

MAHINDRA & MAHINDRA LIMITED | Auto & Farm Equipment**Strong order book points towards robust volumes hereon****Margins tainted by high RM costs**

M&M's Q3 FY22 numbers came in line with our expectations at the topline at ₹152 bn, a growth of 7% yoy as volume decline of 5.8% was more than offset by a 13.8% growth in realizations. Automotive division revenues came in at ₹95.4 bn, an increase of 12.8% yoy led by success of new launches. Automotive EBIT margin rose 100 bps qoq, (-270 bps yoy). It dropped yoy due to negative operating leverage, and higher input costs. Tractor EBIT margins came in at 17.3% which were 610 bps and 140 bps declines on yoy and qoq basis respectively. This was due to muted growth of the segment on high base and delayed Khariff harvest. Overall EBITDA margin came in at 11.9% (-510 bps yoy, -60 bps qoq). This dip was due to (1) RM costs headwinds (2) subdued growth in FES segment (3) and semi conductor shortage. The company reported net profit of ₹11.43 bn which was down by 21.4% yoy and 19.8% qoq.

Tractor business to report lower-mid single growth this fiscal, while growth expected thereon

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 39.4% a growth of 140 bps yoy. We have witnessed about 1.4% yoy drop in tractor volumes while a growth of 6.4% qoq. On the Back of high base of last year (tractor industry grew by 27% in FY 21), we expect small growth this year. However, with reviving situations we expect a good bounce back in the next couple of years. M&M highlighted that tractor segment fundamentals continue to remain strong led by (1) strong crop output of both Khariff (despite delayed harvest) and a bumper Rabi output (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. In the exports FES markets, 9MYTD growth has been 77.4%. We therefore expect FES segment to grow at 2%/7%/10% in FY22E/23E/24E respectively.

Strong order book in UVs, encouraging response to UVs and strengthening demand CVs

M&M witnessed 44.6% yoy wholesale growth in the UV segment during 9M FY22. The company has received a very good response from new Thar and XUV 700 launches. They have received 155,000+ total bookings out of which 70K are for XUV 700. Neo Bolero was launched in July 2021 which already has received strong order bookings. The company expects to launch one more SUV in early FY 2023 - 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.

Key Financials	FY 20	FY 21	FY 22E	FY 23E	FY 24E
Total sales (₹ bn)	455	450	535	627	737
EBITDA margins (%)	12.7	14.4	12.9	13.7	14.4
PAT margins (%)	7.4	8.7	9.2	9.1	9.1
EPS (₹)	28.1	33.0	41.3	48.1	56.6
P/E (x)	30.3	25.8	20.6	17.7	15.1
P/BV (x)	2.9	2.9	2.6	2.4	2.1
EV/EBITDA (x)	14.4	13.6	12.7	10.2	8.0
ROE (%)	9.7	11.4	12.8	13.3	13.9
Dividend yield (%)	1.2	0.3	1.0	1.1	1.3

Rating	Buy
Current Market Price (₹)	853
12 M Price Target (₹)	1,085
Potential upside (%)	27

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,060
Free Float Market Cap (₹ bn) :	817
52-Week High / Low (₹) :	979 / 725
2-Year High / Low (₹) :	979 / 245
1 Year Avg. Dly Traded Volume (in lakh)	41
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern (%)

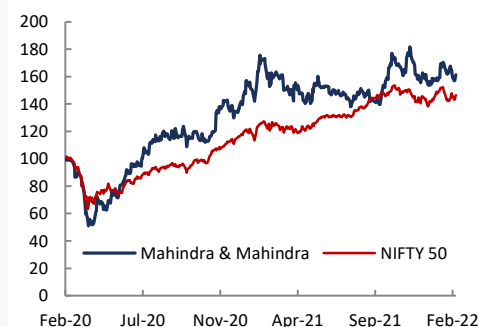
	Dec-21	Sep-21	Jun-21	Mar-21
Promoter	19.47	19.46	19.46	19.45
FPIs	38.66	38.92	40.05	38.93
MFs	12.37	11.09	9.85	10.38
Insurance	9.29	10.42	10.42	10.43
Others	20.21	20.11	20.22	20.81

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
M&M	1.3%	-7.2%	8.5%	-6.7%
Nifty 50	-2.2%	-2.3%	8.1%	16.5%

* To date / current date : February 10, 2022

M&M vs Nifty 50

M&M has garnered ~70% market share in the EV 3W space with new launches of Treo Auto and Treo Zor in the quarter reporting highest ever quarterly sales. They have also launched an EV Hyper car named Batista. 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 Q4 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 15%/10%/12% growth in UV business for FY22E/23E/24E respectively. 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 5%/9%/11% volume growth in CVs while 30%/12%/15% growth in 3Ws in FY 22E/FY23E/24E 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, the robust order book of Thar 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 resolving of semi conductor issue shall remain the key driver for growth in the ensuing quarters. FES segment shall grow at a low pace in FY 22E as expected and grow at a good pace in the ensuing two years 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. The company 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 ₹1,085 (On rolled over estimates to FY 24E) 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. In a bid to monetize unused land parcels, M&M has entered into a sale agreement with Mahindra Lifespace Developers Ltd (MLDL) to sell a part of their unused land in Kandivali, Mumbai to the latter for a consideration of ₹3.65 bn.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@13x FY 243E EPS)	-	680
M&M Financial Services	Market cap	25%	29
Tech Mahindra	Market cap	25%	316
Mahindra Lifespaces	Market cap	30%	4
Mahindra CIE Automotives	Market cap	30%	32
Mahindra Logistics	Market cap	30%	13
Mahindra Holiday & Resorts	Market cap	30%	7
Swaraj Engines	Market cap	30%	5
Ssangyong	Market cap	30%	0
Subsidiaries Total SOTP value			406
Total			1,085

Quarterly Financial Snapshot

(₹ mn)	Q3 FY22	Q2 FY22	% qoq	Q3 FY21	% yoy
Net sales	1,52,388	1,33,054	14.5%	1,42,159	7.2%
Raw material costs	1,13,931	96,808	17.7%	1,00,426	13.4%
Employee costs	8,790	7,965	10.4%	7,561	16.3%
Other expenses	11,609	11,682	-0.6%	11,395	1.9%
EBITDA	18,058	16,599	8.8%	22,778	-20.7%
EBITDA margins %	11.9%	12.5%	(60 bps)	16.0%	(510 bps)
Other income	5,233	11,048	-52.6%	5699	-8.2%
Depreciation	6,312	5,807	8.7%	5714	10.5%
Interest expenses	533	425	25.3%	997	-46.6%
PBT	16,447	21,416	-23.2%	21766	-24.4%
Tax	2,916	4,547	-35.9%	4542	-35.8%
Reported PAT	13,531	14,318	-5.5%	309	4274.7%
Exceptional items	-	(2,550)	N/A	(16,915)	N/A
Adjusted PAT	13,531	16,868	-19.8%	17224	-21.4%
Adj EPS	11.43	14.25	-19.8%	14.5	-21.4%

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E	FY 24E
Total Revenues	4,54,878	4,50,410	5,35,319	6,27,083	7,36,968
Raw Material Cost	3,16,326	3,16,130	3,84,359	4,45,229	5,18,088
Employee Cost	28,801	28,588	35,331	42,642	51,588
Other Exp	51,771	40,631	46,573	53,302	61,168
EBITDA	57,981	65,061	69,056	85,910	1,06,123
EBITDA Margin (%)	12.7	14.4	12.9	13.7	14.4
Other Income	16,678	12,213	20,000	17,000	15,000
Depreciation	22,226	22,330	23,203	25,425	30,225
Interest	1132	3709	2400	2600	2800
PBT	51,300	51,235	63,453	74,885	88,098
PBT Margin(%)	11.3	11.4	11.9	11.9	12.0
Tax	17,855	11,916	14,277	17,598	20,703
Adj PAT	33,445	39,319	49,176	57,287	67,395
Adj PAT Margins (%)	7.4	8.7	9.2	9.1	9.1
Exceptional items	-20140	-36633	0	0	0
Reported PAT	13,305	2,687	49,176	57,287	67,395
Rep. PAT Margins (%)	2.9	0.6	9.2	9.1	9.1

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E	FY 24E
Per Share Data (₹)					
Adj. EPS	28.1	33.0	41.3	48.1	56.6
CEPS	29.9	21.0	60.8	69.5	82.0
BVPS	289.7	289.9	323.0	361.5	406.8
DPS	10.0	2.5	8.3	9.6	11.3
Growth Ratios(%)					
Total revenues	-15.2	-1.0	18.9	17.1	17.5
EBITDA	-12.7	12.2	6.1	24.4	23.5
PAT	-30.7	17.6	25.1	16.5	17.6
EPS Growth	-30.7	17.6	25.1	16.5	17.6
Valuation Ratios (X)					
PE	30.3	25.8	20.6	17.7	15.1
P/CEPS	28.6	40.6	14.0	12.3	10.4
P/BV	2.9	2.9	2.6	2.4	2.1
EV/Sales	1.8	2.0	1.6	1.4	1.2
EV/EBITDA	14.4	13.6	12.7	10.2	8.0
Operating Ratios (Days)					
Inventory days	39.2	45.7	44.0	44.0	43.0
Receivable Days	27.9	21.6	23.0	24.0	24.0
Payables day	95.0	96.8	99.0	90.0	90.0
Net Debt/Equity (x)	0.06	0.20	0.17	0.14	0.10
Profitability Ratios (%)					
ROE	9.7	11.4	12.8	13.3	13.9
Dividend payout	35.5	7.5	20.0	20.0	20.0
Dividend yield	1.2	0.3	1.0	1.1	1.3

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E	FY 24E
Equity and Liabilities					
Equity Share Capital	5,965	5,974	5,974	5,974	5,974
Reserves & Surplus	3,38,713	3,39,045	3,78,386	4,24,215	4,78,132
Total Networth	3,44,678	3,45,019	3,84,360	4,30,189	4,84,106
Total debt	36,532	86,106	81,106	76,106	66,106
Deferred tax liabilities	14,082	13,431	13,431	13,431	13,431
Current liabilities & Provs.	1,09,735	1,51,331	1,56,700	1,64,232	1,84,197
Total Liabilities	5,05,028	5,95,887	6,35,596	6,83,958	7,47,839
Assets					
Fixed assets	1,44,041	1,50,116	1,77,412	2,12,487	2,43,262
Non current Investments	1,77,485	1,95,766	1,89,766	1,95,766	2,01,766
Other non current assets	32,080	46,884	46,884	46,884	46,884
Current Assets	1,51,415	2,03,122	2,21,535	2,28,822	2,55,929
Cash and bank(i)	23,235	7,393	17,725	9,173	14,691
Bank deposits other than(i)	19,130	55,161	51,161	47,161	49,161
Inventories	34,009	39,555	46,334	53,671	61,035
Sundry Debtors	29,990	23,430	33,732	41,233	48,458
Loan, Advances & others	5,120	7,570	7,570	7,570	7,570
Other current assets	59,061	1,25,174	1,16,175	1,17,175	1,24,175
Total Assets	5,05,028	5,95,887	6,35,596	6,83,958	7,47,839

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E	FY 24E
PBT	51,300	51,235	63,453	74,885	88,098
Depreciation	22,226	22,330	23,203	25,425	30,225
Interest	1,132	3,709	2,400	2,600	2,800
Chng in working capital	-13,096	35,001	-12,712	-9,306	3,376
Tax paid	-10,823	-10,646	-14,277	-17,598	-20,703
Other operating activities	-13,961	-10,430	0	0	0
Cash flow from operations (a)	36,778	91,199	62,067	76,006	1,03,797
Capital expenditure	-39,437	-27,653	-50,500	-60,500	-61,000
Chng in investments	-13,037	-68,318	11,000	-11,000	-11,000
Other investing activities	26,717	-49,668	4,000	4,000	-2,000
Cash flow from investing (b)	-25,757	-1,45,639	-35,500	-67,500	-74,000
Free cash flow (a+b)	11,021	-54,440	26,567	8,506	29,797
Inc/dec in borrowings	3,289	45,261	-4,000	-3,000	-8,000
Dividend paid (incl. tax)	-11,874	-2,936	-9,835	-11,457	-13,479
Other financing activities	-456	0	0	0	0
Cash flow from financing (c)	-10,155	38,598	-16,235	-17,057	-24,279
Net chng in cash (a+b+c)	866	-15,842	10,332	-8,552	5,518
Closing cash & cash equivalents	23,235	7,393	17,725	9,173	14,691

Source: Company, LKP Research

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