

# Pick of the week



## Mahindra & Mahindra Ltd

### Recommendation

Buy

### Time Period

12 Months

### Current Price

₹334

### Target Price

₹625

### Potential Upside

87.1%

## Investment Argument

- KIE expects the domestic tractor segment to recover the fastest among other segments (PVs, two-wheelers and CVs) once the pandemic situation stabilizes in India driven by (1) record rabi output due to a good monsoon, (2) improvement in prospects of kharif output due to adequate water reservoir levels and (3) increase in MSPs of rabi crops, which augurs well for farm income.
- KIE expects overall tractor volumes to grow at 3% CAGR over FY2019-22E. This will result in the revenue mix of the tractor segment in M&M+MVML to improve from 32% in FY2019 to 36% in FY2022E, resulting in the share of tractor EBIT segment in overall revenues to improve from 53% in FY2019 to 68% in FY2022E.
- Recently, the Board took a decision to not infuse any fresh equity into Ssangyong (will only consider one-time special infusion of US\$32 mn) and has urged Ssangyong to find alternate sources of funding. KIE believes such steps could lead to value unlocking in the long term.
- KIE expects the near term to remain challenging for the company given Covid-19-led uncertainties; however, KIE expects tractor demand to recover once the situation stabilizes on record rabi crop output.
- Despite the company's capital allocation issues, stock valuations look very cheap. KIE has assigned 13X multiple to the core business of M&M+MVML – (1) 17X multiple to the tractor segment given its long-term growth prospects and strong leadership position of the company in this segment and (2) 7X multiple to the automotive segment given multiple headwinds. The value of the stake in publicly listed subsidiaries (assuming 20% holding company discount) is around Rs200. KIE maintains BUY with a revised fair value of Rs625.