

HSIE Results Daily

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Results Review

- **Mahindra & Mahindra:** M&M's 4QFY21 APAT came in at INR 10bn (-43% QoQ). The management reiterated its focus on strengthening its core portfolio of SUVs. While the management has raised its plans for Capex + Investment to INR 170bn for the next three years, it is confident of improving its FCF to fund the same. We reiterate our ADD rating on the stock and tweak our estimates to set a revised SOTP-based target price of INR 890. While SUVs should grow in FY22E on new model launches, high growth FES segment will moderate to low single-digit growth in FY22E.
- **Cummins:** Cummins India Ltd. (CIL) reported muted 4QFY21 as revenue came in 16.3% less than our estimates. Gross margin contracted 182/250bps to 33% on higher-than-expected raw material cost/fixed price under absorption. Higher-than-expected other income narrowed the APAT miss to 7%. While export markets have started to look up, utilisation levels have dropped to 50% from 70% in 4QFY21. Nevertheless, government's focus on infra creation and data localisation will provide impetus for demand. We continue to remain positive on CIL as we believe the following could lead to a rerating of the stock: (1) normalisation of demand; (2) likely stabilisation of exports; and (3) pick-up in power gen-set business. We maintain BUY on CIL with reduced SOTP-based target price of INR 1,024 (INR 1,068 earlier). We have cut FY22E/23E EPS by 10.4%/2.5% to account for the impact of the second wave of the pandemic.
- **Fine Organic Industries:** Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 3,500 is premised on (1) constant focus on R&D, (2) diversified product portfolio, (3) capacity-led expansion growth opportunity, and (4) leadership in oleo-chemical based additives in the domestic and global market with a loyal customer base. We expect FOIL's PAT to grow at a 33% CAGR over FY21-23E, led by a 20% CAGR in revenue. In the absence of major Capex over the next two years, the RoCE would expand from 17.8% in FY21E to 23.2% in FY23E. 4Q EBITDA was 3% above our estimate owing to a 20% rise in revenue offset by higher-than-anticipated raw material costs. 4Q APAT was 25% below our estimate owing to higher-than-anticipated depreciation and finance cost, lower-than-anticipated other income, offset by lower-than-anticipated tax outgo.

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Mahindra & Mahindra

SUVs to accelerate, tractors to moderate

M&M's 4QFY21 APAT came in at INR 10bn (-43% QoQ). The management reiterated its focus on strengthening its core portfolio of SUVs. While the management has raised its plans for Capex + Investment to INR 170bn for the next three years, it is confident of improving its FCF to fund the same. We reiterate our ADD rating on the stock and tweak our estimates to set a revised SOTP-based target price of INR 890. While SUVs should grow in FY22E on new model launches, high growth FES segment will moderate to low single-digit growth in FY22E.

- 4QFY21 financials: M&M+MVML:** Revenue was above estimate at INR 133.5bn (-5% QoQ) as realisations expanded 5%. However, EBITDA margin at 14.7% contracted 230bps QoQ due to higher other expense and RM cost. There was an exceptional expense of INR 8.4bn related to impairment provisions for long-term assets. Adj. PAT came in at INR 10bn, declining by 43% QoQ. **Tractor segment:** Revenue was lower 6% QoQ due to an 8% decline in volumes. The segment reported an EBIT margin of 22% (-140bps YoY) on higher input costs. **Automotive:** Volumes were down 11% QoQ due to supply constraints. EBIT margin came in at 5% vs 7.4% QoQ.
- Call takeaways: (1) Aggressive capex plans:** Over the next three years, M&M has planned a Capex of INR 120bn - INR 30bn for the FES and INR 90bn towards Auto - of which INR 30bn is for EVs. It has also guided for investments amounting to INR 50bn in auto, farm and group companies. While the total spends have been guided higher, the management is confident of improving cash flows due to its revamped product portfolio **(2) Focus on strengthening its core portfolio:** By CY26, the company plans to launch nine new products in the auto segment (incl. two EV products), which will be centered around their existing high selling models such as XUV300, Scorpio, Bolero. The XUV700 launch is on track for CY21, despite the supply constraints **(3) Semiconductor shortage:** M&M continues to face ECU related shortages due to which channel inventories are at low levels. This issue is expected to resolve from 2QFY22. **(4) Tractor & FES:** Management has guided for a low single-digit growth for the tractors industry in FY22; autos to grow in double digits, driven by new model launches/base effect.

Financial Summary (M&M + MVML)

YE March (INR mn)	4Q FY21	4Q FY20	YoY (%)	3Q FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	133,382	90,047	48	140,565	(5)	528,482	448,655	445,744	509,946	577,528
EBITDA	19,605	12,275	60	23,856	(18)	75,301	63,506	69,766	76,492	87,784
APAT	10,024	3,226	211	17,448	(43)	54,239	35,509	40,974	47,820	57,908
Adj. EPS (Rs)	8.4	2.7	211	14.6	(43)	45.5	29.8	34.3	40.1	48.5
APAT Gr (%)						29.5	(34.5)	15.4	16.7	21.1
P/E (x)						18.6	28.4	24.6	21.1	17.4
RoE (%)						16.6	10.2	11.9	13.2	14.3

Source: Company, HSIE Research

Change in Estimates

INR mn	NEW		OLD		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Revenue	509,946	577,528	503,370	568,342	1	2
EBITDA	76,492	87,784	75,002	85,820	2	2
EBITDA margin (%)	15.0	15.2	14.9	15.1	10 bps	10 bps
PAT	47,820	57,908	46,768	56,518	2	2
EPS	40.1	48.5	39.2	47.4	2	2

Source: Company, HSIE Research

ADD

CMP (as on 28 May 21)	INR 846
Target Price	INR 890
NIFTY	15,436

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 880	INR 890
EPS %	FY21E 2%	FY22E 2%

KEY STOCK DATA

Bloomberg code	MM IN
No. of Shares (mn)	1,243
MCap (INR bn) / (\$ mn)	1,052/14,131
6m avg traded value (INR mn)	4,611
52 Week high / low	INR 952/440

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.9	17.2	93.8
Relative (%)	0.2	0.7	35.3

SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	19.4	19.5
FIs & Local MFs	32.6	31.7
FPIs	37.9	38.9
Public & Others	10.0	9.9
Pledged Shares	0.0	0.0

Source : BSE

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Cummins

Muted performance

Cummins India Ltd. (CIL) reported muted 4QFY21 as revenue came in 16.3% less than our estimates. Gross margin contracted 182/250bps to 33% on higher-than-expected raw material cost/fixed price under absorption. Higher-than-expected other income narrowed the APAT miss to 7%. While export markets have started to look up, utilisation levels have dropped to 50% from 70% in 4QFY21. Nevertheless, government's focus on infra creation and data localisation will provide impetus for demand. We continue to remain positive on CIL as we believe the following could lead to a rerating of the stock: (1) normalisation of demand; (2) likely stabilisation of exports; and (3) pick-up in power gen-set business. We maintain BUY on CIL with reduced SOTP-based target price of INR 1,024 (INR 1,068 earlier). We have cut FY22E/23E EPS by 10.4%/2.5% to account for the impact of the second wave of the pandemic.

- Covid, supply chain issues and muted exports hurt topline; higher raw material prices impact margins:** CIL reported revenue at INR 12.5bn (+18%/-12% YoY/QoQ), 16% miss, on subdued exports (+1% YoY, -32% QoQ). Gross margin contracted 182/251bps YoY/QoQ on higher raw material costs/fixed price under absorption. EBITDA margin came in at 13.4% (+710/-354bps YoY/QoQ), against the estimate of 15.5%. EBITDA was at INR 1.7bn (~2.5x 4QFY20, -31% QoQ, miss of 27%). While depreciation and interest expenses were in line, other income saw a sharp jump of 24%/13% YoY/QoQ to INR 1.1bn, on higher dividend income. Consequently, APAT came in at INR 1.9bn (+52%/-21% YoY, 7.7% miss). CIL has taken price hikes where there are commodity price-linked clauses in the contract. With other customers, it will take price hikes through negotiations.
- Levers in place for sustained demand in domestic market:** Domestically, demand for power generation was strong, led by construction sector. However, lockdown, following the second wave of the pandemic, derailed the recovery. Government's focus on infrastructure to kick start the economy will lead to sustained demand in domestic market for power gen-sets. Data localisation policy will provide further impetus. In the industrials, mining continues to do well. Railways will recover once it operates at capacity.
- CPCB 4 implementation unlikely to be delayed:** CIL does not expect any delay in implementation of CPCB 4, as government is focusing on reducing carbon intensity of the economy. Steep price hike is expected as industry leapfrogs from CPCB 2 to CPCB 4. Management believes the transition would lead to better margins given its leadership in technology.
- Capex largely over; return ratio to improve:** Although 1HFY22 is likely to remain muted given the second wave, we expect key segments—infra, data centers, healthcare, and residential -- to see strong cyclical recovery. Growth pick-up with better pricing should lead to RoE expansion from 14.4% in FY21 to 19.3% in FY23E.

Standalone Financial summary

(INR mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Net Revenues	12,465	10,528	18.4	14,243	(12.5)	51,577	43,292	51,794	61,680
EBITDA	1,675	667	151.2	2,417	(30.7)	5,863	5,795	8,264	10,535
APAT	1,857	1,221	52.1	2,341	(20.7)	6,492	6,055	7,642	9,508
Diluted EPS (Rs)	6.7	4.4	52.1	8.4	(20.7)	23.4	21.8	27.6	34.3
P/E (x)						33.0	35.3	28.0	22.5
EV/EBIDTA (x)						35.2	34.7	24.1	18.6
RoE (%)						15.6	14.1	16.8	19.3

Source: Company, HSIE Research

BUY

CMP (as on 27 May 21)	INR 772
Target Price	INR 1,024
NIFTY	15,338

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,068	INR 1,024
EPS	FY22E	FY23E
change %	-10.4	-2.5

KEY STOCK DATA

Bloomberg code	KKC IN
No. of Shares (mn)	277
MCap (INR bn) / (\$ mn)	214/2,875
6m avg traded value (INR mn)	1,214
52 Week high / low	INR 934/338

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.0)	31.7	123.7
Relative (%)	(6.1)	15.9	61.9

SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	51.00	51.00
FIs & Local MFs	27.5	25.19
FPIs	8.97	10.92
Public & Others	12.53	12.89

Pledged Shares - -

Source : BSE

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Fine Organic Industries

Higher raw material costs dent profitability

Our BUY recommendation on Fine Organic Industries (FOIL) with a target price of INR 3,500 is premised on (1) constant focus on R&D, (2) diversified product portfolio, (3) capacity-led expansion growth opportunity, and (4) leadership in oleo-chemical based additives in the domestic and global market with a loyal customer base. We expect FOIL's PAT to grow at a 33% CAGR over FY21-23E, led by a 20% CAGR in revenue. In the absence of major Capex over the next two years, the RoCE would expand from 17.8% in FY21E to 23.2% in FY23E. 4Q EBITDA was 3% above our estimate owing to a 20% rise in revenue offset by higher-than-anticipated raw material costs. 4Q APAT was 25% below our estimate owing to higher-than-anticipated depreciation and finance cost, lower-than-anticipated other income, offset by lower-than-anticipated tax outgo.

- Financial performance:** Revenue grew 8/31% QoQ/YoY to INR 3.2bn. Gross margin came in at 33.4% (-129/-80bps QoQ/YoY) in 4Q on account of higher raw material costs. EBITDA came at INR 5bn, +3/-16% QoQ/YoY with EBITDA margin coming in at 15.0% (-78/-820bps QoQ/YoY) in 4Q. We expect the current EBITDA margin to rise to 15.6/18.6% in FY22/23E. APAT came at INR 3bn (+11/-7% QoQ/YoY) in 4Q.
- Joint venture:** FOIL entered into a JV agreement in May'21 in Thailand with Olefine Organics Thailand Co. Ltd. and Olefine Organics Sdn Bhd for the purpose of operating business, which will be mainly engaged in manufacturing of Speciality Chemical products and supplying, exporting and distribution of such products. FOIL holds a 45% stake in this JV.
- Dividend:** The Board has declared a final dividend at INR 11/sh for FY21, which includes a one-time special dividend of INR 5/sh on the account of the company's golden jubilee year.
- Change in estimates:** We cut our FY22/FY23E EPS estimates by 20.8/12.1% to INR 49.2/68.9 per share to factor in overall performance of FY21.
- DCF-based valuation:** Our price target is INR 3,500 (WACC 10%, terminal growth 4.5%). The stock is trading at 43.7x FY23E EPS.

Financial Summary (Consolidated)

YE Mar (INR mn)	4Q FY21	3Q FY21	QoQ (%)	4Q FY20	YoY (%)	FY19	FY20	FY21P	FY22E	FY23E
Net Sales	3,229	2,993	7.9	2,473	30.6	10,603	10,381	11,332	14,091	16,187
EBITDA	484	472	2.5	573	(15.6)	2,336	2,405	1,993	2,200	3,019
APAT	318	287	10.8	344	(7.4)	1,363	1,648	1,203	1,508	2,113
Adj. EPS (INR)	10.4	9.4	10.8	11.2	(7.4)	44.4	53.7	39.3	49.2	68.9
P/E (x)						67.9	56.1	76.8	61.3	43.7
EV/EBITDA(x)						39.7	38.1	45.4	40.8	29.3
RoE (%)						30.4	29.5	17.8	19.2	23.2

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch
EBITDA (INR mn)		2,694		3,359	3,019	-10.1%
Adj. EPS (INR/sh)		62.1		78.4	68.9	-12.1%

Source: Company, HSIE Research

BUY

CMP (as on 28 May 21) INR 3,003

Target Price INR 3,500

NIFTY 15,436

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,905	INR 3,500
EPS %	FY22E -20.8%	FY23E -12.1%

KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	92/1,237
6m avg traded value (INR mn)	176
52 Week high / low	INR 3,569/1,852

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.9	16.6	54.9
Relative (%)	24.2	0.2	(3.7)

SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	75.00	75.00
FIs & Local MFs	14.14	14.19
FPIs	6.38	5.93
Public & Others	4.48	4.88
Pledged Shares	0.00	0.00

Source: BSE

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Aditya Makharia	Mahindra & Mahindra	CA	NO
Mansi Lall	Mahindra & Mahindra	MBA	NO
Parikshit Kandpal	Cummins	CFA	NO
Chintan Parikh	Cummins	MBA	YES
Nilesh Ghuge	Fine Organic Industries	MMS	NO
Harshad Katkar	Fine Organic Industries	MBA	NO
Rutvi Chokshi	Fine Organic Industries	CA	NO

Disclosure:

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