

MAHINDRA & MAHINDRA LIMITED | Autos

...in a sweet spot

LKP

M&M's Q1 FY23 numbers came in line with our expectations as the topline was reported at ₹196 bn, a growth of 67% yoy as volumes rose by 47% yoy and realizations zoomed up by about 20% yoy. Automotive division revenues came in at ₹123 bn, an increase of 50.4% yoy led by success of new launches -Thar, Bolero Neo and XUV 700 and XUV 300 as M&M started slowly catering to the order backlog. Automotive EBIT margin rose by 10 bps qoq, (400 bps yoy) due to positive operating leverage, model mix and price hikes taken to absorb input costs. Tractor EBIT margins came in at 16% which were 30 bps up qoq but down by 430 bps down on yoy basis. This was due to inability to pass on a significant amount of high input costs due to competition. Overall EBITDA margin came in at 11.9% (-200 bps yoy, up 50 bps qoq). This dip was due to (1) RM costs headwinds (2) subdued FES margins (3) and semi-conductor shortage. The company's adjusted net profit of ₹14.71 bn which was down by 57.5% yoy and up by 26% qoq.

New launches put M&M in top gear

M&M witnessed 80% growth in the UV segment during the quarter. The company has received an excellent response for the new Scorpio N with 100K bookings under 30 minutes. The Thar and XUV 700 launches are still having huge order book of 5K and 10.3K per month respectively, though these models have long waiting periods. Neo Bolero was launched in July 2021 which already has received strong order bookings (8.4K monthly bookings) and has made robust inroads into Southern markets where the earlier Bolero model was not having a wide presence. Also XUV300 has got a very strong response with 6.2K bookings per month. The total order bookings (excluding Scorpio N) is 140K now. With this, the company was able to increase their SUV market share by 60 bps to 17.1%, while staying #1 player at revenue market share level. M&M intends to launch 13 new products in Auto segment and 17 new products in CV segment over the next 5 years with a capacity expansion post 2 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 74.4% market share in the e-3W space with new launches of E-Alfa, Treo Auto and Treo Zor couple of quarters ago. 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.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales (₹ bn)	450	574	710	848
EBITDA margins (%)	14.4	12.3	13.7	14.9
PAT margins (%)	8.7	9.0	9.4	10.2
EPS (₹)	33.0	43.2	56.4	72.4
P/E (x)	37.4	28.6	21.9	17.1
P/BV (x)	4.2	3.8	3.3	2.9
EV/EBITDA (x)	21.0	19.3	13.8	10.3
ROE (%)	11.2	13.2	15.1	16.8
Dividend yield (%)	0.2	0.7	0.9	1.2

Rating	BUY
Current Market Price (₹)	1,236
12 M Price Target (₹)	1,389
Potential upside (%)	12

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,538
Free Float Market Cap (₹ bn) :	1,183
52-Week High / Low (₹) :	1,279 / 671
2-Year High / Low (₹) :	1,279 / 568
1 Yr Avg. Dly Traded Volume (in lakh)	41
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

(%)	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	19.45	19.47	19.47	19.46
FPIs	37.94	37.30	38.66	38.92
MFs	14.81	13.86	12.37	11.09
Insurance	8.18	8.91	9.29	10.42
Others	19.62	20.46	20.21	20.11

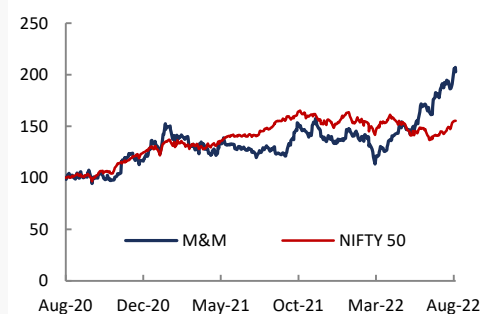
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
M&M	14.2%	37.5%	46.8%	62.7%
Nifty 50	10.0%	4.3%	-0.7%	6.8%

* To date / current date : August 5, 2022

M&M vs Nifty 50



M&M has 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. The company has tied up with British International Investment (BII) to invest up to \$250 mn in new EV Co to be setup at a valuation of up to \$ 9.1 bn. We expect SUVs to register 17%/14% growth in FY23E/FY24E respectively.

The company's LCV business is also performing well with >43% 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 15%/13% volume growth in CVs while 16%/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 between 3-5% in FY 23, however they shall revise their guidance during due course of the year taking a view of the second half of monsoon. We have witnessed about 18.6% growth in tractor volumes in Q1 FY23. M&M won market share by 90 bps at 42.7% in Q1 FY23. With strong monsoons except for some eastern states, we expect good tractor sales despite high base of last year. M&M highlighted that tractor segment fundamentals continue to remain strong led by (1) strong agricultural credit growth & MSPs and (2) Expectations of normal monsoon in 2022, which is already well on track 3) New launches in the form of Yuvo Tech + and a small horticulture based tractor named CODE 4) No off-seasonal rains in March and 5) Success of international Farm subsidiaries at the Consol level. Also in the farm machinery segment (35% qoq growth), 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 5%/7% 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)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Net sales	1,96,126	1,71,240	14.5%	1,17,628	66.7%
Raw material costs	1,50,240	1,30,755	14.9%	81,922	83.4%
Employee costs	8,362	7,461	12.1%	8,855	-5.6%
Other expenses	14,114	13,568	4.0%	10,534	34.0%
EBITDA	23,410	19,455	20.3%	16,317	43.5%
EBITDA margins (%)	11.9%	11.4%	50 bps	13.9%	(200 bps)
Other income	2,386	2,387	-0.1%	2052	16.3%
Depreciation	6,806	6,805	0.0%	5586	21.8%
Interest expenses	698	558	25.0%	714	-2.3%
PBT	18,292	14,479	26.3%	12069	51.6%
Tax	3,581	2,808	27.5%	2728	31.3%
Reported PAT	14,302	12,919	10.7%	8556	67.1%
Exceptional items	(410)	1,248	-	(785)	-
Adjusted PAT	14,711	11,672	26.0%	9341	57.5%
Adj EPS (₹)	12.43	9.86	26.0%	7.9	57.5%

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 Scorpio N, Thar and XUV 700 should assist SUV growth in coming quarters. 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, 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 M&M has tied-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 ₹1,389 (₹1,087 core business valued at 15x FY 24E earnings + subsidiary valuation of ₹302) in line with our assumptions of margin improvement on increase in volumes and value of SUV, 3Ws and LCV segments, recovery in FES, impact of softening of input costs from Q3, production increase and cost reduction measures.

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@15x FY 24E EPS)	-	1,087
M&M Financial Services	Market cap	25%	36
Tech Mahindra	Market cap	25%	228
Mahindra Lifespaces	Market cap	30%	5
Mahindra CIE Automotives	Market cap	30%	7
Mahindra Logistics	Market cap	30%	12
Mahindra Holiday & Resorts	Market cap	30%	8
Swaraj Engines	Market cap	30%	6
Subsidiaries Total SOTP value			302
Total			1,389

Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
Total Revenues	4,50,410	5,74,459	7,10,455	8,47,835
Raw Material Cost	3,16,130	4,23,416	5,11,528	6,01,963
Employee Cost	28,588	33,060	39,075	46,631
Other Exp	40,631	47,562	62,520	72,914
EBITDA	65,061	70,423	97,332	1,26,327
<i>EBITDA Margin(%)</i>	<i>14.4</i>	<i>12.3</i>	<i>13.7</i>	<i>14.9</i>
Other Income	12,213	20,759	22,000	23,000
Depreciation	22,330	24,511	29,027	33,853
Interest	3709	2230	2600	2800
PBT	51,235	64,441	87,705	1,12,674
<i>PBT Margin(%)</i>	<i>11.4</i>	<i>11.2</i>	<i>12.3</i>	<i>13.3</i>
Tax	11,916	13,002	20,611	26,478
Adj PAT	39,319	51,439	67,095	86,196
<i>Adj PAT Margins (%)</i>	<i>8.7</i>	<i>9.0</i>	<i>9.4</i>	<i>10.2</i>
Exceptional items	-36633	-2087	0	0
Reported PAT	2,687	49,352	67,095	86,196
<i>Rep. PAT Margins (%)</i>	<i>0.6</i>	<i>8.6</i>	<i>9.4</i>	<i>10.2</i>

Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
Per Share Data (₹)				
Adj. EPS	33.0	43.2	56.4	72.4
CEPS	21.0	62.1	80.8	100.9
BVPS	293.7	327.4	372.5	430.5
DPS	2.5	9.2	11.3	14.5
Growth Ratios(%)				
Total revenues	-1.0	27.5	23.7	19.3
EBITDA	12.2	8.2	38.2	29.8
PAT	17.6	30.8	30.4	28.5
EPS Growth	17.6	30.8	30.4	28.5
Valuation Ratios (X)				
PE	37.4	28.6	21.9	17.1
P/CEPS	58.8	19.9	15.3	12.3
P/BV	4.2	3.8	3.3	2.9
EV/Sales	3.0	2.4	1.9	1.5
EV/EBITDA	21.0	19.3	13.8	10.3
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	15.1	16.8
Dividend payout	7.5	21.2	20.0	20.0
Dividend yield	0.2	0.7	0.9	1.2

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	4,37,302	5,06,258
Total Networth	3,49,510	3,89,609	4,43,285	5,12,241
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	2,01,616	2,28,435
Total Liabilities	6,15,644	6,71,302	7,35,391	8,27,166
Assets				
Fixed assets	1,81,368	1,95,668	2,28,641	2,59,788
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	2,85,293	3,35,921
Cash and bank(i)	8,675	7,172	14,162	36,775
Bank deposits other than(i)	55,277	29,333	29,333	29,333
Inventories	47,830	58,829	67,269	75,864
Sundry Debtors	22,028	30,351	35,036	46,457
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	7,35,391	8,27,166

Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	53,907	64,441	87,705	1,12,674
Depreciation	23,699	24,511	29,027	33,853
Interest	3,963	2,230	2,600	2,800
Chng in working capital	35,866	4,967	2,288	8,803
Tax paid	-11,381	-5,981	-20,611	-26,478
Other operating activities	-10,119	-19,232	0	0
Cash flow from operations (a)	95,936	70,937	1,01,009	1,31,652
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	28,009	48,652
Inc/dec in borrowings	42,115	-13,168	-5,000	-6,000
Dividend paid (incl. tax)	-2,936	-10,891	-13,419	-17,239
Other financing activities	0	0	0	0
Cash flow from financing (c)	35,142	-28,852	-21,019	-26,039
Net chng in cash (a+b+c)	-14,282	-1,504	6,990	22,613
Closing cash & cash equivalents	8,675	7,172	14,162	36,775

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