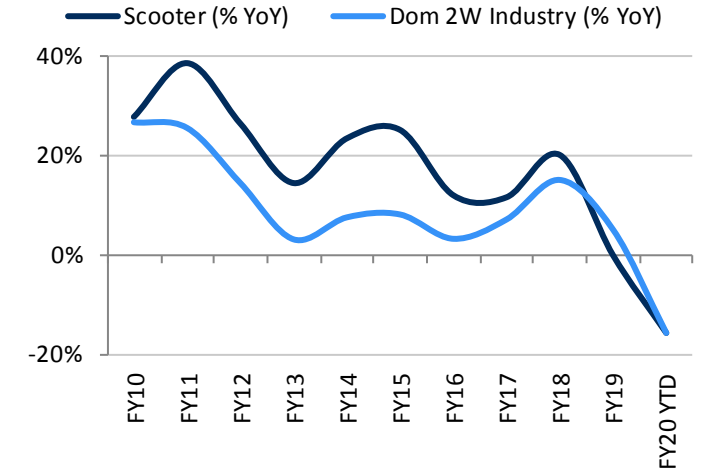
- The SUV segment has exceeded 1mn units. We believe that going ahead, the segment growth will converge with that of the passenger car industry as penetration levels have risen sharply.
- The industry witnessed a similar trend in two wheelers, where scooter sales grew off a low base and reached one third of the market. From thereon, as the penetration of scooters was elevated, the segment has grown in-line with the broader market over FY19-20.

Scooter as % of domestic 2W industry



Source: SIAM, HDFC sec Inst Research

Scooter and 2W industry growth



Source: SIAM, HDFC sec Inst Research

- As a segment expands in size, the niche models get well entrenched and penetration levels start rising. Thus, the ability to differentiate reduces. For instance, scooters in metro markets now account for ~50% of 2W sales vols.
- Similarly, we believe that for SUVs, new products have driven higher growth and the segment has now achieved critical mass.
- At such a time, any change in industry dynamics/technology impacts growth rates in our view. Thus, as the rural segment revived in 2018, the sales of motorcycles rebounded, resulting in the share of bikes stabilizing/expanding.
- The SUV segment is dominated by diesel. Post BSVI, there will be a shift towards gasoline due to the price hikes on diesel, which could impact industry growth rates. The higher-than-industry growth rates of SUVs are behind us.

SUV segment is dominated by diesel. Post BSVI, there will be a shift towards gasoline due to the price hikes on diesel

The inherent advantage of diesel engine is the higher torque it offers

To provide equivalent torque, OEMs are offering gasoline engines with GDI technology. However, these variants are more expensive

Transition related uncertainty

- The SUV market is primarily diesel, with over 75% of the vehicles running on this fuel. The larger SUVs (above 4.4M) are overwhelmingly diesel powered. Within compact SUVs, the gasoline variants account for 30-50% of sales.
- Diesel variants are typically priced at a 15% premium to the gasoline ones. As we transition to BSVI, the prices of diesel vehicles are expected to rise by over 5%, which will reduce the attractiveness of these models. A similar price hike for petrol is expected to be just 2-3%. This will widen the price gap between the two fuel variants even further.

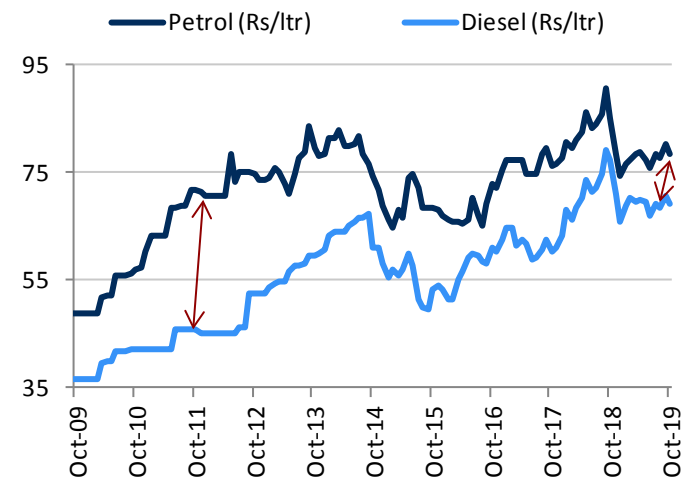
Price difference between Diesel and Petrol variants

	Tata Nexon
Petrol variant	Rs 760,000
Diesel variant	Rs 885,000
Difference	16%

Source: Industry, HDFC sec Inst Research

- The advantage of increased mileage and higher fuel saving in diesel variants is reducing gradually as the price difference between the two fuels is narrowing. Thus, the required break-even point for purchasing diesel vehicles has risen.
- **Post BSVI, there will be a shift away from diesel:** In our view, the 1.2L compact SUV segment will move almost entirely to petrol while the 1.5L SUV segment will move ~50% to petrol. We believe that with the shift in industry preference towards gasoline, a section of consumers will evaluate options based on price points rather than on segments. Consumers may defer purchase decisions or shift back towards hatchbacks/sedans.

Narrowing fuel price differential



Source: Bloomberg, HDFC sec Inst Research

- The inherent advantage of diesel engines is the higher torque, which improves the pick-up of the heavier SUVs. XUV300 for instance offers 300NM of torque on diesel variants vs. 200NM of torque on the petrol models. As diesel variants become more expensive, customers will have to forego this advantage.
- To provide equivalent torque, OEMs are offering gasoline engines with GDI technology. While these offer higher torque, they are significantly more expensive (25% more expensive than the normal gasoline models).

Engine specs (KIA Seltos)

Variant	Power	Torque
1.5litre Petrol	113 bhp	144NM
1.5litre Diesel	113bhp	250NM
1.4Litre Petrol GDI	138bhp	242NM

Source: Industry, HDFC sec Inst Research

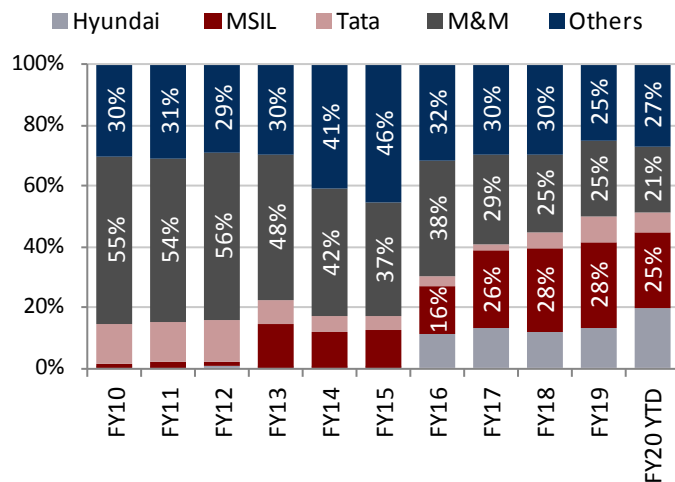
Aggressive competition in the SUV segment has resulted in M&M's market share falling from over 50% levels in FY12 to ~21% currently

M&M is collaborating with Ford to defend/expand its market share

Intense competition in the SUV segment

- **SUV segment has intense competition:** While competition in the car segment is limited, that in SUVs is intense. This is evident in the dispersed market share in the segment. M&M has ceded share from 50% levels in FY11 to 21% currently.

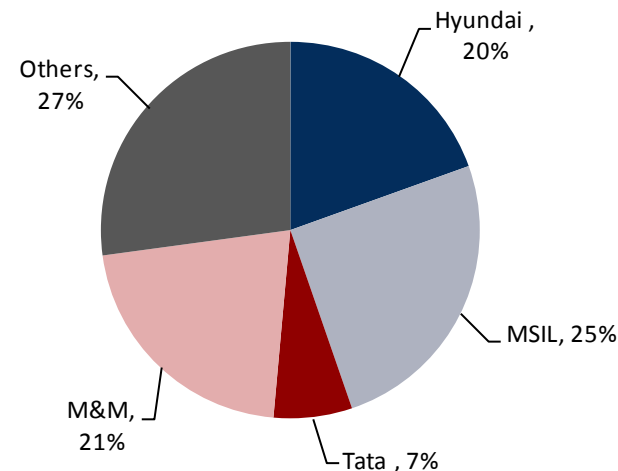
SUV segment market share



Source: SIAM, HDFC sec Inst Research

- As highlighted above, multiple new sub segments such as urban SUVs, MPVs were created over the past 5 years. M&M's focus was on full size SUVs. Thus, the share of large SUVs has fallen to 24% of the industry vs. 66% earlier. While M&M is launching models to compete in the smaller segments, they are late entrants.
- Thus, the market fragmented from having limited competition in FY12 (M&M had 56% market share) to witnessing multiple OEMs accounting for 20-25% of the market (Maruti 25%, Hyundai 20%).

SUV: FY20 YTD market share (%)



Source: SIAM, HDFC sec Inst Research

- To defend/expand market share, M&M is collaborating with multiple partners including Ssangyong and Ford. Mahindra is upgrading its product portfolio by launching refreshes of its large SUV portfolio.

M&M's product pipeline

Model	Codename	Timeline
XUV 500 upgrade	W601	FY21
Scorpio upgrade	Z101	FY21-22
Thar upgrade	W501	FY21-22

Source: Industry, HDFC sec Inst Research

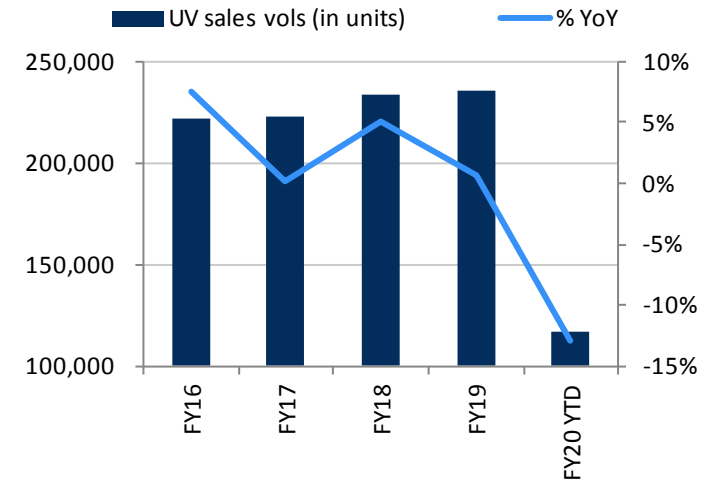
- M&M has developed the XUV300 (based on the Ssangyong Tivoli platform). With the new JV with Ford, the two OEMs will co develop the next generation XUV500, which is expected to be launched in FY21. Both Ford and Mahindra will launch their respective models, which will be built at M&M's facility.

M&M is launching gasoline variants for its model range including the 2L petrol engine for the larger models

Recent product launches including XUV300 and Marazzo are reflective on M&M's enhanced capabilities

- The JV with Ford will bring several benefits including strengthening the product portfolio and providing operational synergies. The new JV is 51% held by Mahindra and 49% by Ford. The enterprise value is ~Rs 19.25bn, including a debt transfer of Rs 6.4bn and equity value of Rs 12.9bn. The JV is expected to be completed by mid-2020.
- The OEM is launching gasoline power trains for its model range including the 2L petrol engine for the larger models. The XUV300 is already available in gasoline as well as diesel. Mahindra is benefiting from its various collaborations, which will shorten lead times as well as reduce development costs.
- We believe that Mahindra is ramping up its capability in the SUV segment. Recent product launches including XUV300 and Marazzo are reflective of its enhanced capabilities.

M&M's domestic SUV sales

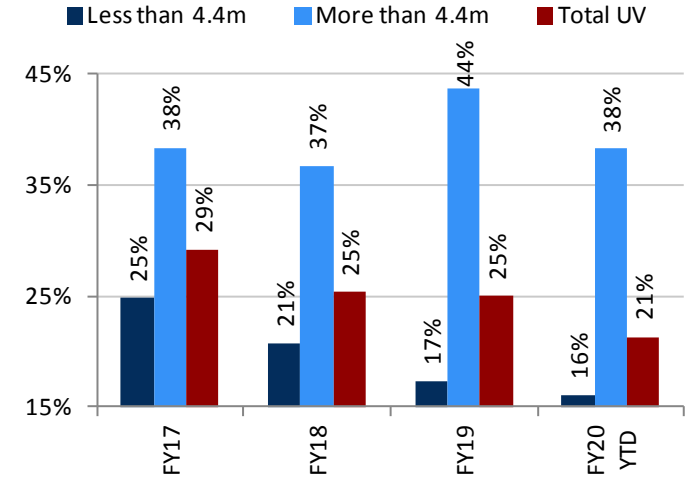


Source: Company, HDFC sec Inst Research

Mahindra has a 38% market share in the above 4.4M segment and a 17% share in the compact segment

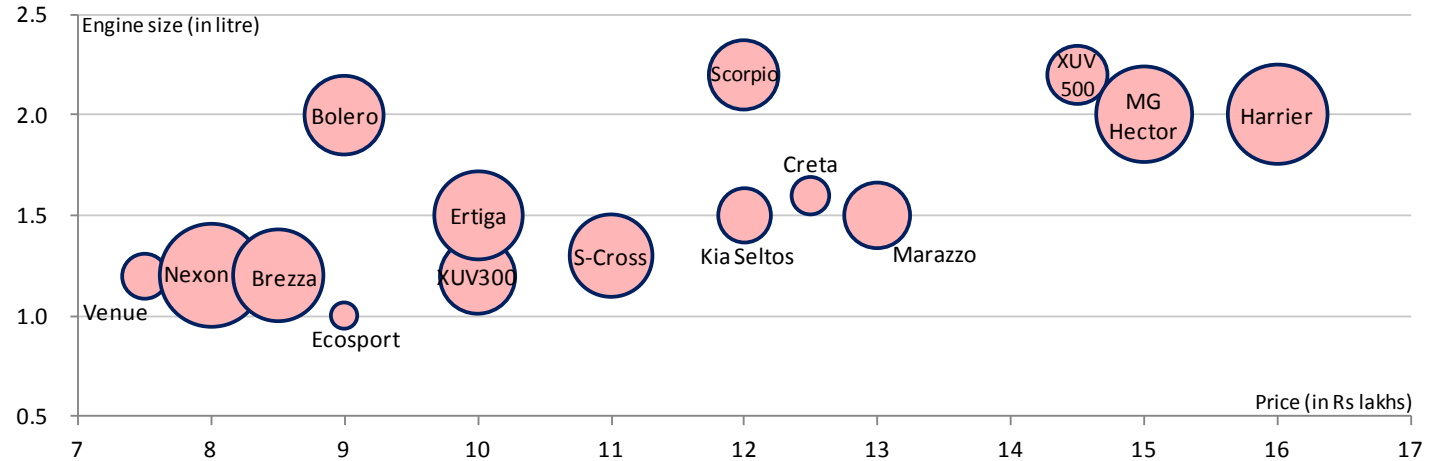
- However, competition remains intense with new launches (MG Hector, Kia Seltos, Tata Harrier) impacting their larger models such as the XUV500. Mahindra has a 38% market share in the large (>4.4M segment) and a 17% share in the compact segment. M&M's models including the Bolero, Scorpio, XUV500 are amongst the high selling models.
- We expect that Mahindra will be able to retain market share at somewhat lower levels of ~20-25% as the OEM is launching new model refreshes. Interestingly, its market share has fallen sharply in the sub 4.4m SUV range, a segment where new product launches and price aggression have been higher.

M&M's market share in SUV segment (%)



Source: SIAM, HDFC sec Inst Research

SUV Models (Price and engine CC)



Source: Industry, HDFC sec Inst Research

Competition remains intense with new launches (MG Hector, Kia Seltos, Tata Harrier) impacting sales

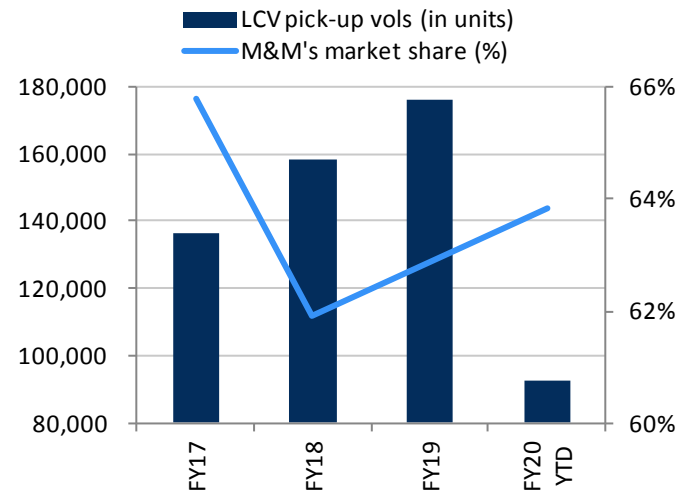
M&M has been able to maintain its dominance (+60%) in the LCV segment due to its wide distribution network

However, in the MHCV segment, the OEM remains a niche entity with a sub 5% market share

Other automotive segments

- Within LCVs, M&M continues to retain its leadership position. It has a dominant market share (above 60%) in the pick-up segment. We expect M&M to sustain this advantage due to its wide spread distribution network, particularly in upcountry markets.

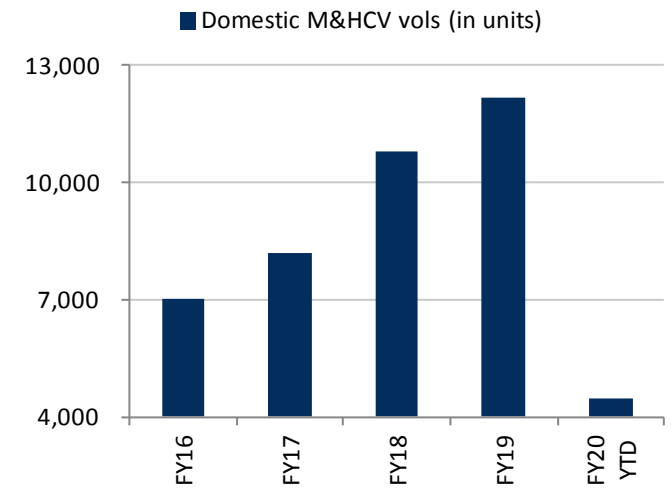
M&M's domestic LCV Pick-up volumes



Source: SIAM, HDFC sec Inst Research

- However, in the MHCV segment, the OEM remains a niche entity with a sub 5% market share.

M&M's M&HCV volumes



Source: SIAM, HDFC sec Inst Research

Electric initiatives

- M&M has launched multiple EV products across the automotive segment (three wheelers and cars). It has acquired the Italian design house Pininfarina in 2015. Subsequently, they displayed a high-end EV Battista in 2019.
- M&M has been building its electric capabilities for both international and local markets. As the market evolves and the acceptance for EVs increases, M&M will be well positioned to benefit from this uptrend.
- Post the transition to BSVI, the OEM will further expand its lineup of electric models with launches such as the e-KUV (s110), e-XUV300 (s201) and the last mile electric vehicle - the C100. These models are expected to be launched over 2020-22.

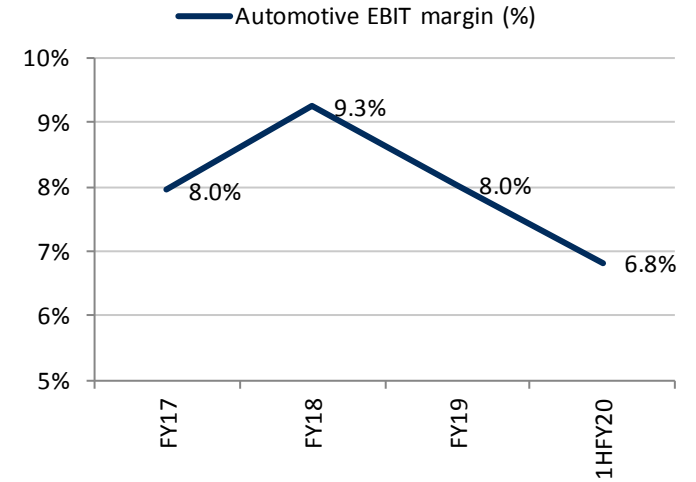
The automotive segment margins have been under pressure due to aggressive competition

We expect EBIT margins to remain range bound at current levels

Automotive margins to remain rangebound

- The automotive segment margins have been under pressure due to the aggressive competition in the UV segment. M&M has been investing in new platforms such as the Marazzo, XUV 300 and also in new technology to meet BSVI norms.
- The OEM will continue to upgrade its product portfolio by launching petrol variants/product upgrades in 2020-22. This will restrict EBIT margins in the current band.

M&M+MVML’s Automotive segment EBIT margins



Source: Company, HDFC sec Inst Research

M&M is the market leader in tractors, with a ~40% market share

We expect tractor sales to revive in CY20 on the back of a good Rabi season

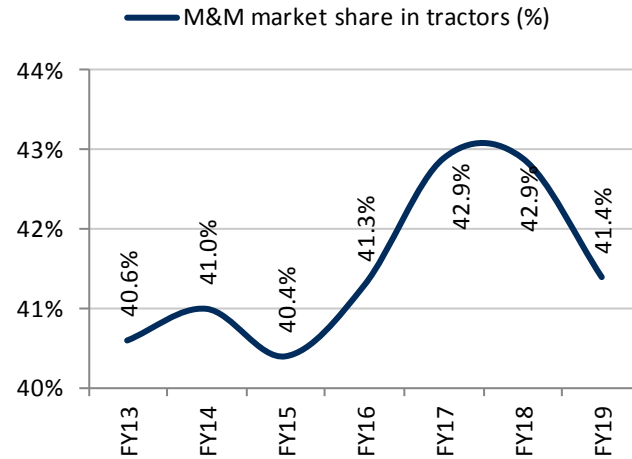
Farm equipments' EBIT margins are healthy at ~19%

Tractors: A cash cow

- M&M is the market leader in tractors, with a ~40% market share. The co acquired Punjab (Swaraj) Tractors more than a decade ago and now has multiple brands, which have consolidated its leadership. While growth in the tractor segment is at around 6-8% CAGR, the profitability is significantly higher at ~19%.

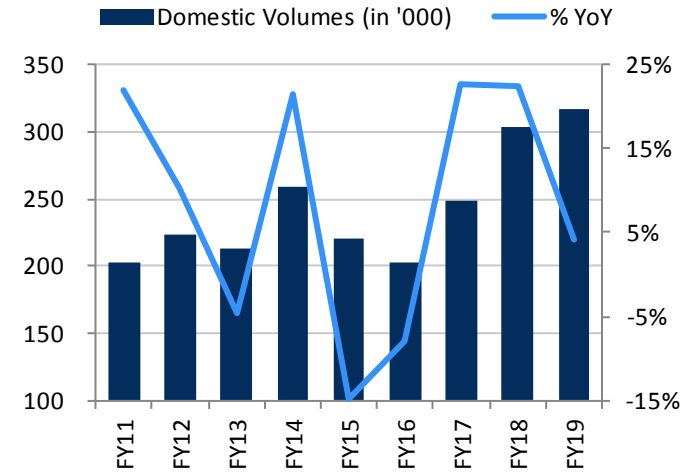
- With an above normal monsoon in the year, we believe that tractor growth will be aided over 1HCY20 due to improved Rabi prospects. Rainfall was at 110% of its long period average this season, with monsoon being well distributed as 31 out of 36 meteorological subdivisions received normal/excess rainfall. Thus, higher rural incomes will aid demand over 1HCY20.

M&M's dominant share in tractors



Source: Company, HDFC sec Inst Research

M&M's annual tractor volumes

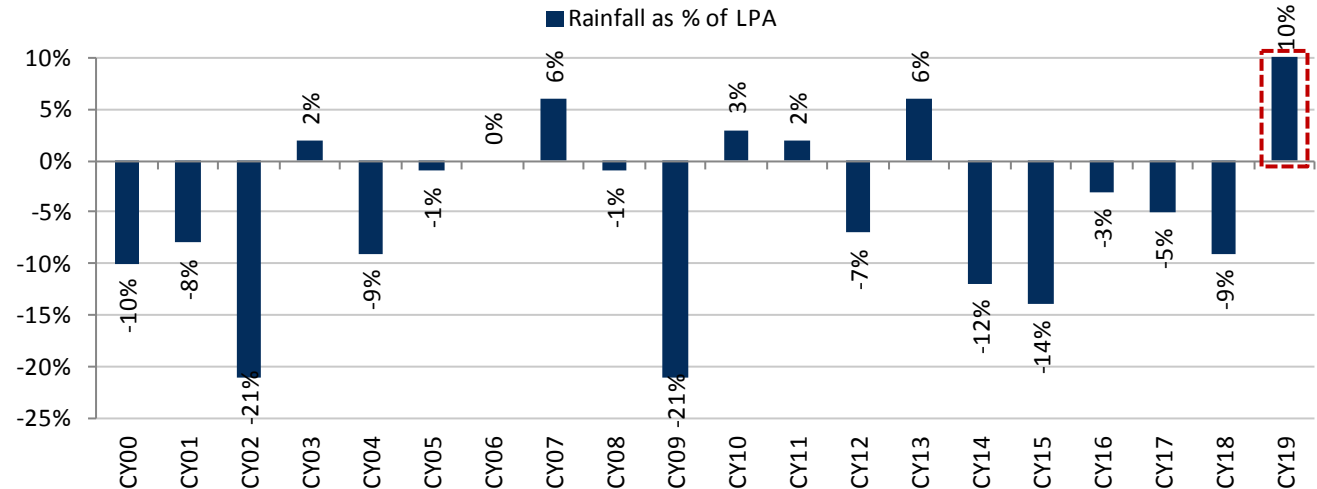


Source: Company, HDFC sec Inst Research

Rainfall in CY19 has been significantly above normal at 110% of its LPA

Globally, agri-implements account for over 50% of the global revenues of the tractor industry.

Rainfall trend in India



Source: GoI, HDFC sec Inst Research

- **Evolution of farm mechanization:** Globally, agri-implements account for over 50% of the global revenues of the tractor industry. In India, agri-mechanization is at the infant stage.

Global FES industry

	India	Global
Tractor Industry	\$ 5.6bn	\$ 60bn
Farm Machinery Industry	\$ 1.0bn (organised sector)	\$ 100bn

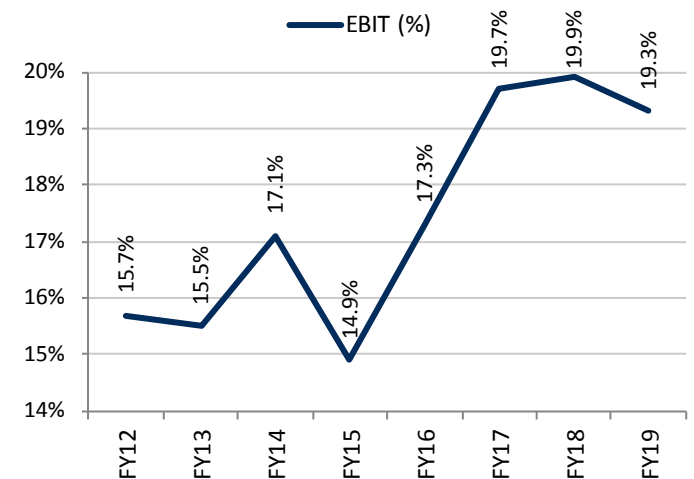
Current farm machinery penetration level similar to that of tractors in 1980's

Source: Company, HDFC sec Inst Research

- M&M has acquired stakes in Mitsubishi Agri-Machinery in Japan which will give it a presence in the Rice Value Chain. They have also acquired a stake in Sampo, Europe, which is a combined harvester specialist. M&M is laying the grounds for the gradual transition of agri practices in India.

- The tractor (FES) division is a high margin segment, which offsets margin pressure on the automotive division.

M&M + MVML's FES EBIT margins (%)



Source: Company, HDFC sec Inst Research

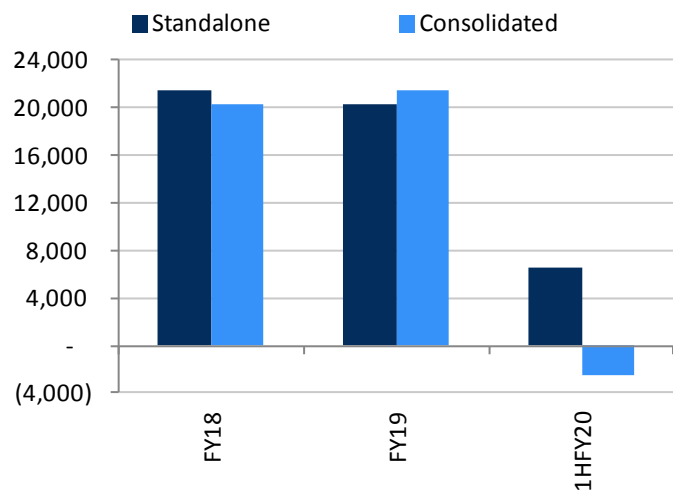
Subsidiaries in automotive and FES segments are reporting a weak performance

Management expects the Mahindra USA tractor business to turnaround in FY20

Automotive & FES subsidiaries performance

While the consolidated revenues are higher by ~65% for the automotive segment and ~35% for tractors, the profitability of the overseas business remains weak. The EBIT for the standalone and consolidated businesses are

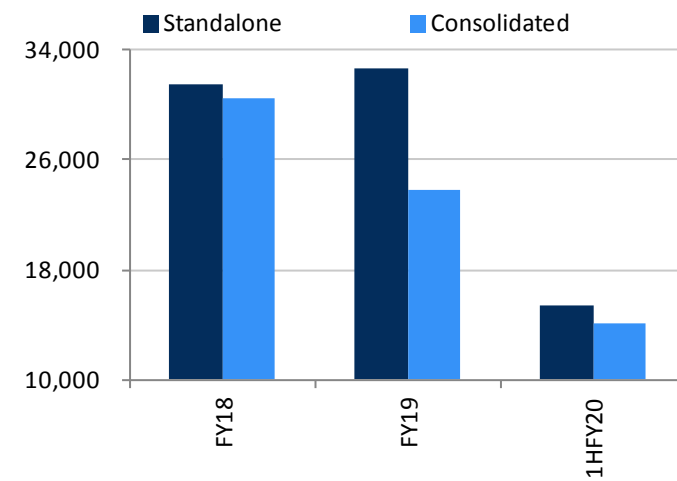
Automotive EBIT (Rs mn)



Source: Company, HDFC sec Inst Research

the same at Rs 20bn for automotive. Similarly, for the FES division, the overseas businesses have been weak and the management expects the Mahindra USA tractor business to turnaround in FY20.

Farm equipments EBIT (Rs mn)



Source: Company, HDFC sec Inst Research

Revenue from operations	FY17	FY18	FY19	1HFY20
Automotive				
Standalone	320,197	321,085	353,529	151,304
Consolidated	537,720	527,928	591,729	256,066
Farm equipment				
Standalone	139,019	160,936	168,747	80,136
Consolidated	190,435	219,884	224,033	114,478
EBIT				
Automotive				
Standalone	14,128	21,481	20,275	6,619
Consolidated	21,385	20,262	21,407	(2,555)
Farm equipment				
Standalone	25,617	31,454	32,651	15,466
Consolidated	26,090	30,511	23,816	14,127

Source: Company, HDFC sec Inst Research

M&M's Korean subsidiary Ssangyong continues to report losses

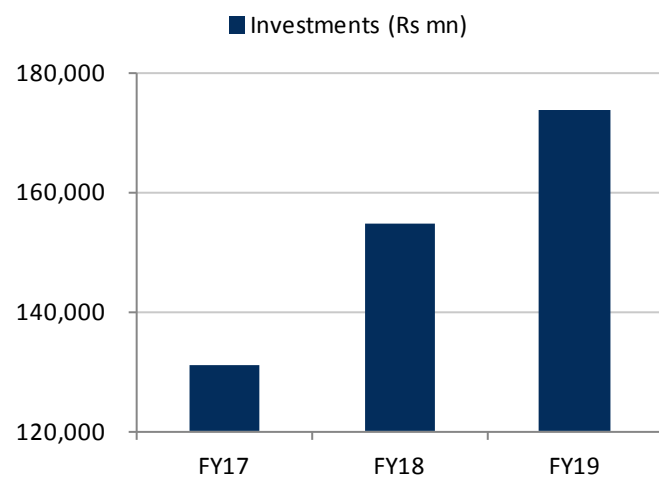
Mgmt is undertaking initiatives to turnaround loss making entities

- M&M's investments in subsidiary companies have grown over the years as the company acquires international businesses to build its EV, two-wheeler, passenger car and farm machinery capabilities. An improvement of these businesses will benefit the return ratios for the company.
- Mahindra's Korean subsidiary Ssangyong continues to report losses. The lower economies of scale, slowdown in key export markets as well as the shift away from diesel is impacting the performance.

Ssangyong (Rs Mn)	CY16	CY17	CY18	1HCY19
Sales	217,018	219,533	232,735	112,603
Gross profit	35,393	32,420	29,040	12,341
Operating income	1,674	(4,101)	(4,032)	(4,624)
PBT	3,477	(4,133)	(3,882)	(4,661)
Net income	3,475	(4,135)	(3,885)	(4,661)

Source: Company, HDFC sec Inst Research

M&M+MVML's investments in subsidiaries



Source: Company, HDFC sec Inst Research

We expect M&M to report volume decline in FY20 due to weak demand environment

We set a SOTP based target price of Rs 570

Valuations

- We expect M&M to report a weak FY20 with SUV/tractors sales declining ~10/9%. We expect profits to decline ~20% in FY20 due to the weak sales environment.

- Subsequently, we expect sales to improve over FY21/22 with earnings growing 8/12% respectively.

Volume assumption	FY18	FY19	FY20E	FY21E	FY22E
SUV	240,560	245,855	221,270	239,254	263,389
% YoY	3.4%	2.2%	-10.0%	8.1%	10.1%
Pick-up	172,643	196,458	179,192	194,175	217,839
% YoY	10.3%	13.8%	-8.8%	8.4%	12.2%
Tractors	319,623	330,436	302,049	324,146	347,247
% YoY	21.4%	3.4%	-8.6%	7.3%	7.1%
Others*	135,306	165,797	140,279	143,688	148,402
% YoY	15.3%	22.5%	-15.4%	2.4%	3.3%
Total volumes	868,132	938,546	842,790	901,264	976,878
% YoY	12.8%	8.1%	-10.2%	6.9%	8.4%

Source: Company, HDFC sec Inst Research *Others include MHCVs, LCVs and cars

- **We initiate on M&M with a NEUTRAL and set a SOTP of Rs 570 based on Sep-21 EPS.** We value the core business at 10x PE to reflect the challenging environment, particularly for the automotive segment.
- M&M is ceding market share in the SUV segment due to excess competition and the MHCV segment continues to be impacted by the weak demand environment. Multiples could re-rate if the OEM gains market share in the SUV segment with its new product refreshes.
- **Key risks:** A delayed recovery in the tractor segment and further market share losses in the SUV segment on the downside.
- A turnaround in its global subsidiaries as well as encouraging response to new launches over FY21 poses upside risks.

SOTP	Sep-21
Dividend on Investments (Rs mn)	9,159
Contribution to M&M EPS	7.7
M&M's EPS	41.4
Core EPS (pre-dividend from subs)	33.7
PE Multiple (x)	10.0
Value	337
Value of subsidiaries (at 25% discount to listed price)	233
Target Price (Rs)	570

Subsidiaries (at 25% discount to listed price)	Value/sh (Rs)
Tech Mahindra	120
MMFSL	70
Others listed subs*	43
Value of listed subsidiaries	233

*Mahindra Lifespace, Mahindra CIE, Mahindra Holidays, Ssangyong Korea and Mahindra Logistics

Peerset comparision

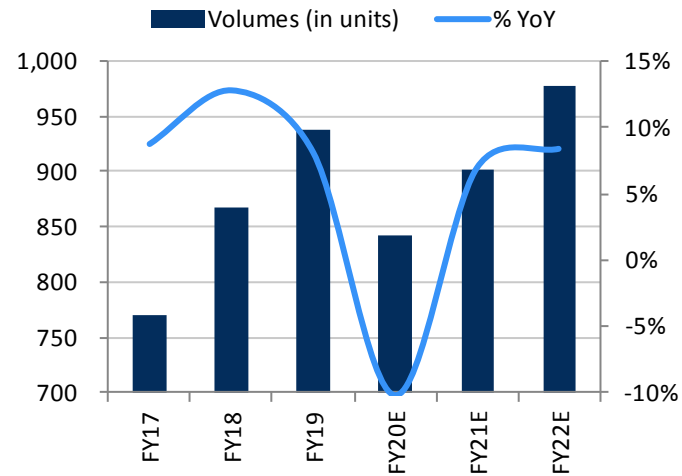
	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Ashok Leyland	228	78	NEU	75	3.5	5.3	6.2	21.9	14.7	12.5	12.0	16.7	17.9
Bajaj Auto	941	3,251	BUY	3,530	171.0	183.4	208.2	19.0	17.7	15.6	21.3	20.3	20.4
Eicher	584	21,408	NEU	19,650	738.5	820.1	969.2	29.0	26.1	22.1	20.6	19.5	19.6
Hero Motocorp	487	2,439	BUY	3,460	168.0	180.5	204.5	14.5	13.5	11.9	24.1	22.7	22.8
Mahindra & Mahindra	653	526	NEU	570	36.3	39.1	43.6	14.5	13.5	12.0	11.6	11.3	11.6
Maruti Suzuki	2,137	7,076	NEU	6,770	222.3	284.0	331.1	31.8	24.9	21.4	13.8	15.9	16.6

Source: Company, HDFC sec Inst Research

Financials

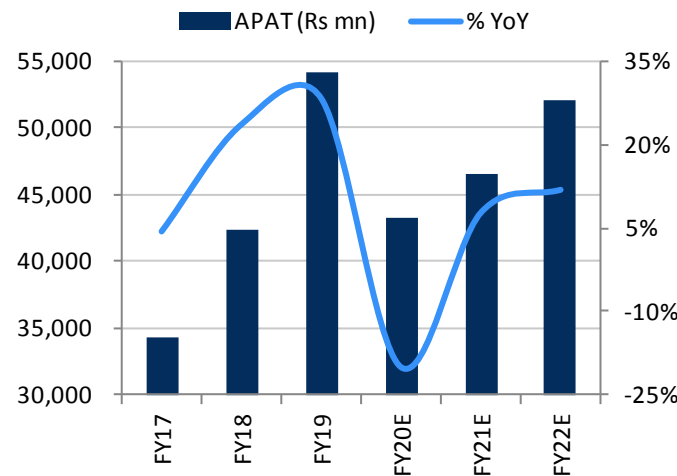
M&M is expected to report volume growth of 8% over FY21-22 after declining by 10% YoY in FY20E. EBITDA margins are expected to remain in the range of 13.5-14% levels. We believe that the transition to BSVI will weigh

M&M Volumes



Source: Company, HDFC sec Inst Research

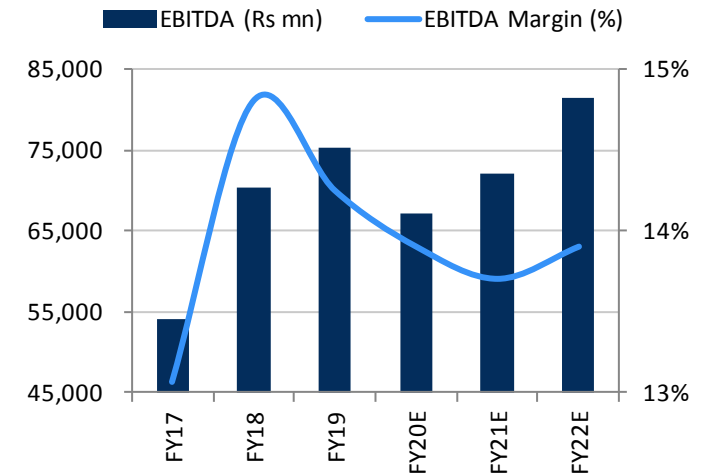
M&M + MVML APAT (Rs mn)



Source: Company, HDFC sec Inst Research

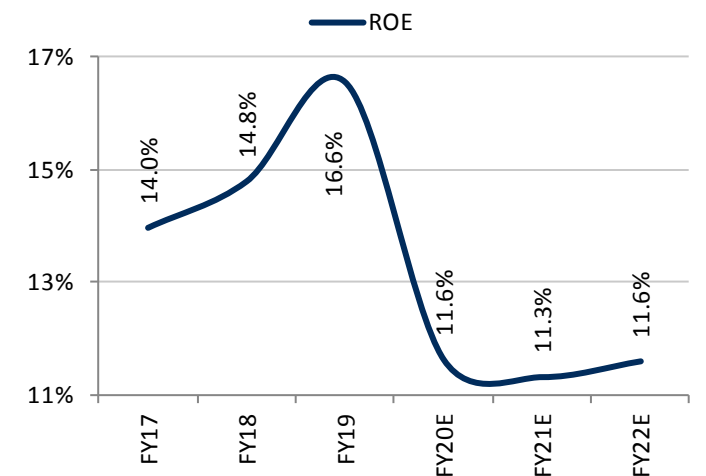
on profitability in the near term. Profits are expected to grow at a modest 10% over FY21-22 after declining 20% in FY20E.

M&M + MVML EBITDA margin (%)



Source: Company, HDFC sec Inst Research

M&M + MVML ROE (%)



Source: Company, HDFC sec Inst Research

M&M is expected to report volume growth of 8% over FY21-22 after witnessing a decline of 10% in FY20E

RoE profile will remain modest as the return on investments remains constrained and automotive segment margins are under pressure

Income Statement (M&M + MVML)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	475,774	528,482	482,464	526,712	585,447
Growth (%)	15.0	11.1	(8.7)	9.2	11.2
Material Expenses	316,280	359,977	324,699	355,531	394,006
Employee Expenses	31,630	32,830	33,290	35,816	38,639
Other Operating Expenses	57,429	60,375	57,413	63,205	71,425
Total Expenses	405,339	453,182	415,402	454,552	504,070
EBITDA	70,434	75,301	67,063	72,160	81,377
EBITDA Margin (%)	14.8	14.2	13.9	13.7	13.9
EBITDA Growth (%)	30.3	6.9	(10.9)	7.6	12.8
Depreciation	16,254	20,030	22,033	24,236	26,660
EBIT	54,181	55,271	45,030	47,923	54,717
Other Income (Including EO Items)	13,853	16,076	30,463	17,631	18,513
Interest	1,882	1,467	1,364	1,416	1,498
PBT	66,152	69,879	74,128	64,138	71,732
Tax (Incl Deferred)	19,920	15,867	18,532	17,574	19,726
RPAT	46,232	54,012	55,596	46,565	52,006
EO (Loss) / Profit (Net Of Tax)	3,902	(204)	12,304	-	-
APAT	42,330	54,216	43,292	46,565	52,006
APAT Growth (%)	23.4	28.1	(20.1)	7.6	11.7
Adjusted EPS (Rs)	35.6	45.5	36.3	39.1	43.6
EPS Growth (%)	(38.4)	27.9	(20.1)	7.6	11.7

Source: Company, HDFC sec Inst Research

Balance Sheet (M&M + MVML)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	5,950	5,958	5,958	5,958	5,958
Reserves	298,924	343,979	387,927	422,159	461,831
Total Shareholders Funds	304,874	349,937	393,885	428,117	467,789
Long Term Debt	6,685	4,485	4,710	4,945	5,192
Short Term Debt	25,457	22,317	23,433	24,605	25,835
Total Debt	32,142	26,803	28,143	29,550	31,027
Net Deferred Taxes	4,557	7,896	8,686	9,555	10,510
TOTAL SOURCES OF FUNDS	341,573	384,636	430,714	467,221	509,327
APPLICATION OF FUNDS					
Net Block	96,826	118,532	124,311	126,980	129,329
CWIP	33,244	26,437	25,115	23,860	22,667
Investments	154,624	173,836	184,337	194,338	204,339
Total Non-current Assets	284,694	318,805	333,764	345,177	356,335
Cash & Equivalents	68,617	70,746	97,528	112,506	136,178
Inventories	33,271	47,631	44,942	46,177	48,119
Debtors	30,984	38,119	37,011	40,405	44,911
Other Current Assets	76,027	73,868	84,949	97,691	112,344
Total Current Assets	208,899	230,365	264,429	296,780	341,553
Creditors	93,737	103,607	100,458	101,013	107,466
Other Current Liabilities & Provns	58,283	60,928	67,021	73,723	81,095
Total Current Liabilities	152,019	164,535	167,479	174,736	188,561
Net Current Assets	56,879	65,831	96,950	122,044	152,992
TOTAL APPLICATION OF FUNDS	341,573	384,636	430,714	467,221	509,327

Source: Company, HDFC sec Inst Research

Cash Flow (M&M + MVML)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	66,152	69,879	74,128	64,138	71,732
Non-operating & EO Items	(13,853)	(16,076)	(30,463)	(17,631)	(18,513)
Interest Expenses	1,882	1,467	1,364	1,416	1,498
Depreciation	16,254	20,030	22,033	24,236	26,660
Working Capital Change	17,122	(6,822)	(4,338)	(10,115)	(7,276)
Tax Paid	(17,127)	(12,528)	(17,742)	(16,705)	(18,771)
OPERATING CASH FLOW (a)	70,429	55,951	44,982	45,339	55,330
Capex	(28,564)	(34,930)	(26,491)	(25,649)	(27,816)
Free Cash Flow (FCF)	41,865	21,021	18,492	19,690	27,514
Investments	(23,389)	(19,212)	(10,501)	(10,001)	(10,001)
Non-operating Income	13,853	16,076	30,463	17,631	18,513
INVESTING CASH FLOW (b)	(38,101)	(38,066)	(6,529)	(18,018)	(19,305)
Debt Issuance/(Repaid)	(6,860)	(5,340)	1,340	1,407	1,477
Interest Expenses	(1,882)	(1,467)	(1,364)	(1,416)	(1,498)
FCFE	33,123	14,215	18,468	19,681	27,493
Share Capital Issuance	1,693	2,699	-	-	-
Dividend	(10,263)	(11,648)	(11,648)	(12,333)	(12,333)
FINANCING CASH FLOW (c)	(17,312)	(15,755)	(11,672)	(12,342)	(12,354)
NET CASH FLOW (a+b+c)	15,017	2,130	26,781	14,979	23,672
Closing Cash & Equivalents	68,617	70,746	97,528	112,506	136,178

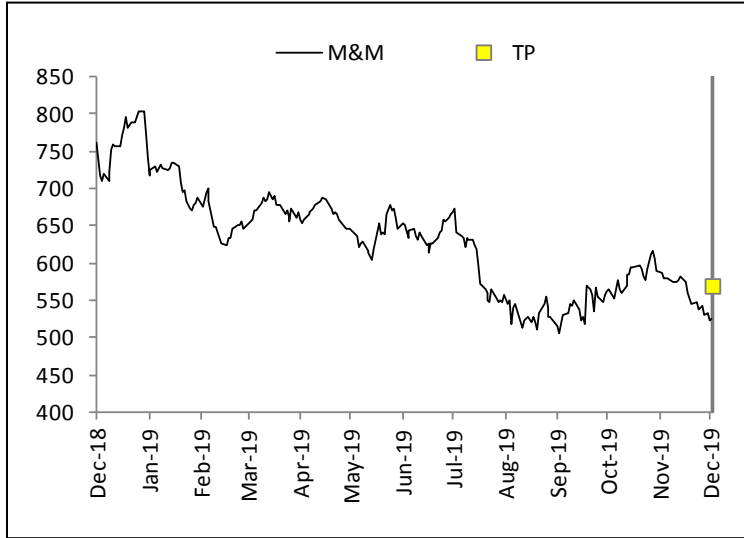
Source: Company, HDFC sec Inst Research

Key Ratios (M&M + MVML)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	33.5	31.9	32.7	32.5	32.7
EBITDA Margin	14.8	14.2	13.9	13.7	13.9
EBIT Margin	11.4	10.5	9.3	9.1	9.3
APAT Margin	8.9	10.3	9.0	8.8	8.9
RoE	14.8	16.6	11.6	11.3	11.6
RoIC (or Core RoCE)	14.4	14.6	10.4	10.1	10.9
RoCE	11.7	11.8	8.3	7.7	8.1
EFFICIENCY					
Tax Rate (%)	30.1	22.7	25.0	27.4	27.5
Fixed Asset Turnover (x)	4.9	4.5	3.9	4.1	4.5
Inventory (days)	25.5	32.9	34.0	32.0	30.0
Debtors (days)	23.8	26.3	28.0	28.0	28.0
Other Current Assets (days)	58.3	51.0	64.3	67.7	70.0
Payables (days)	71.9	71.6	76.0	70.0	67.0
Other Current Liab & Provns (days)	44.7	42.1	50.7	51.1	50.6
Cash Conversion Cycle (days)	(9.0)	(3.4)	(0.4)	6.6	10.5
Debt/EBITDA (x)	(0.5)	(0.6)	(1.0)	(1.1)	(1.3)
Net D/E (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage (x)	28.8	37.7	33.0	33.8	36.5
PER SHARE DATA (Rs)					
EPS	35.6	45.5	36.3	39.1	43.6
CEPS	52.5	62.1	65.1	59.4	66.0
Dividend	7.5	8.5	8.5	9.0	9.0
Book Value	256	294	331	359	393
VALUATION					
P/E (x)	14.8	11.6	14.5	13.5	12.0
P/BV (x)	2.1	1.8	1.6	1.5	1.3
EV/EBITDA (x)	8.4	7.7	8.3	7.5	6.4
EV/Revenues (x)	1.2	1.1	1.2	1.0	0.9
OCF/EV (%)	12.0	9.6	8.1	8.3	10.6
FCF/EV (%)	7.1	3.6	3.3	3.6	5.3
FCFE/Mkt Cap (%)	5.3	2.3	2.9	3.1	4.4
Dividend Yield (%)	1.4	1.6	1.6	1.7	1.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
5-Dec-19	526	NEU	570

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

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