

MAHINDRA & MAHINDRA | Auto & Farm Equipment

Positivity expected across segments

LKP

M&M's Q2 FY22 numbers came above our expectations at the topline at ₹133 bn, a growth of 13.6% yoy as volumes grew by 7% in the same period both yoy and qoq. This growth was also led by 6.2% growth in realizations. Automotive division revenues came in at ₹79 bn, an increase of 24.6% yoy led by recovery post Wave#2 of pandemic and success of new launches. Automotive EBIT margin rose 100 bps qoq, (-380 bps yoy). It dropped yoy due to negative operating leverage, and higher input costs. Tractor EBIT margins came in at 18.7% which was in the normal range seen in the past years before the aberration seen in FY21. Overall EBITDA margin came in at 12.5% (-360 bps yoy, -140 bps qoq). This dip was due to (1) RM costs headwinds (2) competitive pressures in Auto segment (3) production cuts leading to negative operating leverage due to semi conductor shortage. The company reported net profit of ₹14.3 bn which included exceptional loss of ₹2.55 bn. PAT adjusted for this loss came in at ₹16.9 bn, which was up by 38% yoy and 81% qoq.

Tractor business to report growth despite high base

M&M mentioned that the industry shall grow at 7-8% CAGR in the next 3-5 years, while they also mentioned that M&M should grow higher than this range winning market share which grew to 40.1% a growth of 190 bps yoy, despite supply constraints. M&M witnessed just 1.3% drop in volumes yoy as tractor volumes recovered rapidly despite Covid-19 penetrating rural markets. However, with reviving situation we expect a good bounce back in H2 provided there is no Wave #3. M&M highlighted that tractor segment fundamentals continue to remain strong led by (1) strong crop output of both Khariff and Rabi (2) higher reservoir levels (3) strong agricultural credit growth & MSPs and (4) normal monsoon in 2021 despite some states receiving irregular monsoons. Also in the farm machinery segment, M&M has been seeing a robust demand for Rice Cultivators, Rice and Vegetable Transplantors and Rotavators. We expect FES segment to grow at 5%/7% in FY22E/23E respectively.

UVs and CVs to be driven by new launches

M&M witnessed 27% yoy wholesale growth in the UV segment during the quarter. The company has received a very good response from new Thar launch. They have received 160,000+ bookings for Thar and XUV 700 including 70K+ bookings of XUV 700 alone. Neo Bolero was launched in July 2021 which already has received strong order bookings. The company expects to launch one more SUV in FY2022E - New Scorpio and intends to launch 13 new products in Auto segment and 17 new products in CV segment over the next 5 years. Out of this planned portfolio, there will be a strong presence of EV products (8 new products), for which ₹30 bn investment is planned. They sold >2500 e-3Ws in September alone over 1,600 sold in August with 68% market share in this segment. They have also launched an EV Hyper car named Batista.

Key Financials	FY 20	FY 21E	FY 22E	FY 23E
Total sales (₹ bn)	455	450	512	577
EBITDA margins (%)	12.7	14.4	13.8	14.9
PAT margins (%)	7.4	8.7	9.5	9.8
EPS (₹)	28.1	33.0	41.0	47.7
P/E (x)	27.0	22.9	18.5	15.9
P/BV (x)	2.6	2.6	2.3	2.1
EV/EBITDA (x)	12.5	11.9	10.9	8.8
ROE (%)	9.7	11.4	12.7	13.2
Dividend yield (%)	1.3	0.3	1.1	1.3

Rating	Buy
Current Market Price (₹)	892
12 M Price Target (₹)	1,072
Potential upside (%)	20

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,124
Free Float Market Cap (₹ bn) :	854
52-Week High / Low (₹) :	610 / 971
2-Year High / Low (₹) :	245 / 971
1 Year Avg. Dly Traded Volume (in lakh)	51
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern (%)

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	19.46	19.46	19.45	19.44
FPIs	38.92	40.05	38.93	37.90
MFs	11.09	9.85	10.38	10.77
Insurance	10.42	10.42	10.43	10.74
Others	20.11	20.22	20.81	21.15

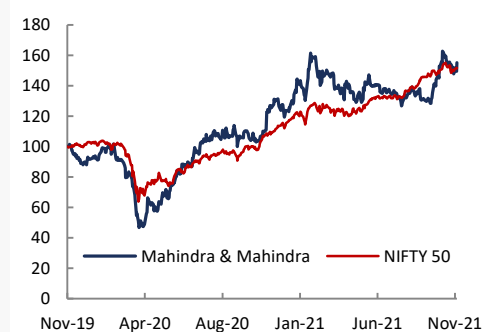
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
M&M	1.6%	15.1%	16.3%	44.7%
Nifty 50	0.8%	11.0%	21.7%	44.8%

* To date / current date : November 9, 2021

M&M vs Nifty 50



M&M is looking for building partnerships with various EV players globally and build products such as XUV 700 EV and XUV 620 EV. In the automotive segment, shortage of semiconductors remained an area of concern for the company, however in Q3 the management expects this issue to ease up to a good extent. Also competition from players like MSIL, Hyundai-Kia is getting more and more intensified. We expect about 10-12% growth in UV business for the next 2 years. The company's LCV business is also performing well with >50% market share in pick up segment (2-3.5T). The recent launch of Supro Profit Truck has strengthened offering in 0-2T 4W segment. They will be soon launching a compact Pick-up to bolster their presence in the segment. We expect 13%/9% volume growth in CVs while 10%/12% growth in 3Ws in FY 22E/FY23E respectively.

Outlook and Valuation

We expect a strong month on month upward trajectory in both UV and tractor sales hereon as the semi conductor issue is getting sorted out. Within the Auto sector, Thar, Neo Bolero and XUV 700 should assist SUV growth in coming quarters, while a whole host of new launches in the coming years should bolster growth thereon. Quick resolution of semi conductor issue shall remain the key driver for growth in the ensuing quarters. FES segment shall grow at a moderate pace in FY 22E and 23E despite high base as all the macro parameters remain intact. In LCVs too, with new launches the company is in a position to expand its market leadership position. M&M has identified several pillars of growth, which can leverage the core strength of M&M group and accelerate the growth for the company over the medium term, which we are currently not building in our assumptions. Maintain BUY rating on attractive valuations; SoTP-based target price stands at ₹1,072 in line with our assumptions of margin improvement on increase in value of UV, 3Ws and LCV segments on higher volume, expected softening of input costs, production increase and cost reduction measures. M&M is set for a new beginning as they have taken multiple steps to improve the capital allocation strategy by selling stakes in loss making subsidiaries, exiting certain subsidiaries or walking out from certain JVs or deals, which would have consumed capital.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@13x FY23E EPS)	-	620
M&M Financial Services	Market cap	25%	37
Tech Mahindra	Market cap	25%	336
Mahindra Lifespaces	Market cap	30%	4
Mahindra CIE Automotives	Market cap	30%	43
Mahindra Logistics	Market cap	30%	17
Mahindra Holiday & Resorts	Market cap	30%	9
Swaraj Engines	Market cap	30%	7
Ssangyong	Market cap	30%	0
Subsidiaries Total SOTP value			452
Total			1,072

Quarterly Financial Snapshot

(₹ mn)	Q2 FY22	Q1 FY22	% QoQ	Q2 FY21	% YoY
Net sales	1,33,054	1,17,628	13.1%	1,17,105	13.6%
Raw material costs	96,808	81,922	18.2%	80,923	19.6%
Employee costs	7,965	8,855	-10.1%	7,012	13.6%
Other expenses	11,682	10,534	10.9%	10,272	13.7%
EBITDA	16,599	16,317	1.7%	18,898	-12.2%
EBITDA margins %	12.5%	13.9%	(140 bps)	16.1%	(360 bps)
Other income	11,048	2,052	438.4%	3926	181.4%
Depreciation	5,807	5,586	3.9%	5545	4.7%
Interest expenses	425	714	-40.5%	1091	-61.1%
PBT	21,416	12,069	77.4%	16188	32.3%
Tax	4,547	2,728	66.7%	3922	16.0%
Reported PAT	14,318	8,556	67.3%	772	1754.9%
Exceptional items	(2,550)	(785)	N/A	(11,495)	N/A
Adjusted PAT	16,868	9,341	80.6%	12267	37.5%
Adj EPS	14.25	7.89	80.6%	10.4	37.5%

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Total Revenues	4,54,878	4,50,410	5,11,764	5,76,649
Raw Material Cost	3,16,326	3,16,130	3,60,794	4,02,501
Employee Cost	28,801	28,588	35,823	39,212
Other Exp	51,771	40,631	44,523	49,015
EBITDA	57,981	65,061	70,623	85,921
EBITDA Margin(%)	12.7	14.4	13.8	14.9
Other Income	16,678	12,213	18,000	16,000
Depreciation	22,226	22,330	23,203	25,425
Interest	1132	3709	2500	2800
PBT	51,300	51,235	62,920	73,696
PBT Margin(%)	11.3	11.4	12.3	12.8
Tax	17,855	11,916	14,157	16,950
Adj PAT	33,445	39,319	48,763	56,746
Adj PAT Margins (%)	7.4	8.7	9.5	9.8
Exceptional items	-20140	-36633	0	0
Reported PAT	13,305	2,687	48,763	56,746
Rep. PAT Margins (%)	2.9	0.6	9.5	9.8

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (₹)				
Adj. EPS	28.1	33.0	41.0	47.7
CEPS	29.9	21.0	60.5	69.1
BVPS	289.7	289.9	322.7	360.9
DPS	10.0	2.5	8.2	9.5
Growth Ratios(%)				
Total revenues	-15.2	-1.0	13.6	12.7
EBITDA	-12.7	12.2	8.5	21.7
PAT	-30.7	17.6	24.0	16.4
EPS Growth	-30.7	17.6	24.0	16.4
Valuation Ratios (X)				
PE	27.0	22.9	18.5	15.9
P/CEPS	25.4	36.1	12.5	11.0
P/BV	2.6	2.6	2.3	2.1
EV/Sales	1.6	1.7	1.5	1.3
EV/EBITDA	12.5	11.9	10.9	8.8
Operating Ratios (Days)				
Inventory days	39.2	45.7	44.0	47.0
Receivable Days	27.9	21.6	23.0	24.0
Payables day	95.0	96.8	99.0	90.0
Net Debt/Equity (x)	0.06	0.20	0.17	0.14
Profitability Ratios (%)				
ROE	9.7	11.4	12.7	13.2
Dividend payout	35.5	7.5	20.0	20.0
Dividend yield	1.3	0.3	1.1	1.3

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Equity and Liabilities				
Equity Share Capital	5,965	5,974	5,974	5,974
Reserves & Surplus	3,38,713	3,39,045	3,78,055	4,23,452
Total Networth	3,44,678	3,45,019	3,84,029	4,29,426
Total debt	36,532	86,106	81,106	76,106
Deferred tax liabilities	14,082	13,431	13,431	13,431
Current liabilities & Provisions	1,09,735	1,51,331	1,50,308	1,53,696
Total Liabilities	5,05,028	5,95,887	6,28,875	6,72,659
Assets				
Fixed assets	1,44,041	1,50,116	1,77,412	2,12,487
Non current Investments	1,77,485	1,95,766	1,89,766	1,83,766
Other non current assets	32,080	46,884	46,884	46,884
Current Assets	1,51,415	2,03,122	2,14,813	2,29,523
Cash and bank(i)	23,235	7,393	15,328	25,033
Bank deposits other than(i)	19,130	55,161	51,161	47,161
Inventories	34,009	39,555	43,493	51,829
Sundry Debtors	29,990	23,430	32,248	37,917
Loan, Advances & others	5,120	7,570	7,570	7,570
Other current assets	59,061	1,25,174	1,16,175	1,07,175
Total Assets	5,05,028	5,95,887	6,28,875	6,72,659

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	51,300	51,235	62,920	73,696
Depreciation	22,226	22,330	23,203	25,425
Interest	1,132	3,709	2,500	2,800
Chng in working capital	-13,096	35,001	-14,779	-12,617
Tax paid	-10,823	-10,646	-14,157	-16,950
Other operating activities	-13,961	-10,430	0	0
Cash flow from operations (a)	36,778	91,199	59,687	72,354
Capital expenditure	-39,437	-27,653	-50,500	-60,500
Chng in investments	-13,037	-68,318	11,000	11,000
Other investing activities	26,717	-49,668	4,000	4,000
Cash flow from investing (b)	-25,757	-1,45,639	-35,500	-45,500
Free cash flow (a+b)	11,021	-54,440	24,187	26,854
Inc/dec in borrowings	3,289	45,261	-4,000	-3,000
Dividend paid (incl. tax)	-11,874	-2,936	-9,753	-11,349
Other financing activities	-456	0	0	0
Cash flow from financing (c)	-10,155	38,598	-16,253	-17,149
Net chng in cash (a+b+c)	866	-15,842	7,935	9,705
Closing cash & cash equivalents	23,235	7,393	15,328	25,033

Source: Company, LKP Research

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