

MAHINDRA & MAHINDRA LIMITED | Autos & FES

...Ticking all the Boxes

LKP

M&M's Q2 FY23 numbers came slightly above our expectations and topline was reported at ₹208 bn, a growth of 57% yoy and 6.3% qoq. Volumes rose by 40% yoy and realizations zoomed up by about 15% yoy. Automotive division revenues came in at ₹147 bn, an increase of 86% yoy and 19.7% qoq led by success of new launches –Thar, Bolero Neo, XUV 700, Scorpio variants and XUV 300 as M&M started rapidly catering to the order backlog. Automotive segment reported strong EBIT margins, which rose by 40 bps qoq, (340 bps yoy) to 6.1% due to positive operating leverage, model mix and price hikes taken to absorb input costs. Tractor EBIT margins came in at 16.4% which were 40 bps up qoq but down by 230 bps yoy. Overall EBITDA margins came in at 12% (50 bps down yoy, up 10 bps qoq). The company's adjusted net profit came in at ₹23.4 bn which was up 59% qoq and 37.2% yoy.

High demand for SUV products puts M&M in top gear

M&M witnessed 84% yoy and 21% qoq growth in the UV segment during the quarter. The company has received an excellent response for the new Scorpio N with 130K open bookings since its launch in June. The Thar and XUV 700 launches are still having huge order book of 4.9K and 11.1K per month respectively, though these models have long waiting periods. Neo Bolero launched in July 2021 already has received strong order bookings (8.3K 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 6.4K bookings per month. The total order bookings (excluding Scorpio N) is 260K as of Nov 1, 2022. With this, the company was able to increase their SUV market share by 220 bps to 19.3%, while staying as #1 player at revenue market share level at 19%.

M&M intends to launch XUV 400 with its bookings starting by Jan 23 and deliveries starting by March 23. Also the company plans to launch its EV and ICE variants (4 door and 5 door) in CY 24 along with several other new products and variants coupled by a wide range of CVs and pick-ups in CV segment over the next 5 years with a capacity expansion plan for each of the existing model in place. Also with chip shortage issue getting resolved at a good pace, we believe M&M will be able to cater to this burgeoning demand from H2 FY23 and report solid growth.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales(bn)	450	574	778	966
EBITDA margins(%)	14.4	12.3	13.1	14.5
PAT margins(%)	8.7	9.0	9.7	10.6
EPS	33.0	43.2	63.5	85.9
P/E	38.9	29.8	20.3	15.0
P/BV	4.4	3.9	3.4	2.9
EV/EBITDA	21.9	20.1	13.7	9.8
ROE%	11.2	13.2	16.8	19.2
Dividend yield %	0.2	0.7	1.0	1.3

Rating	BUY
Current Market Price (₹)	1,287
12 M Price Target (₹)	1,513
Potential upside (%)	18

Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,602
Free Float Market Cap (₹ bn) :	1,232
52-Week High / Low (₹) :	1,367 / 671
2-Year High / Low (₹) :	1,367 / 628
1 Yr Avg. Dly Traded Volume (in lakh)	38
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

(%)	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	19.38	19.45	19.47	19.47
FPIs	38.27	37.94	37.30	38.66
MFs	15.01	14.81	13.86	12.37
Insurance	12.00	8.18	8.91	9.29
Others	15.34	19.62	20.46	20.21

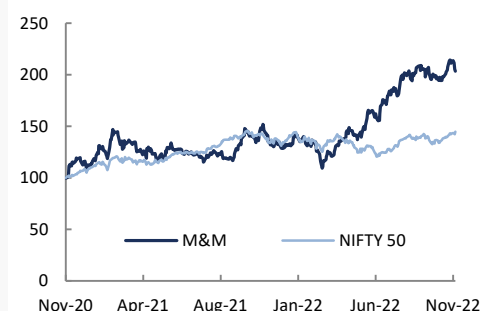
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
M&M	4.7%	1.7%	45.1%	39.2%
Nifty 50	8.0%	3.9%	13.5%	2.7%

* To date / current date : November 11, 2022

M&M vs Nifty 50



Out of this planned portfolio, there will be a strong presence of EV products (8 new products starting from CY24), for which ₹30 bn investment is planned. The company plans to unveil its new INGLO platform for EV products soon. M&M has planned to increase its capex by ₹19 bn mainly for the EVs. M&M is looking for building partnerships with various EV players (Volkswagon) 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 30%/17% growth in FY23E/ FY24E respectively.

Capacity expansions

Per month capacity	Q4 FY22 exit capacity	Q4 FY23 exit capacity	Q4 FY24 exit capacity	H1 FY25 exit capacity
Thar Family	4K	6K	6K	+
XUV 300 & XUV 400	5K	7.5K	9.5K(Q3 FY24)	+
XUV 700	6K	6K	10K(Q3 FY24)	=
Bolero Family	9.5K	9.5K	9.5K	=
Scorpio N	-	6K	10K	=
Scorpio Classic	5.5K	5.5K	5.5K	=
BEVs	-	-	-	+
Overall SUV capacity	29K	39K	49K	+

M&M has garnered 67% market share in the e-3W space with the success of E-Alfa, Treo Auto and Treo Zor launched couple of quarters ago. A variant of Treo-Zor, named as Zor Grand was launched in Q2. M&M sold 10,000+ units of E-3Ws in Q2 itself as compared to 16,000 units in FY22. The company's LCV business is also performing strong with 60.3% market share in pick up segment (2-3.5T). The recent launch of Supro Profit Truck has strengthened offering in 0-2T 4W segment (24.4% market share v/s 19.3% in Q1). M&M launched Jeeto CNG and Maxx Pick up in the LCV segment resulting in strong market share growth. We expect 20%/15% volume growth in CVs while 50%/20% growth in 3Ws in FY23E/24E respectively.

Management guides for 5-6% growth this fiscal for the Tractor segment

M&M mentioned that the FES shall grow between 5-6% in FY 23, however they shall revise their guidance during due course of the year taking a view of the second half of crop production and monsoon. We have witnessed about 15.7% growth in tractor volumes and 16.4% margins in Q2 FY23. M&M won market share by 0.8% yoy at 41.4% in Q2 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) normal monsoon in 2022 (6% surplus pan India) 3). New launches in the form of Yuvo Tech + (12.3% of H1 volumes) and a small horticulture based tractor named CODE 4).high reservoir levels and 5). Success of international Farm subsidiaries (Brazil remains the top performer with 7.4% market share) at the Consol level. 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%/6% in FY23E/24E respectively. However, we may see upside to these estimates in cognizance with the Rabi crop production.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
Net sales	2,08,393	1,96,126	6.3%	1,33,054	56.6%
Raw material costs	1,59,490	1,50,240	6.2%	96,808	64.7%
Employee costs	9,129	8,362	9.2%	7,965	14.6%
Other expenses	14,811	14,114	4.9%	11,682	26.8%
EBITDA	24,964	23,410	6.6%	16,599	50.4%
EBITDA margins %	12.0%	11.9%	10 bps	12.5%	(50 bps)
Other income	13,259	2,386	455.7%	11,048	20.0%
Depreciation	7,756	6,806	14.0%	5,807	33.6%
Interest expenses	637	698	-8.8%	425	49.8%
PBT	29,830	18,292	63.1%	21,416	39.3%
Tax	6,452	3,581	80.2%	4,547	41.9%
Reported PAT	20,899	14,302	46.1%	14,318	46.0%
Exceptional items	(2,479)	(410)	N/A	(2,550)	N/A
Adjusted PAT	23,378	14,711	58.9%	16,868	38.6%
Adj EPS	19.55	12.30	58.9%	14.2	37.2%

Source: Company, LKP Research

Outlook and Valuation

We expect a gradual month on month upward trajectory in both Autos and Tractor sales hereon as the semi conductor issue is almost sorted out. Within the Auto sector, the robust order book of Scorpio N variants, Thar and XUV 700 along with the upcoming launch of XUV 400 should assist SUV growth in coming quarters. We are positive on the FES segment as all the drivers are in place to witness a decent growth. In EV 3Ws and LCVs too, with new launches the company is in a position to expand its market leadership position. Within EVs, M&M has entered into 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 on attractive valuations; SOTP-based target price stands at ₹1,513 (₹1,203 core business valued at 14x FY 24E earnings + subsidiary valuation of ₹310) in line with our assumptions of margin improvement on increase in volumes and value of SUV, 3Ws and LCV segments, decent growth in FES, impact of softening input costs from Q3, production increase offering operating leverage, price hikes (3% in FES and 1.5-2% in Auto in H1 FY23) and prudent cost reduction measures.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@14x FY 24E EPS)	-	1,203
M&M Financial Services	Market cap	25%	41
Tech Mahindra	Market cap	25%	228
Mahindra Lifespaces	Market cap	30%	5
Mahindra CIE Automotives	Market cap	30%	8
Mahindra Logistics	Market cap	30%	13
Mahindra Holiday & Resorts	Market cap	30%	9
Swaraj Engines	Market cap	30%	6
Subsidiaries Total SOTP value			310
Total			1,513

Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
Total Revenues	4,50,410	5,74,459	7,78,386	9,65,680
Raw Material Cost	3,16,130	4,23,416	5,89,238	7,20,397
Employee Cost	28,588	33,060	32,692	38,627
Other Exp	40,631	47,562	54,487	66,632
EBITDA	65,061	70,423	1,01,969	1,40,024
<i>EBITDA Margin(%)</i>	<i>14.4</i>	<i>12.3</i>	<i>13.1</i>	<i>14.5</i>
Other Income	12,213	20,759	25,000	27,000
Depreciation	22,330	24,511	29,897	36,433
Interest	3,709	2,230	2,600	2,800
PBT	51,235	64,441	94,472	1,27,790
<i>PBT Margin(%)</i>	<i>11.4</i>	<i>11.2</i>	<i>12.1</i>	<i>13.2</i>
Tax	11,916	13,002	18,894	25,558
Adj PAT	39,319	51,439	75,577	1,02,232
<i>Adj PAT Margins (%)</i>	<i>8.7</i>	<i>9.0</i>	<i>9.7</i>	<i>10.6</i>
Exceptional items	-36,633	-2,087	0	0
Reported PAT	2,687	49,352	75,577	1,02,232
<i>Rep. PAT Margins (%)</i>	<i>0.6</i>	<i>8.6</i>	<i>9.7</i>	<i>10.6</i>

Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
Per Share Data (₹)				
Adj. EPS	33.0	43.2	63.5	85.9
CEPS	21.0	62.1	88.6	116.5
BVPS	293.7	327.4	378.2	447.0
DPS	2.5	9.2	12.7	17.2
Growth Ratios(%)				
Total revenues	-1.0	27.5	35.5	24.1
EBITDA	12.2	8.2	44.8	37.3
PAT	17.6	30.8	46.9	35.3
EPS Growth	17.6	30.8	46.9	35.3
Valuation Ratios (X)				
PE	38.9	29.8	20.3	15.0
P/CEPS	61.2	20.7	14.5	11.0
P/BV	4.4	3.9	3.4	2.9
EV/Sales	3.2	2.5	1.8	1.4
EV/EBITDA	21.9	20.1	13.7	9.8
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	0.09
Profitability Ratios (%)				
ROE	11.2	13.2	16.8	19.2
Dividend payout	7.5	21.2	20.0	20.0
Dividend yield	0.2	0.7	1.0	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	4,44,088	5,25,874
Total Networth	3,49,510	3,89,609	4,50,071	5,31,857
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	2,23,546	2,62,505
Total Liabilities	6,15,645	6,71,303	7,64,107	8,80,852
Assets				
Fixed assets	1,81,368	1,95,668	2,37,771	2,86,338
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	3,04,878	3,63,057
Cash and bank(i)	8,675	7,172	20,178	30,528
Bank deposits other than(i)	55,277	29,333	29,333	29,333
Inventories	47,830	58,829	77,489	90,790
Sundry Debtors	22,028	30,351	38,386	52,914
Loan, Advances & others	2,845	18,455	18,455	18,455
Other current assets	1,26,755	1,44,370	1,50,370	1,70,370
Total Assets	6,15,645	6,71,303	7,64,107	8,80,852

Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	53,907	64,441	94,472	1,27,790
Depreciation	23,699	24,511	29,897	36,433
Interest	3,963	2,230	2,600	2,800
Chng in working capital	35,866	4,967	10,647	13,131
Tax paid	-11,381	-5,981	-18,894	-25,558
Other operating activities	-10,119	-19,232	0	0
Cash flow from operations (a)	95,936	70,937	1,18,722	1,54,596
Capital expenditure	-33,113	-31,859	-72,000	-85,000
Chng in investments	-68,211	-37,699	-11,000	-30,000
Other investing activities	-44,036	25,970	0	0
Cash flow from investing (b)	-1,45,359	-43,589	-83,000	-1,15,000
Free cash flow (a+b)	-49,424	27,348	35,722	39,596
Inc/dec in borrowings	42,115	-13,168	-5,000	-6,000
Dividend paid (incl. tax)	-2,936	-10,891	-15,115	-20,446
Other financing activities	0	0	0	0
Cash flow from financing (c)	35,142	-28,852	-22,715	-29,246
Net chng in cash (a+b+c)	-14,282	-1,504	13,006	10,350
Closing cash & cash equivalents	8,675	7,172	20,178	30,528

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