

MAHINDRA & MAHINDRA LIMITED | Autos

Healthy product pipeline, increasing order book entail bright prospects

LKP

M&M's Q4 FY22 numbers came in line with our expectations at the topline at ₹71 bn, a growth of 28% yoy as volumes rose by 11% yoy and realizations zoomed up by 16%. Automotive division revenues came in at ₹120.7 bn, an increase of 50.4% yoy led by success of new launches –Thar, Bolero Neo and XUV 700 as M&M started slowly catering to the order backlog. Automotive EBIT margin rose by 170 bps qoq, (250 bps yoy) due to positive operating leverage, model mix and price hikes taken to absorb input costs. Tractor EBIT margins came in at 15.7% which were 630 bps and 160 bps down on yoy and qoq basis respectively. This was due to muted growth of the segment on high base. Overall EBITDA margin came in at 11.4% (-330 bps yoy, -50 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 ₹11.67 bn which was down by 13.4% qoq and up by 16.7% yoy. During FY22, auto volumes grew by 32% on the back of 44% escalation in SUV volumes, while FES volumes in the domestic markets de-grew by 2%. Auto and FES exports grew by 77% and 60% respectively. EBITDA margins for the fiscal were reported at 12.3%, while Adj. PAT growth stood at 30.8% at ₹51.4bn.

The 3-pronged strategy of UVs, CVs and EVs to pay rich dividends

M&M witnessed 44% growth in the UV segment during FY22. The company has received an excellent response for the new Thar and XUV 700 launches though these models have waiting periods of almost a year. They have received >170K total bookings till date. Neo Bolero was launched in July 2021 which already has received strong order bookings and has made robust inroads into Southern markets where the earlier Bolero model was not having a wide presence. With this, the company was able to increase their SUV market share by 280 bps to 16.5%, while staying at #1 player at 17.8% revenue market share. The company will be launching an altogether New Scorpio – Scorpio N on 27th June 2022 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. M&M has planned to increase its capex by ₹19 bn mainly for the EVs. M&M has garnered 73.4% market share in the EV 3W space with new launches of E-Alfa, Treo Auto and Treo Zor in the last quarter reporting highest ever sales in March at 2,345 units.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales(bn)	450	574	706	845
EBITDA margins (%)	14.4	12.3	13.0	13.6
PAT margins (%)	8.7	9.0	9.0	9.2
EPS (Rs)	33.0	43.2	53.2	65.1
P/E (x)	30.2	23.1	18.8	15.3
P/BV (x)	3.4	3.0	2.7	2.4
EV/EBITDA (x)	16.6	15.2	11.6	9.0
ROE (%)	11.2	13.2	14.4	15.4
Dividend yield (%)	0.2	0.9	1.1	1.3

Rating	BUY
Current Market Price (₹)	998
12 M Price Target (₹)	1,253
Potential upside (%)	26

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,243
Free Float Market Cap (₹ bn) :	956
52-Week High / Low (₹) :	671 / 1,012
2-Year High / Low (₹) :	442 / 1,012
1 Yr Avg. Dly Traded Volume (in lakh)	38
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

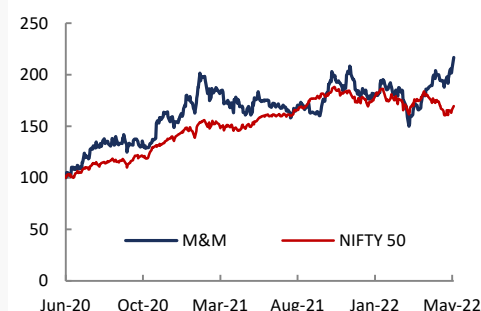
(%)	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	19.47	19.47	19.46	19.46
FPIs	37.30	38.66	38.92	40.05
MFs	13.86	12.37	11.09	9.85
Insurance	8.91	9.29	10.42	10.42
Others	20.46	20.21	20.11	20.22

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
M & M	8.3%	26.2%	19.5%	18.0%
Nifty 50	-2.6%	-0.8%	-1.9%	7.9%

* To date / current date : May 30 2022

M&M vs Nifty 50

M&M sold 16,862 units of E-3Ws in FY 22 and have seen a ramp-up in billings of ~12K in H2 FY22. They have also launched an EV Hyper car named Batista. M&M is looking at 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 this issue eased up to some extent. We expect SUVs to register 16%/12% growth in FY23E/FY24E respectively.

The company's LCV business is also performing well with 42.7% market share in Pick-up segment (2-3.5T) in FY22. 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 12%/13% volume growth in CVs while 15%/12% growth in 3Ws in FY23E/24E respectively.

Management guides for a single digit growth this fiscal for the Tractor segment

M&M mentioned that the tractor segment shall grow at single digit in FY 23, however they shall revise their guidance during due course of the quarter taking a view of the monsoon. We have witnessed about 2% drop in tractor volumes in FY22 on extra ordinarily high base of last year. Still M&M won market share in FY22 at 40%, higher by 180 bps over FY21. 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) strong agricultural credit growth & MSPs and (3) Expectations of normal monsoon in 2022 4). New launches in the form of Yuvo Tech + and a small horticulture based tractor named CODE 5). No off-seasonal rains in March and 6). Success of international Farm subsidiaries at the Consol level. (₹1.9 bn PAT in FY22). Also in the farm machinery segment, M&M has been seeing a robust demand for Rice Cultivators, Rice and Vegetable Transplantors and Rotavators. We therefore expect FES segment to grow at 7%/10% in FY23E/24E respectively. However, we may see upside to these estimates in cognizance with the monsoon and at the same time risk through the recent ban on food grains especially wheat.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
Net sales	1,71,240	1,52,388	12.4%	1,33,382	28.4%
Raw material costs	1,30,755	1,13,931	14.8%	92,255	41.7%
Employee costs	7,461	8,790	-15.1%	7,964	-6.3%
Other expenses	13,568	11,609	16.9%	13,559	0.1%
EBITDA	19,455	18,058	7.7%	19,605	-0.8%
EBITDA margins %	11.4%	11.9%	(50 bps)	14.7%	(330 bps)
Other income	2,387	5,233	-54.4%	1,178	102.6%
Depreciation	6,805	6,312	7.8%	5,899	15.4%
Interest expenses	558	533	4.8%	971	-42.5%
PBT	14,479	16,447	-12.0%	13,913	4.1%
Tax	2,808	2,916	-3.7%	3,888	-27.8%
Reported PAT	12,919	13,531	-4.5%	1,625	694.8%
Exceptional items	1,248	-	N/A	(8,399)	N/A
Adjusted PAT	11,672	13,531	-13.7%	10,024	16.4%
Adj EPS	9.86	11.43	-13.7%	8.5	16.4%

Source: Company, LKP Research

Outlook and Valuation

We expect a gradual month on month upward trajectory in both SUVs 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 months should bolster growth thereon. Quick resolving of semi conductor issue shall remain the key driver for growth in the ensuing quarters as it would lead to ramp up in wholesale sales led by dispatching of the huge order book. We are cautiously optimistic about the FES segment as the food grains export ban may lead to some slowdown (seen a bit in May), while all other drivers remain in place may offset its impact. In EVs and LCVs too, with new launches the company is in a position to expand its market leadership position. Within EVs the company has entered a tie-up with Volkswagen for battery management and is in a position to increase its capex with reducing debt and increasing cash flows. M&M has over time exited its loss making businesses and have turned around several businesses which would definitely gather confidence of shareholders. 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. We maintain BUY rating on attractive valuations; SoTP-based target price stands at ₹1,253 (₹911 core business valued at 14x FY 24E earnings + subsidiary valuation of ₹342) in line with our assumptions of margin improvement on increase in volumes and value of UV, 3Ws and LCV segments, recovery in FES, expected softening of input costs, production increase and cost reduction measures.

Particulars	Basis	Subs Discount	Value per share(₹)
M&M	P/E (@14x FY 24E EPS)	-	911
M&M Financial Services	Market cap	25%	32
Tech Mahindra	Market cap	25%	250
Mahindra Lifespaces	Market cap	30%	4
Mahindra CIE Automotives	Market cap	30%	29
Mahindra Logistics	Market cap	30%	12
Mahindra Holiday & Resorts	Market cap	30%	8
Swaraj Engines	Market cap	30%	6
Subsidiaries Total SOTP value			342
Total			1253

Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
Total Revenues	4,50,410	5,74,459	7,05,729	8,44,640
Raw Material Cost	3,16,130	4,23,416	5,11,653	6,03,917
Employee Cost	28,588	33,060	38,815	48,144
Other Exp	40,631	47,562	63,516	77,707
EBITDA	65,061	70,423	91,745	1,14,871
<i>EBITDA Margin(%)</i>	<i>14.4</i>	<i>12.3</i>	<i>13.0</i>	<i>13.6</i>
Other Income	12,213	20,759	22,000	23,000
Depreciation	22,330	24,511	28,360	33,853
Interest	3709	2230	2600	2800
PBT	51,235	64,441	82,785	1,01,218
<i>PBT Margin(%)</i>	<i>11.4</i>	<i>11.2</i>	<i>11.7</i>	<i>12.0</i>
Tax	11,916	13,002	19,454	23,786
Adj PAT	39,319	51,439	63,331	77,432
<i>Adj PAT Margins (%)</i>	<i>8.7</i>	<i>9.0</i>	<i>9.0</i>	<i>9.2</i>
Exceptional items	-36633	-2087	0	0
Reported PAT	2,687	49,352	63,331	77,432
<i>Rep. PAT Margins (%)</i>	<i>0.6</i>	<i>8.6</i>	<i>9.0</i>	<i>9.2</i>

Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
Per Share Data (₹)				
Adj. EPS	33.0	43.2	53.2	65.1
CEPS	21.0	62.1	77.1	93.5
BVPS	293.7	327.4	370.0	422.1
DPS	2.5	9.2	10.6	13.0
Growth Ratios(%)				
Total revenues	-1.0	27.5	22.9	19.7
EBITDA	12.2	8.2	30.3	25.2
PAT	17.6	30.8	23.1	22.3
EPS Growth	17.6	30.8	23.1	22.3
Valuation Ratios (X)				
PE	30.2	23.1	18.8	15.3
P/CEPS	47.5	16.1	13.0	10.7
P/BV	3.4	3.0	2.7	2.4
EV/Sales	2.4	1.9	1.5	1.2
EV/EBITDA	16.6	15.2	11.6	9.0
Operating Ratios (Days)				
Inventory days	55.2	50.7	48.0	46.0
Receivable Days	21.1	16.6	18.0	20.0
Payables day	100.6	101.4	103.0	105.0
Net Debt/Equity (x)	0.20	0.15	0.12	0.10
Profitability Ratios (%)				
ROE	11.2	13.2	14.4	15.4
Dividend payout	7.5	21.2	20.0	20.0
Dividend yield	0.2	0.9	1.1	1.3

Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
Equity and Liabilities				
Equity Share Capital	5,974	5,983	5,983	5,983
Reserves & Surplus	3,43,536	3,83,626	4,34,290	4,96,236
Total Networth	3,49,510	3,89,609	4,40,273	5,02,219
Total debt	89,753	76,482	73,482	69,482
Deferred tax liabilities	14,497	17,008	17,008	17,008
Current liabilities & Provisions	1,61,885	1,88,203	2,01,652	2,28,997
Total Liabilities	6,15,644	6,71,302	7,32,415	8,17,706
Assets				
Fixed assets	1,81,368	1,95,668	2,29,308	2,60,455
Non current Investments	1,72,918	1,72,078	1,77,078	1,87,078
Other non current assets	53,226	44,380	44,380	44,380
Current Assets	2,08,133	2,59,177	2,81,650	3,25,794
Cash and bank(i)	8,675	7,172	10,736	26,577
Bank deposits other than(i)	55,277	29,333	29,333	29,333
Inventories	47,830	58,829	67,286	76,110
Sundry Debtors	22,028	30,351	34,803	46,282
Loan, Advances & others	2,845	18,455	18,455	18,455
Other current assets	1,26,755	1,44,370	1,50,370	1,58,370
Total Assets	6,15,644	6,71,302	7,32,415	8,17,706

Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	53,907	64,441	82,785	1,01,218
Depreciation	23,699	24,511	28,360	33,853
Interest	3,963	2,230	2,600	2,800
Chng in working capital	35,866	4,967	2,540	9,043
Tax paid	-11,381	-5,981	-19,454	-23,786
Other operating activities	-10,119	-19,232	0	0
Cash flow from operations (a)	95,936	70,937	96,830	1,23,127
Capital expenditure	-33,113	-31,859	-62,000	-65,000
Chng in investments	-68,211	-37,699	-11,000	-18,000
Other investing activities	-44,036	25,970	0	0
Cash flow from investing (b)	-1,45,359	-43,589	-73,000	-83,000
Free cash flow (a+b)	-49,424	27,348	23,830	40,127
Inc/dec in borrowings	42,115	-13,168	-5,000	-6,000
Dividend paid (incl. tax)	-2,936	-10,891	-12,666	-15,486
Other financing activities	0	0	0	0
Cash flow from financing (c)	35,142	-28,852	-20,266	-24,286
Net chng in cash (a+b+c)	-14,282	-1,504	3,564	15,841
Closing cash & cash equivalents	8,675	7,172	10,736	26,577

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