

November 10, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,061		978	
Sales (Rs. m)	582,082	655,362	578,577	654,890
% Chng.	0.6	0.1		
EBITDA (Rs. m)	83,888	96,485	83,803	93,723
% Chng.	0.1	2.9		
EPS (Rs.)	40.6	46.5	40.1	44.8
% Chng.	1.2	3.9		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	446	518	582	655
EBITDA (Rs. bn)	70	69	84	96
Margin (%)	15.7	13.3	14.4	14.7
PAT (Rs. bn)	22	40	49	56
EPS (Rs.)	18.7	33.9	40.6	46.5
Gr. (%)	1.7	81.4	19.9	14.5
DPS (Rs.)	8.8	10.0	12.0	12.0
Yield (%)	1.0	1.1	1.3	1.3
RoE (%)	6.5	11.3	12.4	13.0
RoCE (%)	11.7	10.1	11.3	12.2
EV/Sales (x)	2.3	2.0	1.8	1.6
EV/EBITDA (x)	14.8	15.3	12.8	10.8
PE (x)	47.8	26.3	22.0	19.2
P/BV (x)	3.1	2.9	2.6	2.4

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.971 / Rs.610
Sensex / Nifty	60,433 / 18,044
Market Cap	Rs.1,109bn/ \$ 14,981m
Shares Outstanding	1,243m
3M Avg. Daily Value	Rs.6607.96m

Shareholding Pattern (%)

Promoter's	23.56
Foreign	40.05
Domestic Institution	26.12
Public & Others	10.27
Promoter Pledge (Rs bn)	2.38

Stock Performance (%)

	1M	6M	12M
Absolute	1.6	16.3	44.7
Relative	1.0	(5.3)	2.0

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Playing on the core strengths

Quick Pointers:

- To boost FES segment growth by focussing on farm machinery (10x by 2027) and to strengthen UV segment by adding 13 new products (by 2027).
- Price hikes of ~7-8% across segment to withstand RM inflation of last year.

M&M posted a decent operating performance amidst challenging RM scenario. 2QFY22 EBITDA margin came below our estimates and impacted raw material inflation as well as weak mix. Despite sharp price hikes taken by the company, tractor segment's EBIT margin came in at 18.7% (-570/-160bps YoY/qoq) while automotive segment was at 2.7% (-380/+100bps YoY/Qoq). However, new product launches in automotive segment are seeing good traction with ~70k+ bookings for XUV700 and overall orderbook of ~160k units. Management mentioned that due to erratic monsoons, price hikes and higher base tractor demand is seeing some moderation and expect flat to low single digit growth in FY22. Thus focus is on farm machinery segment with an intention to make it ~10x by FY27.

We continue to remain positive considering 1) baton of growth shifting from tractor to automotives gaining traction in Farm machinery business 2) strong product pipeline in UVs and tractors to help outperform industry and 3) improved capial allocation to improve return matrix. We increase FY23/24 EPS by 1%/ 4% to factor in volume growth and cost control initiatives. Maintain 'BUY' with revised SoTP based TP of Rs 1,061 (v/s Rs978), built on target multiple of 18x for core business (unchanged).

- 2QFY22 financial performance:** M&M's revenue came ahead of our estimates at Rs 133bn (+15% YoY, PLe: Rs 124bn) driven by 12% growth in blended realization owing to price hikes (~7% over the year). However, EBITDA margin at 12.5% (-530/-140bps YoY/QoQ, PLe: 13.3%) was impacted by factors like higher commodity costs, semiconductor shortage and rising freight costs. Rs 2,55bn of exceptional item was recorded towards impairment of long-term investments. Adjusted PAT came in at Rs 16.2bn (+24/74% YoY/QoQ) owing to higher other income (Rs 11bn vs Rs 2bn QoQ) after dividend received from subsidiaries.

- Key takeaways: (1) Auto segment:** Revenue of Rs 79bn grew 22/31% YoY/QoQ and EBIT margin grew at 2.7% (-160bps/+100bps). New models have received positive response and M&M has an order book of 160k units (of which 70k units of XUV700). The company lost 32k units of volumes due to chip shortage issue and there still remains uncertainty on this front. **(2) Tractors:** FES revenue at Rs 49bn (+1/-8%) and EBIT margin at 18.7% (-570/-160bps). Volumes were impacted due to higher base and weak rural sentiments. However, has regained 1.9% market share (40.1% now). Management maintained its stance of flat to single-digit industry growth for FY22. M&M plans to grow its farm machinery (FM) segment by 10x by 2027 driven by new product launches, partnerships, channel expansion etc. It aims a FM market share of +30% vs 10% currently. **(3) New model launches:** Thar and XUV700 have received good reception and M&M plans to launch the new Scorpio soon. M&M has planned 13 new launches by 2027, of which 8 will be EV.

Exhibit 1: SOTP valuation

	Sep'23
Core EPS (excl. subsidiary dividend)	43.6
PE attributable (x)	18
Value of core business	784
Value of subsidiaries @ Hold Co discount	40
1. Tech Mahindra	197
2. M&M Financial Services	30
3. Mahindra Lifespaces	11
4. Mahindra Holidays	11
6. Mahindra CIE	10
7. CIE Automotive Spain	7
8. Mahindra Logistics	14
Target price	1,061

Source: Company, PL

Exhibit 2: Q2FY21 Result Overview (Rs mn)

Y/e Mar (Rs.mn)	Q2FY22	Q2FY21	YoY gr.	Q1FY22	QoQ gr.	H1FY22	H1FY21	YoY gr.
Net Revenues	1,33,054	1,15,903	14.8%	1,17,628	13.1%	2,50,682	1,71,798	45.9%
Raw Materials	96,808	76,979	25.8%	81,922	18.2%	1,78,730	1,13,219	57.9%
<i>% of Net Sales</i>	<i>72.8%</i>	<i>66.4%</i>		<i>69.6%</i>		<i>71.3%</i>	<i>65.9%</i>	
Personnel	7,965	7,920	0.6%	8,855	-10.0%	16,821	15,624	7.7%
<i>% of Net Sales</i>	<i>6.0%</i>	<i>6.8%</i>		<i>7.5%</i>		<i>6.7%</i>	<i>9.1%</i>	
Manufacturing & Other Exp	11,682	10,432	12.0%	10,534	10.9%	22,216	16,650	33.4%
<i>% of Net Sales</i>	<i>8.8%</i>	<i>9.0%</i>		<i>9.0%</i>		<i>8.9%</i>	<i>9.7%</i>	
Total Expenditure	1,16,455	95,330	22.2%	1,01,311	14.9%	2,17,767	1,45,493	49.7%
EBITDA	16,598	20,573	-19.3%	16,317	1.7%	32,915	26,305	25.1%
<i>EBITDA Margin (%)</i>	<i>12.5%</i>	<i>17.8%</i>		<i>13.9%</i>		<i>13.1%</i>	<i>15.3%</i>	<i>-14.2%</i>
Depreciation	5,807	5,870	-1.1%	5,586	3.9%	11,393	11,683	-2.5%
EBIT	10,792	14,703	-26.6%	10,731	0.6%	21,522	14,622	47.2%
Interest Expenses	425	1,179	-63.9%	714	-40.5%	1,139	1,947	-41.5%
Non-operating income	11,048	3,839	187.8%	2,052	438.4%	13,100	5,177	153.1%
Extraordinary Income	-2,550	-11,495		-785	225.0%	-3,335	-11,206	
PBT	18,865	5,869	221.4%	11,284	67.2%	30,149	6,646	353.7%
Tax-Total	4,548	4,252	7.0%	2,728	66.7%	7,276	4,350	67.2%
<i>Tax Rate (%) - Total</i>	<i>24.1%</i>	<i>72.4%</i>		<i>24.2%</i>		<i>2.9%</i>	<i>2.5%</i>	
Reported PAT	14,317	1,618	785.1%	8,556	67.3%	22,873	2,295	896.5%
Adj. PAT	16,253	13,112	24.0%	9,341	74.0%	25,593	13,538	89.0%
<i>PAT Margin</i>	<i>12.2%</i>	<i>11.3%</i>		<i>7.9%</i>		<i>10.2%</i>	<i>7.9%</i>	

Source: Company, PL

Exhibit 3: Operating Metrics

Y/e Mar (Rs.mn)	Q2FY22	Q2FY21	YoY gr.	Q1FY22	QoQ gr.	H1FY22	H1FY21	YoY gr.
Sales Volume (nos)	1,90,600	1,85,270	2.9%	1,86,777	2.0%	3,77,377	2,80,578	34.5%
Net Realisation/Vehicle	6,98,078	6,25,591	11.6%	6,29,777	10.8%	6,64,273	6,12,299	8.5%
Material cost / vehicle	5,07,910	4,15,495	22.2%	4,38,608	15.8%	4,73,610	4,03,521	17.4%
Gross Profit / vehicle	1,90,168	2,10,096	-9.5%	1,91,169	-0.5%	1,90,663	2,08,778	-8.7%
Employee cost /vehicle	41,791	42,747	-2.2%	47,411	-11.9%	44,572	55,684	-20.0%
Other expenses / vehicle	61,292	56,304	8.9%	56,399	8.7%	58,871	59,342	-0.8%
EBITDA/vehicle	87,085	1,11,044	-21.6%	87,359	-0.3%	87,220	93,753	-7.0%
Net Profit/vehicle	85,271	70,773	20.5%	50,010	70.5%	67,819	48,252	40.6%

Source: Company, PL

Exhibit 4: Segmental Breakup (Rs mn)

Y/e March	Q2FY22	Q2FY21	YoY gr.	Q1FY22	QoQ gr.
Revenue					
Auto	79,171	64,722	22%	60,502	31%
Farm Equipments	49,033	48,354	1%	53,186	-8%
Others	5,531	4,455	24%	4,557	21%
PBIT					
Auto	2,109	2,757	-24%	1,025	106%
Farm Equipments	9,159	11,795	-22%	10,811	-15%
Others	419	127	230%	139	202%
PBIT Margins					
Auto	2.7%	4.3%		1.7%	
Farm Equipments	18.7%	24.4%		20.3%	
Others	7.6%	2.8%		3.0%	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	445,744	518,369	582,082	655,362
YoY gr. (%)	(2.0)	16.3	12.3	12.6
Cost of Goods Sold	301,766	366,487	405,129	452,200
Gross Profit	143,979	151,882	176,953	203,162
Margin (%)	32.3	29.3	30.4	31.0
Employee Cost	32,428	36,320	40,678	44,746
Other Expenses	41,785	46,394	52,387	61,932
EBITDA	69,766	69,169	83,888	96,485
YoY gr. (%)	20.3	(0.9)	21.3	15.0
Margin (%)	15.7	13.3	14.4	14.7
Depreciation and Amortization	23,624	25,823	32,048	36,323
EBIT	46,142	43,345	51,840	60,162
Margin (%)	10.4	8.4	8.9	9.2
Net Interest	3,957	3,499	2,724	2,983
Other Income	11,973	14,237	15,747	17,104
Profit Before Tax	22,413	54,084	64,863	74,283
Margin (%)	5.0	10.4	11.1	11.3
Total Tax	13,183	13,629	16,345	18,719
Effective tax rate (%)	58.8	25.2	25.2	25.2
Profit after tax	9,229	40,455	48,517	55,563
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	22,302	40,455	48,517	55,563
YoY gr. (%)	1.8	81.4	19.9	14.5
Margin (%)	5.0	7.8	8.3	8.5
Extra Ord. Income / (Exp)	(13,072)	-	-	-
Reported PAT	9,229	40,455	48,517	55,563
YoY gr. (%)	(30.6)	338.3	19.9	14.5
Margin (%)	2.1	7.8	8.3	8.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,229	40,455	48,517	55,563
Equity Shares O/s (m)	1,195	1,195	1,195	1,195
EPS (Rs)	18.7	33.9	40.6	46.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	247,764	326,086	386,086	421,086
Tangibles	247,764	326,086	386,086	421,086
Intangibles	-	-	-	-
Acc: Dep / Amortization	145,970	171,794	203,841	240,164
Tangibles	145,970	171,794	203,841	240,164
Intangibles	-	-	-	-
Net fixed assets	101,794	154,292	182,244	180,921
Tangibles	101,794	154,292	182,244	180,921
Intangibles	-	-	-	-
Capital Work In Progress	48,322	25,000	20,000	20,000
Goodwill	-	-	-	-
Non-Current Investments	195,766	205,766	215,766	225,766
Net Deferred tax assets	(13,432)	(13,566)	(13,701)	(13,838)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	44,885	27,000	29,000	29,000
Inventories	39,555	49,707	55,816	62,843
Trade receivables	23,429	31,244	35,084	39,501
Cash & Bank Balance	62,554	46,864	28,289	57,108
Other Current Assets	55,488	56,043	56,604	57,170
Total Assets	595,888	623,939	654,270	707,738
Equity				
Equity Share Capital	5,974	5,974	5,974	5,974
Other Equity	339,046	367,553	401,732	442,958
Total Network	345,019	373,526	407,706	448,932
Non-Current Liabilities				
Long Term borrowings	70,948	68,998	67,198	65,398
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	99,882	99,413	95,685	107,731
Other current liabilities	66,608	68,435	69,980	71,839
Total Equity & Liabilities	595,888	623,939	654,270	707,738

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	51,236	43,345	51,840	60,162
Add. Depreciation	22,330	25,823	32,048	36,323
Add. Interest	(9,733)	14,237	15,747	17,104
Less Financial Other Income	11,973	14,237	15,747	17,104
Add. Other	3,012	-	-	-
Op. profit before WC changes	66,845	83,406	99,634	113,589
Net Changes-WC	35,001	(21,089)	(16,139)	(2,066)
Direct tax	(10,646)	(13,495)	(16,210)	(18,582)
Net cash from Op. activities	91,199	48,822	67,286	92,940
Capital expenditures	(145,638)	(47,115)	(67,000)	(45,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(145,638)	(47,115)	(67,000)	(45,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	45,261	(1,950)	(1,800)	(1,800)
Dividend paid	(2,936)	(11,948)	(14,337)	(14,337)
Interest paid	(3,727)	(5,432)	(4,657)	(4,916)
Others	-	-	-	-
Net cash from Fin. activities	38,598	(19,329)	(20,794)	(21,054)
Net change in cash	(15,841)	(17,623)	(20,508)	26,887
Free Cash Flow	63,546	(6,178)	12,286	57,940

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	115,903	142,159	133,382	117,628
YoY gr. (%)	4.6	15.2	45.9	110.4
Raw Material Expenses	76,979	100,426	92,255	81,922
Gross Profit	38,925	41,733	41,127	35,706
Margin (%)	33.6	29.4	30.8	30.4
EBITDA	20,573	22,778	19,605	16,317
YoY gr. (%)	45.8	38.1	72.8	184.7
Margin (%)	17.8	16.0	14.7	13.9
Depreciation / Depletion	5,870	5,714	5,899	5,586
EBIT	14,703	17,064	13,706	10,731
Margin (%)	12.7	12.0	10.3	9.1
Net Interest	1,179	997	971	714
Other Income	3,839	5,699	1,178	2,052
Profit before Tax	5,869	4,852	5,514	11,284
Margin (%)	5.1	3.4	4.1	9.6
Total Tax	4,252	4,542	3,888	2,728
Effective tax rate (%)	72.4	93.6	70.5	24.2
Profit after Tax	1,618	309	1,625	8,556
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,112	17,224	10,024	9,341
YoY gr. (%)	8.1	89.9	260.5	2,091.5
Margin (%)	11.3	12.1	7.5	7.9
Extra Ord. Income / (Exp)	(11,495)	(16,915)	(8,399)	(785)
Reported PAT	1,618	309	1,625	8,556
YoY gr. (%)	(86.7)	(89.9)	(106.5)	1,162.1
Margin (%)	1.4	0.2	1.2	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,618	309	1,625	8,556
Avg. Shares O/s (m)	1,195	1,195	1,195	1,195
EPS (Rs)	11.0	14.4	8.4	7.8

Source: Company Data, PL Research

Key Financial Metrics

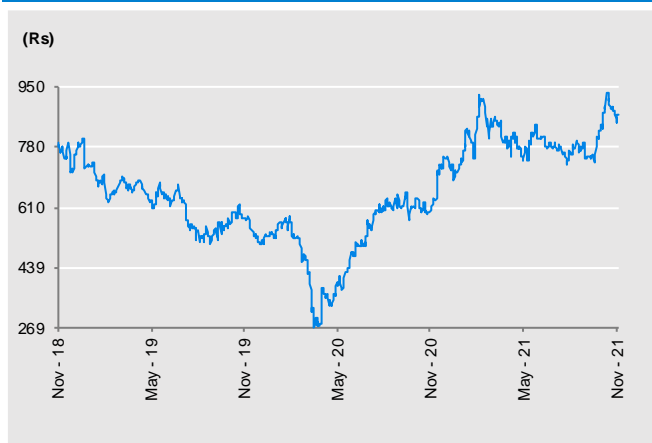
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	18.7	33.9	40.6	46.5
CEPS	38.4	55.5	67.4	76.9
BVPS	288.8	312.6	341.2	375.7
FCF	53.2	(5.2)	10.3	48.5
DPS	8.8	10.0	12.0	12.0
Return Ratio(%)				
RoCE	11.7	10.1	11.3	12.2
ROIC	6.6	9.1	9.7	11.0
RoE	6.5	11.3	12.4	13.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	(30)	(13)	(3)	(3)
Valuation(x)				
PER	47.8	26.3	22.0	19.2
P/B	3.1	2.9	2.6	2.4
P/CEPS	23.2	16.1	13.2	11.6
EV/EBITDA	14.8	15.3	12.8	10.8
EV/Sales	2.3	2.0	1.8	1.6
Dividend Yield (%)	1.0	1.1	1.3	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Tractor Volumes	354,498	365,133	379,738	398,725
Auto volumes	349,171	398,987	452,662	506,209

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Oct-21	BUY	978	878
2	9-Aug-21	BUY	961	758
3	7-Jul-21	BUY	931	782
4	29-May-21	BUY	950	846
5	7-Apr-21	BUY	939	781
6	6-Feb-21	BUY	1,011	866
7	11-Jan-21	BUY	851	771
8	4-Jan-21	BUY	851	732
9	25-Nov-20	BUY	826	729

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	156	136
2	Bajaj Auto	Accumulate	4,223	3,701
3	Bharat Forge	Accumulate	897	742
4	CEAT	Hold	1,344	1,296
5	Eicher Motors	Hold	2,856	2,522
6	Endurance Technologies	BUY	1,844	1,605
7	Exide Industries	BUY	208	173
8	Hero Motocorp	Accumulate	3,057	2,842
9	Mahindra & Mahindra	BUY	978	878
10	Maruti Suzuki	Accumulate	8,097	7,356
11	Motherson Sumi Systems	BUY	249	207
12	Tata Motors	BUY	648	486
13	TVS Motors	BUY	682	577

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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