

# MAHINDRA & MAHINDRA LIMITED | Autos & FES

## Robust set of numbers in Q3, solid growth to continue



M&M's Q3 FY23 numbers came slightly above our strong expectations as the topline was reported at ₹216 bn, a growth of 42% yoy and 4% qoq. Volumes rose by 34.2% yoy and realizations went up by about 5.8% yoy. Automotive division revenues came in at ₹148 bn, an increase of 55% yoy led by success of new launches –Thar, Bolero Neo, XUV 700, Scorpio variants and XUV 300 & 400 as M&M started rapidly catering to the order backlog. Automotive segment reported strong EBIT margins, which rose by 60 bps qoq, (300 bps yoy) to 6.7% due to positive operating leverage, model mix and price hikes. Tractor EBIT margins came in strong at 16.6% which were 20 bps up qoq. Overall EBITDA margins came in at 13% (100 bps jump qoq and 110 bps yoy). Due to low other income reported sequentially, increased depreciation and an exceptional item, PAT came in just 13% up. While adjusted for this one-off item, adjusted net profit came in at ₹21.6 bn which was up 59% yoy.

### Superlative growth in SUVs paves way for bright prospects

M&M witnessed 41% yoy and 22% qoq growth in the UV segment during the quarter. The company has received an excellent response for the new Scorpio N (incl. Classic) with 119K open bookings since its launch in June. The Thar and XUV 700 launches are still having huge order book of 4.6K and 9.9K per month respectively, though these models have long waiting periods. Neo Bolero was launched in July 2021 which already has received strong order bookings (10.4K monthly bookings) and has made robust inroads into Southern markets where the earlier Bolero model was not having a wide presence. Also XUV300 and 400 combined have got a very strong response with 9.3K bookings per month. The total order bookings (excluding Scorpio N) are 266K as on Feb 1. With this, the company was able to increase their SUV revenue market share by 130 bps to 20.6% and staying at #1 position. M&M launched XUV 400 in Jan while its deliveries shall start 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 now, we believe M&M will be able to cater to this burgeoning demand from H2 FY23 and report solid growth thereby. The company has reduced its average waiting period by one month and aims to reduce it and the order backlog significantly further.

Key Financials	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Total sales (₹ bn)	450	574	849	1,069	1,273
EBITDA margins (%)	14.4	12.3	12.6	13.3	13.9
PAT margins (%)	8.7	9.0	9.2	9.6	9.7
EPS (₹)	33.0	43.2	65.5	86.1	104.0
P/E (x)	41.3	31.6	20.8	15.9	13.1
P/BV (x)	4.6	4.2	3.7	3.1	2.6
EV/EBITDA (x)	23.4	21.5	14.0	10.4	8.2
ROE (%)	11.2	13.2	17.5	19.5	19.8
Dividend yield (%)	0.2	0.7	0.8	1.3	1.5

Rating	BUY
Current Market Price (₹)	1,365
12 M Price Target (₹)	1,662
Potential upside (%)	22

### Stock Data

FV (₹) :	5
Total Market Cap (₹ bn) :	1,694
Free Float Market Cap (₹ bn) :	1,307
52-Week High / Low (₹) :	1392 / 671
2-Year High / Low (₹) :	1392 / 671
1 Yr Avg. Dly Traded Volume (in lakh)	35
BSE Code / NSE Symbol	500520 / M&M
Bloomberg :	MM IN

### Shareholding Pattern

(%)	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	19.39	19.38	19.45	19.47
FPIs	39.16	38.27	37.94	37.30
MFs	15.30	15.01	14.81	13.86
Insurance	10.84	12.00	8.18	8.91
Others	15.31	15.34	19.62	20.46

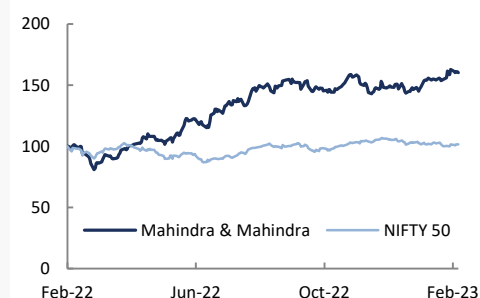
Source: BSE

### Price Performance

(%)	1M	3M	6M	1YR
M&M	3.8%	5.2%	7.7%	60.1%
Nifty 50	-0.3%	-1.0%	1.8%	1.4%

\* To date / current date : February 10, 2023

### M&M vs Nifty 50



Out of this planned portfolio, there will be a strong presence of EV products (8 new products starting from CY 24), 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 50%/20%/15% growth in FY23E/FY24E/FY 25E respectively.

M&M has garnered 63.5% 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 11.8K units of E-3Ws in Q3 itself as compared to 16,000 units in FY 22. M&M is expanding its existing capacity for e-3W and e-4W at its Zaheerabad plant in Telangana for an investment of ₹10 bn over the next 8 years.

The company's LCV business is also performing strong with 46.5% market share (9% jump yoy) in <3.5T segment. The recent launch of Supro Profit Truck has strengthened offering in 0-2T 4W segment. M&M launched Jeeto CNG and Maxx Pick up in the LCV segment resulting in strong market share growth. We expect 40%/17%/10% volume growth in CVs while 80%/25%/15% growth in 3Ws in FY23E/24E/25E respectively.

#### **Tractor segment to report good growth again this fiscal along with margin expansion**

FES industry has grown at a CAGR of 9.5% over FY20-FY23. We have witnessed about 13.8% growth in tractor volumes and 16.6% margins in Q3 FY23. M&M won market share by 1.6% yoy at 41% in Q3 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). Strong response to the newly launched Yuvo Tech + (15% of Q3 volumes) and a small horticulture based tractor named CODE 4).high reservoir levels and 5). Success of international Farm subsidiaries. Also in the farm machinery segment, M&M sees a robust demand with 15 new products launches in the Rice Cultivators, Rice and Vegetable Transplantors, Rotavators space. On high base of FY23, we may see some base effect in FY24. We therefore expect FES segment to grow at 10%/7%/5% in FY23E/24E/25E respectively as against a 14% YTD FY23 volume growth. However, we may see upside to these estimates in cognizance with the Rabi crop output.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Net sales	2,16,537	2,08,393	3.9%	1,52,388	42.1%
Raw material costs	1,64,471	1,59,490	3.1%	1,13,931	44.4%
Employee costs	9,342	9,129	2.3%	8,790	6.3%
Other expenses	14,583	14,811	-1.5%	11,609	25.6%
EBITDA	28,142	24,964	12.7%	18,058	55.8%
EBITDA margins (%)	13.0%	12.0%	100 bps	11.9%	110 bps
Other income	6,700	13,259	-49.5%	5233	28.0%
Depreciation	8,292	7,756	6.9%	6312	31.4%
Interest expenses	686	637	7.7%	533	28.8%
PBT	25,865	29,830	-13.3%	16447	57.3%
Tax	4,296	6,452	-33.4%	2916	47.3%
Reported PAT	15,281	20,899	-26.9%	13531	12.9%
Exceptional items	(6,288)	(2,479)	N/A	-	N/A
Adjusted PAT	21,569	23,378	-7.7%	13531	59.4%
Adj EPS (₹)	18.03	19.55	-7.7%	11.3	59.4%

Source: Company, LKP Research

### Outlook and Valuation

We expect month on month upward trajectory in both Autos and Tractor sales to continue 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 300, 400 and 700 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 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 ₹1,662 (₹1,353 core business valued at 13x rolled over FY25E earnings + subsidiary valuation of ₹309) in line with our assumptions of margin improvement on increase in volumes and value of SUV, 3Ws and LCV segments, decent growth in FES, production increase offering operating leverage, price hikes and prudent cost reduction measures.

**SOTP Valuation**

Particulars	Basis	Subs Discount	Value per share (₹)
<b>M&amp;M</b>	<b>P/E (@13x FY 25E EPS)</b>	<b>-</b>	<b>1,353</b>
M&M Financial Services	Market cap	25%	49
Tech Mahindra	Market cap	25%	219
Mahindra Lifespaces	Market cap	30%	5
Mahindra CIE Automotives	Market cap	30%	11
Mahindra Logistics	Market cap	30%	10
Mahindra Holiday & Resorts	Market cap	30%	10
Swaraj Engines	Market cap	30%	6
<b>Subsidiaries Total SOTP value</b>			<b>309</b>
<b>Total</b>			<b>1,662</b>

### Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
<b>Total Revenues</b>	<b>4,50,410</b>	<b>5,74,459</b>	<b>8,49,059</b>	<b>10,68,767</b>	<b>12,73,372</b>
Raw Material Cost	3,16,130	4,23,416	6,46,134	8,09,057	9,60,122
Employee Cost	28,588	33,060	36,510	44,888	53,482
Other Exp	40,631	47,562	59,434	72,676	82,769
<b>EBITDA</b>	<b>65,061</b>	<b>70,423</b>	<b>1,06,981</b>	<b>1,42,146</b>	<b>1,76,999</b>
<i>EBITDA Margin(%)</i>	<i>14.4</i>	<i>12.3</i>	<i>12.6</i>	<i>13.3</i>	<i>13.9</i>
Other Income	12,213	20,759	25,000	27,000	29,000
Depreciation	22,330	24,511	30,584	36,433	46,081
Interest	3709	2230	2700	3000	3200
<b>PBT</b>	<b>51,235</b>	<b>64,441</b>	<b>98,697</b>	<b>1,29,713</b>	<b>1,56,718</b>
<i>PBT Margin(%)</i>	<i>11.4</i>	<i>11.2</i>	<i>11.6</i>	<i>12.1</i>	<i>12.3</i>
Tax	11,916	13,002	20,726	27,240	32,911
<b>Adj PAT</b>	<b>39,319</b>	<b>51,439</b>	<b>77,971</b>	<b>1,02,473</b>	<b>1,23,807</b>
<i>Adj PAT Margins (%)</i>	<i>8.7</i>	<i>9.0</i>	<i>9.2</i>	<i>9.6</i>	<i>9.7</i>
Exceptional items	-36633	-2087	-9176	0	0
<b>Reported PAT</b>	<b>2,687</b>	<b>49,352</b>	<b>68,795</b>	<b>1,02,473</b>	<b>1,23,807</b>
<i>Rep. PAT Margins (%)</i>	<i>0.6</i>	<i>8.6</i>	<i>8.1</i>	<i>9.6</i>	<i>9.7</i>

### Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E	FY 25E
<b>Per Share Data (₹)</b>					
Adj. EPS	33.0	43.2	65.5	86.1	104.0
CEPS	21.0	62.1	83.5	116.7	142.8
BVPS	293.7	327.4	373.7	442.6	525.8
DPS	2.5	9.2	11.6	17.2	20.8
<b>Growth Ratios (%)</b>					
Total revenues	-1.0	27.5	47.8	25.9	19.1
EBITDA	12.2	8.2	51.9	32.9	24.5
PAT	17.6	30.8	51.6	31.4	20.8
EPS Growth	17.6	30.8	51.6	31.4	20.8
<b>Valuation Ratios (X)</b>					
PE	41.3	31.6	20.8	15.9	13.1
P/CEPS	64.9	22.0	16.3	11.7	9.6
P/BV	4.6	4.2	3.7	3.1	2.6
EV/Sales	3.4	2.6	1.8	1.4	1.1
EV/EBITDA	23.4	21.5	14.0	10.4	8.2
<b>Operating Ratios (Days)</b>					
Inventory days	55.2	50.7	52.0	53.0	54.0
Receivable Days	21.1	16.6	18.0	19.0	20.0
Payables day	100.6	101.4	103.0	105.0	107.0
Net Debt/Equity (x)	0.20	0.15	0.12	0.09	0.07
<b>Profitability Ratios (%)</b>					
ROE	11.2	13.2	17.5	19.5	19.8
Dividend payout	7.5	21.2	17.6	20.0	20.0
Dividend yield	0.2	0.7	0.8	1.3	1.5

### Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
<b>Equity and Liabilities</b>					
Equity Share Capital	5,974	5,983	5,983	5,983	5,983
Reserves & Surplus	3,43,536	3,83,626	4,38,662	5,20,640	6,19,686
<b>Total Networth</b>	<b>3,49,510</b>	<b>3,89,609</b>	<b>4,44,645</b>	<b>5,26,623</b>	<b>6,25,669</b>
Total debt	89,753	76,482	73,482	69,482	65,482
Deferred tax liabilities	14,497	17,008	17,008	17,008	17,008
<b>Current liabilities &amp; Provs</b>	<b>1,61,885</b>	<b>1,88,203</b>	<b>2,40,601</b>	<b>2,89,010</b>	<b>3,36,728</b>
<b>Total Liabilities</b>	<b>6,15,644</b>	<b>6,71,302</b>	<b>7,75,736</b>	<b>9,02,123</b>	<b>10,44,887</b>
<b>Assets</b>					
Fixed assets	1,81,368	1,95,668	2,37,084	2,85,650	3,49,570
Non current Investments	1,72,918	1,72,078	1,77,078	1,87,078	1,97,078
Other non current assets	53,226	44,380	44,380	44,380	44,380
<b>Current Assets</b>	<b>2,08,133</b>	<b>2,59,177</b>	<b>3,17,195</b>	<b>3,85,015</b>	<b>4,53,860</b>
Cash and bank(i)	8,675	7,172	14,446	23,076	33,215
Bank deposits other than(i)	55,277	29,333	29,333	29,333	29,333
Inventories	47,830	58,829	92,052	1,17,479	1,42,045
Sundry Debtors	22,028	30,351	41,871	55,634	69,774
Loan, Advances & others	2,845	18,455	18,455	18,455	18,455
Other current assets	1,26,755	1,44,370	1,50,370	1,70,370	1,90,370
<b>Total Assets</b>	<b>6,15,644</b>	<b>6,71,302</b>	<b>7,75,736</b>	<b>9,02,123</b>	<b>10,44,887</b>

### Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
PBT	53,907	64,441	98,697	1,29,713	1,56,718
Depreciation	23,699	24,511	30,584	36,433	46,081
Interest	3,963	2,230	2,700	3,000	3,200
Chng in working capital	35,866	4,967	8,655	11,218	10,013
Tax paid	-11,381	-5,981	-20,726	-27,240	-32,911
Other operating activities	-10,119	-19,232	-9,176	0	0
<b>Cash flow from operations (a)</b>	<b>95,936</b>	<b>70,937</b>	<b>1,10,733</b>	<b>1,53,124</b>	<b>1,83,101</b>
Capital expenditure	-33,113	-31,859	-72,000	-85,000	-1,10,000
Chng in investments	-68,211	-37,699	-11,000	-30,000	-30,000
Other investing activities	-44,036	25,970	0	0	0
<b>Cash flow from investing (b)</b>	<b>-1,45,359</b>	<b>-43,589</b>	<b>-83,000</b>	<b>-1,15,000</b>	<b>-1,40,000</b>
<b>Free cash flow (a+b)</b>	<b>-49,424</b>	<b>27,348</b>	<b>27,733</b>	<b>38,124</b>	<b>43,101</b>
Inc/dec in borrowings	42,115	-13,168	-4,000	-6,000	-5,000
Dividend paid (incl. tax)	-2,936	-10,891	-13,759	-20,495	-24,761
Other financing activities	0	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>35,142</b>	<b>-28,852</b>	<b>-20,459</b>	<b>-29,495</b>	<b>-32,961</b>
<b>Net chng in cash (a+b+c)</b>	<b>-14,282</b>	<b>-1,504</b>	<b>7,274</b>	<b>8,630</b>	<b>10,139</b>
<b>Closing cash &amp; cash equivalents</b>	<b>8,675</b>	<b>7,172</b>	<b>14,446</b>	<b>23,076</b>	<b>33,215</b>

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