


3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score
NEW
ESG RISK RATING
Updated Apr 08, 2022

27.94
Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

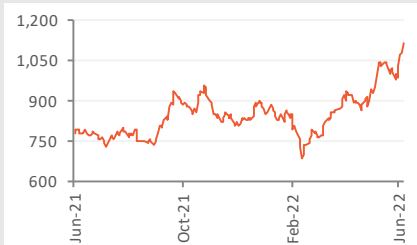
Source: Morningstar

Company details

Market cap:	Rs. 1,38,243 cr
52-week high/low:	Rs. 1,121 / 671
NSE volume: (No of shares)	37.3 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	100.8 cr

Shareholding (%) as on 31-03-2022

Promoters	18.9
FII	36.2
DII	28.0
Others	17.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	16.7	45.4	36.1	42.2
Relative to Sensex	19.8	52.7	40.9	40.6

Sharekhan Research, Bloomberg

Mahindra & Mahindra Ltd
Taking a powered-up ride
Automobiles
Sharekhan code: M&M
Reco/View: Buy


Upgrade



Maintain



Downgrade

CMP: Rs. 1,112

Price Target: Rs. 1,267

Summary

- M&M has launched all new model, the Scorpio-N at an aggressive price and added new technology and safety features, making it a compelling buy for customers.
- We firmly believe that M&M is on track with its growth roadmap. The company expects its farm equipments business to grow 10x by FY2027E, while it would strengthen its SUV segment by adding 13 new models in the same period, including EVs.
- The stock trades a P/E multiple of 17.2x and EV/EBITDA multiple of 10.8x its FY24E estimates.
- We retain a Buy rating on M&M with an unchanged PT of Rs. 1,267, factoring in a positive outlook for its core businesses and improving performance of key subsidiary companies.

Mahindra and Mahindra Ltd (M&M) launched a new ride in the markets, the Scorpio-N, at an aggressive price and with new technology and safety features, making it a compelling proposition for customers. The pricing points and features of Scorpio-N is comparable to whole range of SUVs from compact to premium SUV markets. M&M launched five SUVs, including Scorpio-N in order to regain its lost market share during the last few years and has become No.1 in SUV revenue market share in H2FY22 with 16.8% market share. We expect Scorpio-N to further consolidate its share in the SUV market. Successful new launches will continue to help M&M to increase its in market share in the SUV and LCV segments. The management has guided for strengthening of the SUV segment through product launches of 13 new products by FY2027E, including EV launches. Further, the management continue to focus on the farm equipment segment and maintained its guidance to achieve 10x revenue growth by FY2027E. M&M has maintained its FY25E guidance to deliver an 18% RoE and 15-20% EPS growth. We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,267.

Exciting launches and focus on core brands to lift market share: M&M launched five SUVs, including Scorpio-N in order to regain its lost market share during the last few years and has become No.1 in terms of SUV revenue market share in H2FY22 with 16.8% market share. We expect Scorpio-N to further consolidate market share in the SUV space.

Electric vehicles to be the next growth driver: M&M is planning to emerge as strong global player in EV space. The company would lay down its detailed EV plans on August 15, 2022. The company has lined up eight launches by FY27E in EV, of which five would be 'born electric'. The born electric models would tap Volkswagen's (VW) MEB platform, subject to successful discussions between M&M and VW.

Company well-positioned to maintain growth guidance: In the automotive segment, the management's priorities are to maintain its strong brand value, develop platforms and build on the EV strategy. The company will continue de-risk its supply chain and optimise costs. In farm equipments, the management will focus on aggressive growth plan in farm machinery and global expansion. The company is on track with its 2025 commitment to achieve a 15-20% revenue growth and an RoE of 18%.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 1,267: We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment and by defending its market share in the highly competitive SUV segment. M&M is on track with its growth roadmap. The company plans its farm business to grow 10x by FY2027E, while strengthen its SUV segment by adding 13 new products by FY2027E, including EV launches. Moreover, M&M continues to benefit from the turnaround of loss-making subsidiaries, scaling up of digital platforms and strong performance of its listed entities, which would improve the company's FCF going forward. M&M also stays focused on the EV business. We expect standalone earnings to post a 22.5% CAGR during FY22-FY24E, driven by a 16.7% revenue CAGR and 190 bps rise in EBITDA margins. Our SOTP-based valuation provides a price target (PT) of Rs. 1,267. The stock trades at a P/E multiple of 17.2x and EV/EBITDA multiple of 10.8x its FY24E estimates. We retain our Buy rating on the stock with an unchanged PT of Rs. 1,267.

Key Risks

Uneven distribution of monsoon can affect our volume estimates for M&M's farm equipment segment.

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	44,574	57,446	68,403	78,286
Growth (%)	(0.6)	28.9	19.1	14.4
EBITDA	6,977	7,042	9,246	11,126
EBITDA margin (%)	15.7	12.3	13.5	14.2
PAT (Rs cr)	4,097	5,144	6,277	7,718
Growth (%)	15.4	25.5	22.0	22.9
FD EPS	33.0	43.0	52.5	64.5
P/E (x)	33.7	25.9	21.2	17.2
P/B (x)	3.7	3.4	3.1	2.8
EV/EBITDA (x)	19.0	18.5	13.5	10.8
ROE (%)	11.0	12.6	14.0	15.5
ROCE (%)	13.8	14.6	17.1	18.9

Source: Company; Sharekhan estimates

Newly launched Scorpio-N elevates its own benchmark

M&M launched 'Scorpio-N' with aggressive pricing point in the SUV segment, starting at Rs. 12 lakh (ex-showroom price). The top variant is priced at Rs. 19.5 lakh, which has features comparable to premium SUVs in the market. The company has only announced prices for manual variants, while those of the automatic transmission and 4x4 powered models will be revealed later.

Contemporary features of Scorpio-N widen target market to cover compact to premium SUV markets

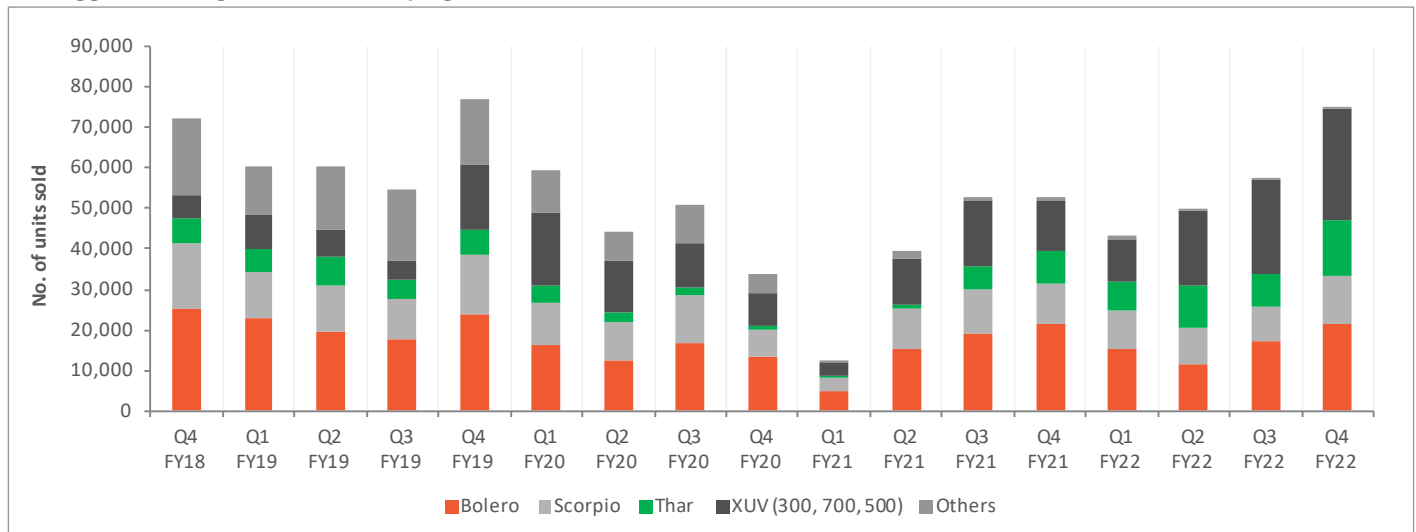
Variants	Z2 Petrol	Z4 Petrol	Z6 Diesel	Z8 Petrol	Z8L Petrol	Z8L (6S) Petrol
Price (Rs lakh, ex-showroom)	11.99	13.49	14.99	16.99	18.99	Price by 21-July-2022
Transmission	Manual	Manual	Manual	Manual	Manual	Manual
Max. Power (kW)	149.14	149.14	128.6	149.14	149.14	149.14
Seating Capacity	7-seater	7-seater	7-seater	7-seater	7-seater	6-seater
Key features	Touchscreen, Infotainment, Steering controls (Petrol), 2nd row AC vents, LED Tail, LED turn indicator, Pentalink suspension	Z2+ 20.32cm Infotainment, Android Auto, Apple car play compatibility, cruise control, 2nd row AC module, Full fabric upholstery	Z4+Sunroof, AdrenoX with built-in Alexa, 20.32cm Infotainment with navigation, 17.78 cm driver information display, what3words-Alexa enabled	Z6+Rich coffee black leatherette interiors, push button start, PKE, 6 airbags, double barrel LED headlamps	Z8+power seats, 12 speaker Sony audio, front camera, driver drowsiness detection	Z8L+power seats, 12 speaker Sony audio, front camera, driver drowsiness detection

Source: Company website, Sharekhan Research

Strong SUV portfolio with pricing power

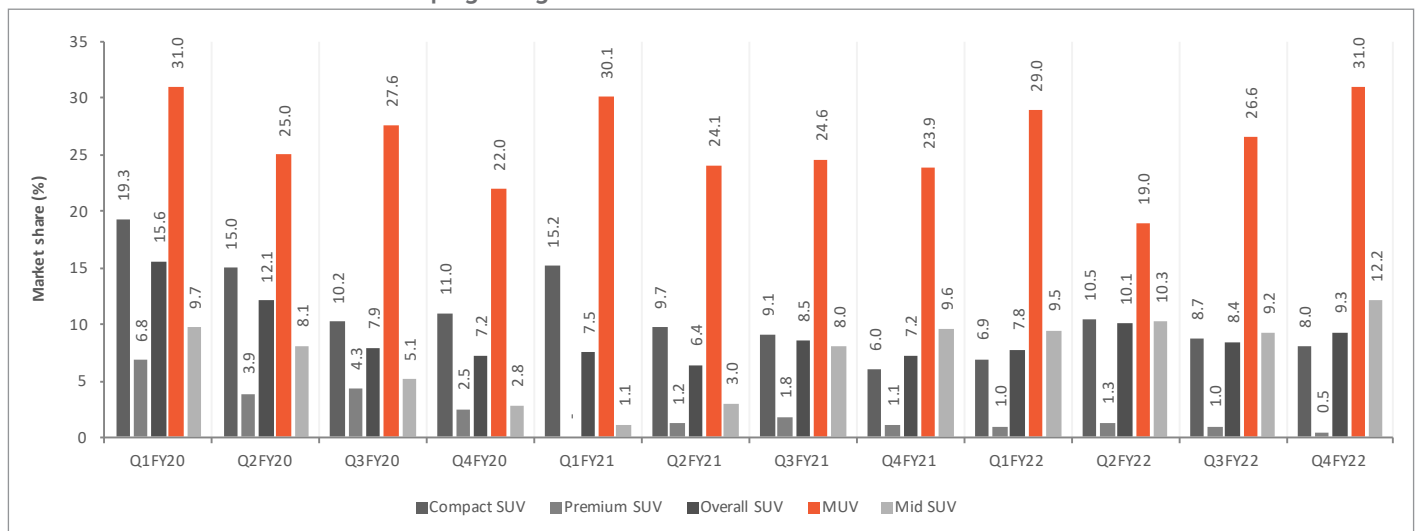
M&M's automotive business has been flourishing and growing q-o-q, led by model launches and exciting products. M&M launched five SUVs, including the Scorpio-N in order to regain its lost market share during the last few years. The company has open bookings of 170,000 vehicles, of which over 78,000 are for XUV700 at the end Q4FY22 results. The chips shortage has been affecting the volumes till Q4FY22, but the management has definitely witnessing improvement in production levels, driven by gradual easing of the shortage in semiconductor chips. Automotive sales volumes were up 28.8% q-o-q reflecting improved supply constraints in Q4FY22. M&M became No.1 in SUV revenue market share in Q4FY22 and H2FY22, with 17.8% and 16.8% market share, respectively. Successful launches and restating of its brand appeal, helped M&M to increase demand for its products, despite tough macro environment, rise commodity prices and intensifying competition. Further, in the automotive division, the company maintains its leadership position in the (LCV<3.5T) with a market share of 42.7%. In the e-3W space, the company dominates with 73.4% market share in FY22. The company has ramped up its e-3W capacity to ~12,000 billings.

Strategy of focusing core brands reaping benefits for M&M



Source: Company, Industry, Sharekhan Research

M&M's focus on core SUV business helping to regain lost market share



Source: Industry, Sharekhan Research

M&M further strengthen its product portfolio with Scorpio-N launch

Company	Model	Variant	Ex-showroom price (Rs)		QoQ change (%)
			Jan-22	Apr-22	
Scorpio	S5	Diesel	13.53	13.91	2.8
Bolero	B6	Diesel	9.62	9.86	2.5
XUV 300	W4	Petrol	8.16	8.41	3.1
XUV 700	MX	Petrol	12.95	13.18	1.8
New Thar	LXI	Diesel	13.79	14.22	3.1
Alturas G4	4X4 AT	Diesel	31.77	31.87	0.3

Source: Company websites, Dealers, Sharekhan Research

EV business to be next growth driver

M&M is planning to emerge as strong global player in EV space. The company would lay down its detailed EV plans on August 15, 2022. The company has lined up eight launches by FY27E in EV, of which five would be 'born electric'. The born electric models would tap Volkswagen's (VW) MEB platform, subject to successful discussions between M&M and VW. At present, both the companies have partnering agreement. Also, the company is looking for partners in the electrical vehicle space to improve the ecosystem. We remain positive on the company's growth plan.

Capex plans on track

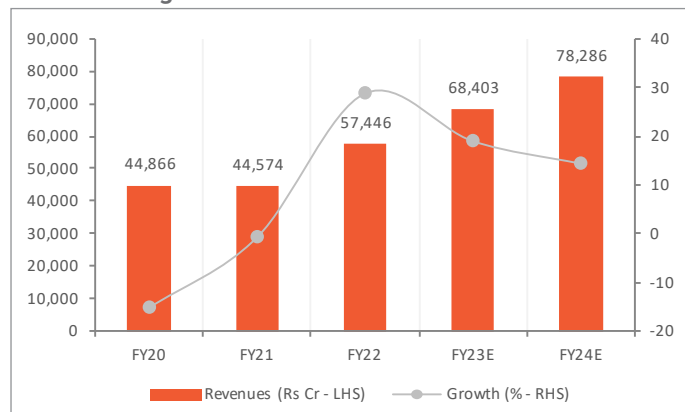
M&M has maintained its total capex at Rs. 17,000 crore for FY22-FY24E, while has increased its allocation for automobile capex by Rs. 2,900 crore and farm equipments capex by Rs. 400 crore. The company has reduced its allocation for group company investments by Rs. 800 crore (self-funded growth). The company expects to monetize its business through value creation of new businesses.

Management Outlook

In the automotive segment, the management's priorities are to maintain its strong brand value, develop platform and EV strategy. The company will continue de-risk its supply chain and optimize costs. In the FES segment, the management will focus on aggressive growth plan in farm machinery and global expansion. The company is on track with its 2025 commitment of 15-20% revenue growth and an RoE of 18%. M&M's next phase of product development would be EVs, the details of which the company will share in August 2022. Further, the management has maintained its guidance to achieve 10x revenue by FY2027E and launches of 13 new products in SUVs by FY2027E. With a renewed commitment, we expect M&M to further strengthen its position in the SUV and farm equipment segment. We firmly believe that M&M is on track with its growth roadmap for the automotive and farm equipment divisions. Moreover, M&M is expected to benefit from the turnaround of its loss-making subsidiaries and generate strong cash flows going forward and attain a target of an 18% ROE and 15%-20% EPS growth. We expect standalone earnings to post a 22.5% CAGR during FY22-FY24E, driven by 16.7% revenue CAGR and 190 bps EBITDA margin expansion.

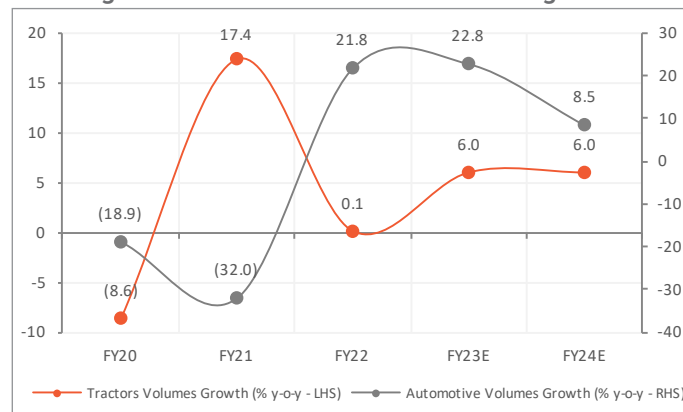
Financials in charts

Revenue and growth trend



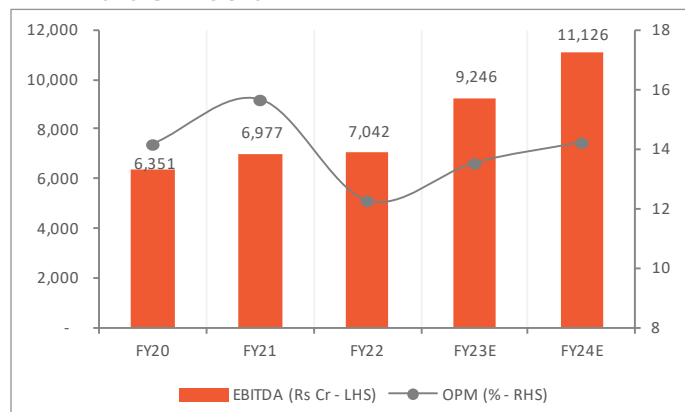
Source: Company, Sharekhan Research

Volume growth trend – Tractors & Automotive segment



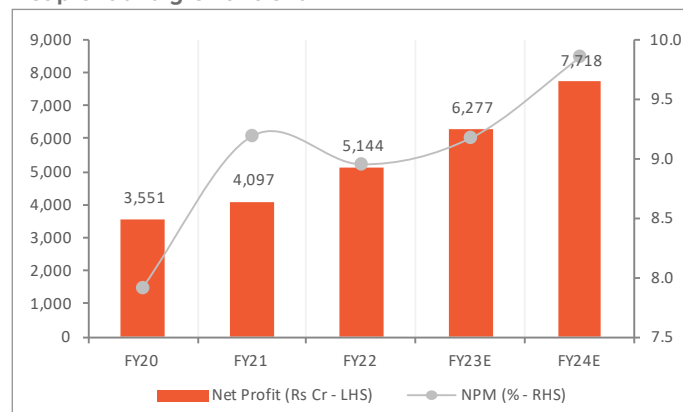
Source: Company, Sharekhan Research

EBITDA and OPM trend



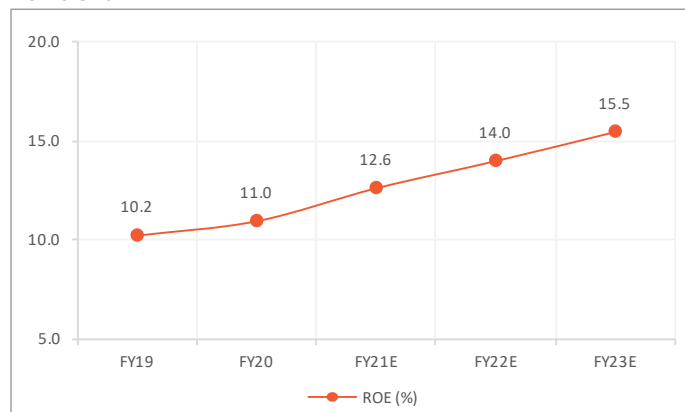
Source: Company, Sharekhan Research

Net profit and growth trend



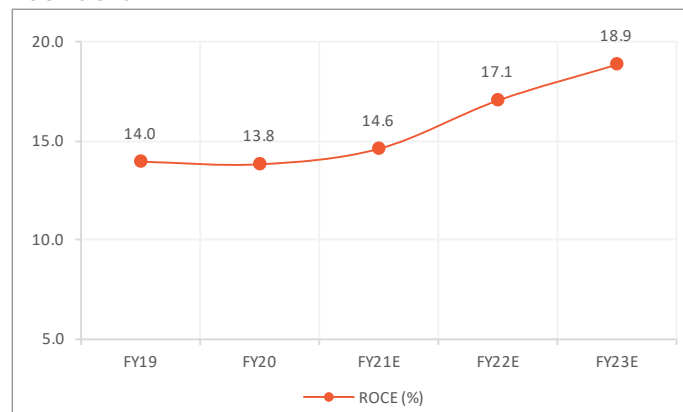
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Demand likely to pick up in automotive and farm equipment

We stay positive on the structural demand for automobiles in the medium term and expect a recovery across segments post the -normalisation of economic activities, led by pent-up demand from rural, semi-urban, and urban demand and a favourable macro-outlook. The passenger vehicle (PV) segment is expected to remain strong amid COVID-19, as preference for personal transport increases. Rural demand is expected to recover on back of positive sentiments, driven by prediction of normal monsoon, robust Rabi production, higher agriculture prices (above MSP in moist cases) and government subsidies. Positive rural sentiments would also augur well for passenger vehicles (PVs) and tractors. M&HCVs sales are expected to continue growing strongly, driven by intensifying economic and infrastructure activities. LCVs is expected to do well on back of surge in e-commerce and better last-mile connectivity. Buses and three-wheelers are also expected to see recovery be driven by the gradual reopening of schools and offices, and easing of mobility restrictions.

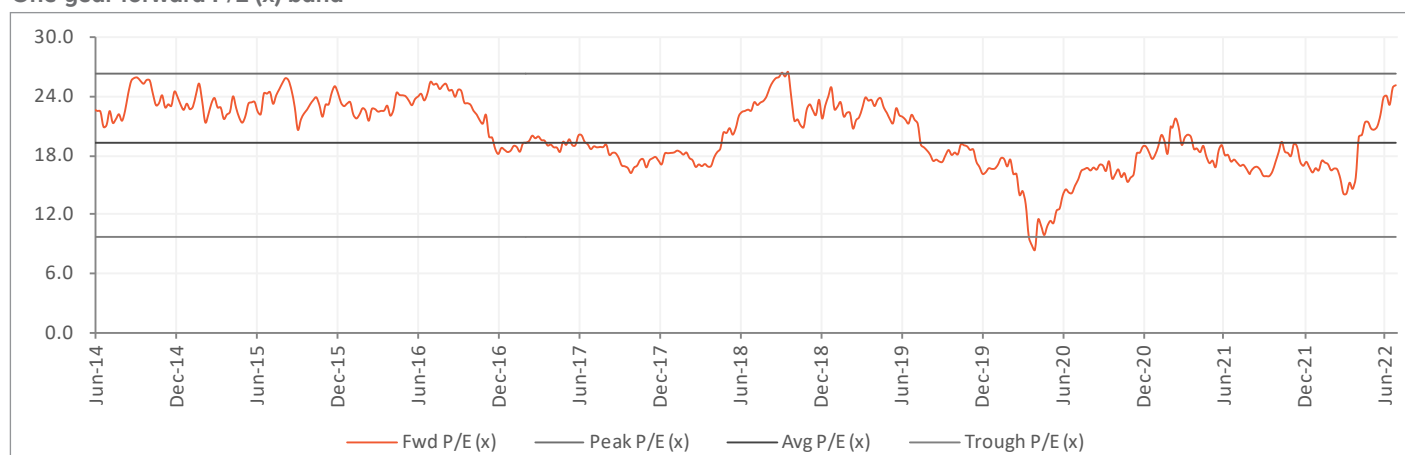
■ Company Outlook – Strong earnings growth potential

M&M is the market leader in the tractors segment, commanding a 40% market share. The company is working on light-weight compact global tractor project (named K2), which would see the launch of four new platforms. K2 would witness launch of 38 models and would further strengthen the company's position in the tractor space. M&M has one of the highest exposures to rural markets (~65% of volumes), which are expected to be less impacted by the ongoing impact of COVID-19. M&M also leads in the LCV space with an over 45% market share and a greater than 65% share in the 2-3.5T LCV category. We expect M&M to further consolidate market share in the overall LCV segment. LCV sales are likely to be driven by higher demand for last-mile movement of goods. The company has laid down a strong roadmap for its automotive segment through investments in technology and launching new products regularly to re-gain its market share in the segment. M&M's focus continues to drive bookings of its key brands – Thar, XUV-300, Scorpio, and Bolero, despite long waiting periods. The automotive business' roadmap is focussed on brand strengthening and aggressive plans for new launches. The company is expected to benefit from turnaround of its loss-making subsidiaries and generate strong cash flows going forward and attain its target of 18% ROE and a 15-20% EPS growth.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,267

We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment and by defending its market share in the highly competitive SUV segment. M&M is on track with its growth roadmap. The company plans its farm business to grow 10x by FY2027E, while strengthen its SUV segment by adding 13 new products by FY2027E, including EV launches. Moreover, M&M continues to benefit from the turnaround of loss-making subsidiaries, scaling up of digital platforms and strong performance of its listed entities, which would improve the company's FCF going forward. M&M also stays focused on the EV business. We expect standalone earnings to post a 22.5% CAGR during FY22-FY24E, driven by a 16.7% revenue CAGR and 190 bps rise in EBITDA margins. Our SOTP-based valuation provides a price target (PT) of Rs. 1,267. The stock trades at a P/E multiple of 17.2x and EV/EBITDA multiple of 10.8x its FY24E estimates. We retain our Buy rating on the stock with an unchanged PT of Rs. 1,267.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

M&M is the flagship company of Mahindra Group. M&M's core business houses the automotive and tractor segments. M&M is the only automotive company that is virtually present across all segments. The company is the market leader in LCVs and is a leading UV and three-wheeler 3W player. M&M also manufactures medium and heavy commercial vehicles (MHCV) and is present in the two-wheeler (2W) space through its investment in Jawa. Apart from being a strong player in the automotive space, M&M is the market leader in the tractor segment, having a market share of about 40%. Apart from the core business, M&M is also the promoter/ holds controlling interest in companies that are engaged in diverse businesses under the Mahindra brand (IT services, NBFC, logistics, hospitality, real estate, and auto ancillary business).

Investment theme

With strong farm sentiments on account of higher rainfall, expected increase in kharif output, and increased government spending, M&M expects the tractor industry's growth to remain buoyant. Higher ground water reservoir levels coupled with robust farmer cash flows would mean tractor demand would remain buoyant in FY2022 as well. Automotive volumes are also improving. With the success of new launches (Thar with strong bookings) and inventory filling (automotive inventory is lower than normal), automotive demand is expected to improve further. Going ahead, M&M's strategy revolves around tighter capital allocation, exit from loss-making subsidiaries, and focusing on core UV business and emerging EV businesses. The company has started to take concrete steps to achieve an 18% RoE from all its businesses, which makes a strong case for re-rating of the stock. This would further substantially reduce losses in overseas subsidiaries and act as key re-rating trigger for M&M. We maintain our Buy call on the stock.

Key Risks

- ♦ Uneven distribution of monsoon can affect our volume estimates for M&M's farm equipment segment.
- ♦ Unsuccessful or delay in launches may affect the growth prospects of the company.

Additional Data

Key management personnel

Anand Mahindra	Executive Chairman
Pawan Goenka	Managing Director
Anish Shah	Deputy Managing Director & Group CFO
Rajesh Jejurikar	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL MGMT & SERVICES	11.38
2	M & M BENEFIT TRUST	6.79
3	First State Investments	4.56
4	MAHINDRA & MAHIN EMP STK OP TRST	4.06
5	SBI Funds Management Pvt Ltd	2.61
6	BlackRock Inc	2.09
7	Vanguard Group Inc	1.71
8	ICICI Prudential Asset Management	1.6
9	Republic of Singapore	1.4
10	Franklin Resources Inc	1.2

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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