

CMP: INR 1,236

Rating: Accumulate

Target Price: INR 1,391

Stock Info

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (INR)	5
Equity Capital (INR mn)	598.30
Mkt Cap (INR mn)	14,78,878
52w H/L (INR)	1,279/671
Avg Yearly Vol (in 000')	3,901

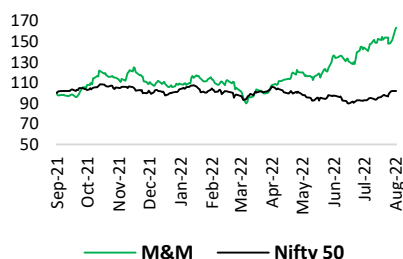
Shareholding Pattern %

(As on June, 2022)

Promoters	19.45
FII	43.61
DII	23.26
Others	13.68

Stock Performance (%)	1m	3m	12m
M&M	14.4	37.7	63.0
Nifty	10.0	4.2	6.7

M&M Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

- **M&M has reported largely in-line with our estimates in Q1FY23**, Standalone revenue stood at INR 196,126 Mn, against our estimate of INR 197,560 Mn registering a growth 14.5% QoQ/ 66.7% YoY. This was driven by traction across both the segments, autos and tractor. Farm Equipment Sector (FES) Tractors Market Share for Q1 FY23 at 42.7%, uptick of 0.9% YoY and continues to be No.1 in SUV Revenue Market Share of 17.1%. Farm Equipment second highest ever Q1 PBIT at INR. 10,740 Mn.
- **EBITDA improved led by better product mix:** EBITDA stood at INR 23,410 Mn, against our estimate of INR 23,650 Mn, Registering a growth of 20.3%QoQ/43.5%YoY.Improvement in margins supported by better mix and operating leverage, despite higher RM cost. On the margins front, EBITDA margin contraction by 2bps QoQ/-70bps YoY to 11.9%, against our estimate of 12%. (In Q1FY22 13.9%). However, we believe competitive pricing pressure in FES segment would limit the margin expansion going forward.
- **Decent PAT growth during Q1FY23:**Standalone PAT saw a growth of 10.7% QoQ/2.1% YoY to INR 14,302 Mn against our estimate of INR 13,800 Mn. Exceptional items' loss of INR. 409.7 Mn for the Q1FY23 represents impairment provision for long-term investments.
- **Strong Booking across the segment:** The company is seeing strong demand for SUVs continues for the brand. The company has received 1.40 lakh open bookings for its SUV portfolio, however, add the 1 lakh bookings that the Scorpio-N received in 30 minutes, then the tally goes up to 2.40 lakh. The demand across the company's SUV portfolio has been growing every month. The XUV300 has 13K open bookings and the company is receiving close to 6200 bookings on a monthly basis. The demand for the Thar continues with 25000 open bookings, but it's the XUV700 that still attracts the most attention.

Outlook and valuation

M&M has reported a decent set of numbers in Q1FY23 backed by strong bookings for Thar, XUV300, Bolero NEO and XUV700. The total open bookings stand at 140k+ (exclusive Scorpio-N). Recent launches helped M&M to recover the lost market share partially in the core SUV space. XUV700 received strong response with 79000 bookings and monthly bookings of 10.3k with precisely 10-12% cancellations.

Going ahead, we are expecting revival in agriculture segment led by the sizable presence in tractor segment and robust products pipeline. Considering, recent shoot up in the stock price prompt us to downgrade the stock from Buy to Accumulate with a revised **SOTP based target price of INR 1,391 per share (earlier target price; INR 1,274 per share).**

INR in Mn	FY21	FY22	FY23E	FY24E
Revenue	4,46,299	5,74,460	7,35,061	9,46,567
EBITDA	69,575	70,423	95,028	1,27,607
EBITDA margin(%)	15.6%	12.3%	12.9%	13.5%
PAT	9,842	51,439	76,762	1,03,138
EPS (in INR)	34.1	43.0	64.2	86.2
PE(x)	36.3	28.8	19.3	14.3
EV/EBITDA (X)	17.5	17.0	12.4	8.9
ROE(%)	11.7%	13.9%	18.3%	20.9%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Conference call key takeaways

- **Guidance:** The management expects the tractor industry volume to grow by 3-5% in FY23 and indicated that industry would continue growing at its long-term average of 7-8% CAGR going ahead. The company maintains its earlier guidance of ~7% auto margins for mid-term. It expects margins to remain under pressure in 2QFY23, due to slow effect of commodity softening, whereas H2FY23 onwards it would see margin improvement.
- **Mahindra Farm Business:** The company farm business gain of 0.9% and market share at 42.7% in Q1FY23. Highest ever domestic volume 112.3K growth of 18% YoY. 8 consecutive quarters of positive PBIT. The company launches Yuvo Tech+ Ph 2 accepted well in market and highest number of tractor dealers in India.
- **Auto business:** The company SUV Rev Market share at 17.1% and highest every pick up in suvs volumes.
- **3W business:** The company 3w market share at 74.4% and Highest ever quarterly e-3W Volumes 6.5k billing.
- **Monsoon & Sowing Progress:** Cumulative Rainfall above normal as on 30th July. Excess rains in west and south but deficient in UP, Bihar, Jharkhand, West Bengal. Large Excess Normal Deficient Large Deficient. Acreage close to PY level 74% of normal area sown as on 29th July. Healthy Water Storage Levels; reservoir level at 57% of the live capacity; higher than average by 39%.
- **Guidance Farm:** The company, build a fortress in domestic business and aggressive growth in farm machinery. The company has aim to expand on global level and reinvent costs.
- **Exports:** Consistently growing export performance
- **New launches:** M&M, received strong bookings for Scorpio-N with 25k bookings in 1min and 100k bookings within 30mins with total booking value of INR 180bn (US\$2.3bn). The company also received strong bookings for Thar, XUV300, Bolero NEO and XUV700. The total open bookings stand at 140k+ (excl. Scorpio-N). Recent launches helped the company to recover the lost market share partially in the core SUV space. XUV700 received strong response with 79k bookings and monthly bookings of ~10.3k with precisely 10-12% cancellations.
- **Mahindra & Mahindra Financial Services Limited (MMFSL):** The MMFSL Performance indicated that PAT of INR 2300 Mn against PAT of INR 6000 Mn in 4QFY22. GNPA for the quarter stood at 8% against 7.7% in 4QFY22. Disbursements stood at INR 94,700Mn during Q1FY23 vs INR 9200 Mn.
- **Semiconductor:** The management stated that the semiconductor crisis is much behind them, however, the challenge remains to meet the demand and evaluate how to meet the current order book. The company has diversified its sourcing of chips.

Quarterly results summary (MM + MVML) Q1FY23

INR Mn	Q1FY23	Q4FY22	Q1FY22	YoY %	QoQ %
Net Sales	1,96,126	1,71,240	1,17,628	66.7%	14.5%
Cost of material consumed	1,50,240	1,30,755	81,922	83.4%	14.9%
Staff Cost	8,362	7,461	8,855	-5.6%	12.1%
Other expenses	14,114	13,568	10,534	34.0%	4.0%
Total expenses	1,72,716	1,51,784	1,01,311	70.5%	13.8%
EBITDA	23,410	19,455	16,317	43.5%	20.3%
Depreciation	6,806	6,805	5,586	21.8%	0.0%
EBIT	16,604	12,651	10,731	54.7%	31.3%
Interest	698	558	714	-2.3%	25.0%
Other Income	2,386	2,387	2,052	16.3%	-0.1%
PBT	18,292	14,479	12,069	51.6%	26.3%
Tax	(3,581)	(2,808)	(2,728)	31.3%	27.5%
PAT	14,711	11,672	14,796	-0.6%	26.0%
Extraordinary	(410)	1,248	(785)	-47.8%	-132.8%
Reported PAT	14,302	12,919	14,012	2.1%	10.7%
EPS	11.95	10.8	7.2	66.9%	10.6%
Margins	Q1FY23	Q4FY22	Q1FY22	YoY %	QoQ %
Gross margins	23.4%	23.6%	30.4%	-70bps	-2bps
EBITDA	11.9%	11.4%	13.9%	-19bps	6bps
PAT	7.5%	6.8%	7.9%	-4bps	7bps
Tax Rate	-19.6%	-19.4%	-22.6%	30bps	-2bps
Tractor Segment	Q1FY23	Q4FY22	Q1FY22	YoY %	QoQ %
Total Tractors Volume	1,13,383	72,882	99,929	13.5%	55.6%
Total Automotive Volume	1,53,462	1,55,902	84,913	80.7%	-1.6%
Total Volume (Auto + Farm)	2,71,971	2,28,784	1,84,842	47.1%	18.9%
Aveg Relizations (Auto)	52,857	6,12,419	95,528	-44.7%	-91.4%
Aveg Relizations (FES)	4,45,674	7,15,933	5,28,539	-15.7%	-37.7%
Blended realisation	2,43,732	6,69,128	3,58,620	-32.0%	-63.6%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Exhibit 1: SOTP Valuation

Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,058	25,15,48,691	25.9	2,66,189	222
Mahindra & Mahindra Financial Services		196	64,43,99,987	52.2	1,25,980	105
Mahindra Holidays & Resorts		236	13,48,35,922	67.6	31,842	27
Mahindra Lifespace Developers		423	7,93,19,550	51.3	33,520	28
Mahindra CIE Automotive Limited.		272	2,14,17,617	11.4	5,830	5
CIE Automotive SA (CMP €25.04 x 80.81 Euro/INR)		2,023	95,90,706	7.4	19,407	16
Mahindra EPC Irrigation		101	1,51,44,433	54.4	1,528	1
Swaraj Engines		1,588	42,16,792	34.8	6,695	6
Mahindra Logistics Ltd		474	4,18,12,257	58.2	19,798	17
Listed Subsidiaries (INR mn)					5,10,789	427
Total Subsidiaries (INR Mn)					5,10,789	427
Sub Valuations Post Discount (20%)			20%		4,08,631	341
Core auto business EV/EBITDA	FY24E	10x				1,050
Value/Share						1391
					CMP	1236
					Upside	12.6%

*CMP as on 6th August 2022
*M&M stake March 2022

Exhibit 2: Margin expansion led by better product Mix. We believes margin will see more improvement going forward.

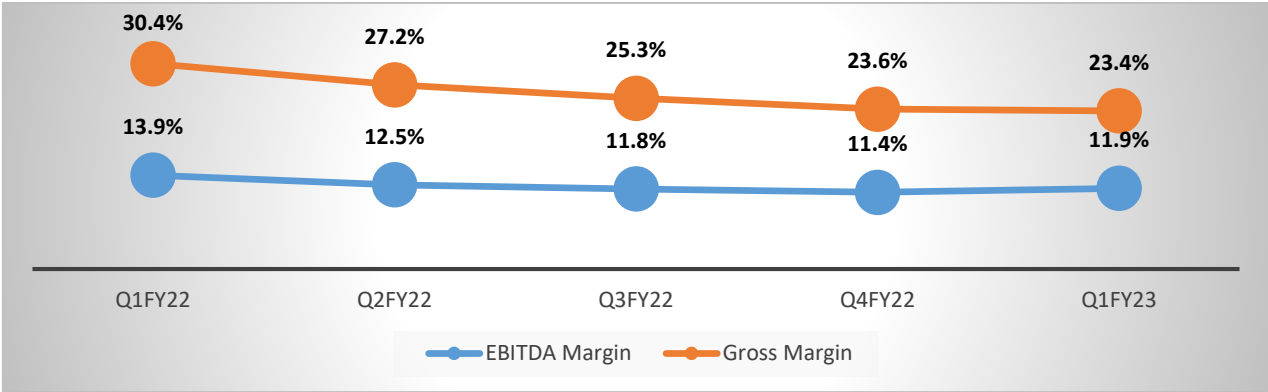
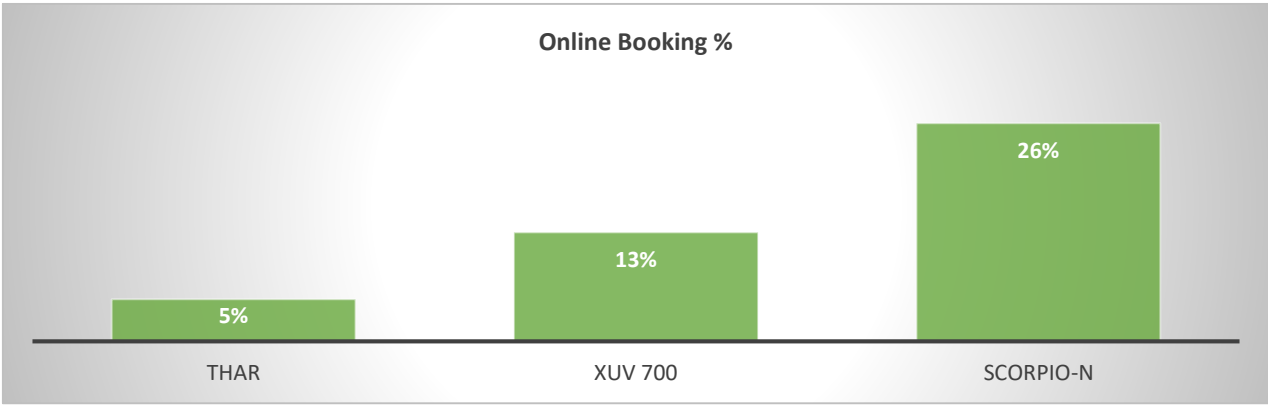


Exhibit 3: Increase in Digital penetration-72% of the first 25k Scorpio-N booked online.



P&L (INR mn)	FY21	FY22	FY23E	FY24E	B/Sheet (INR mn)	FY21	FY22	FY23E	FY24E
Net sales	4,46,299	5,74,460	7,35,061	9,46,567	Equity capital	5,974	5,983	5,983	5,983
YoY (%)	(0.5)	28.7	28.0	28.8	Reserves	3,43,536	3,83,627	4,43,876	5,30,501
Raw material cost	3,01,766	4,23,416	5,43,210	6,99,513	Net worth	3,49,510	3,89,610	4,49,859	5,36,484
Employee Cost	31,280	31,600	38,019	43,721	Total Loans	76,623	64,900	62,900	60,901
Admin Expenses	43,679	49,021	58,805	75,725	Def Tax Liability	14,497	17,008	17,008	17,008
Total expenses	3,76,724	5,04,037	6,40,034	8,18,960	Assets held for sale		504		
EBIDTA	69,575	70,423	95,028	1,27,607	Total Liabilities	4,40,630	4,72,021	5,29,767	6,14,393
(%)	15.6%	12.3%	12.9%	13.5%					
Depreciation	23,699	24,511	22,452	22,812	Gross Block	1,33,748	1,35,451	1,52,451	1,72,351
EBIT	45,876	45,912	72,575	1,04,796	Less: Acc. depreciation	23,699	24,511	46,963	69,775
Interest	3,963	2,230	2,236	2,167	Net block	1,10,049	1,10,940	1,05,488	1,02,576
Other income	11,995	20,759	26,551	28,515	Investments	2,73,365	3,11,507	3,31,222	3,50,723
PBT	53,907	64,441	96,890	1,31,144	Inventories	47,830	58,829	68,417	88,103
(-) Tax	-13,193	-13,002	20,128	28,006	Debtors	22,028	30,351	33,511	43,154
Tax/ PBT	(24.5)	(20.2)	20.8	21.4	Cash	63,952	36,505	28,806	49,639
PAT	40,714	51,439	76,762	1,03,138	Loans and advances	71,730	92,217	1,16,032	1,38,588
YoY (%)	(0.9)	26.3	49.2	34.4	Other Current assets	18,877	24,627	24,873	25,221
PAT(%)	9.1%	9.0%	10.4%	10.9%	Current assets	2,24,418	2,42,528	2,71,639	3,44,706
Extraordinary	30873	2087	-	-	Current liabilities	1,32,964	1,61,100	1,61,100	1,61,100
Reported Profit	9,842	51,439	76,762	1,03,138	Current liabilities & Provisions	1,67,202	1,92,955	1,78,582	1,83,613
					Net current assets	57,216	49,574	93,057	1,61,093
					Total Assets	4,40,630	4,72,021	5,29,767	6,14,393

Cash Flow	FY21	FY22	FY23E	FY24E	Key Ratios	FY21	FY22	FY23E	FY24E
Net Profit	9,842	49,352	76,762	1,03,138	EPS	34.1	43.0	64.2	86.2
Depreciation	23,699	24,511	22,452	22,812	P/E (Standalone)	36.3	28.8	19.3	14.3
Deferred tax	-13,193	-13,002	20,128	28,006	EV/EBDITA (x)	17.5	17.0	12.4	8.9
Change in W/C	-18,470	-21,347	-32,991	-47,203	Book value	293	326	376	448
Operating cash flow	1,878	39,514	86,351	1,06,753	P/B (x)	4.2	3.8	3.3	2.8
Change in intangible	-43,703	-379	5,728	18,662	Subsidiary Valuation	341	341	341	341
Capex	1,73,420	-1,703	-17,000	-19,900	EPS (Core EPS)	28.8	34.7	53.8	74.0
Investments	-1,10,697	-38,142	-19,715	-19,501	P/E (Core)	31.1	25.8	16.6	12.1
Investing cash flow	-14,799	-43,754	-73,302	-65,241	EV/EBITDA (Core)	15.2	15.2	11.2	8.0
Free Cash Flow	1,75,298	35,581	67,115	84,686	ROCE	10.7%	11.8%	15.8%	18.4%
Dividend	-12,510	-16,513	-16,513	-16,513	ROE	11.7%	13.9%	18.3%	20.9%
Equity	5,887	7,260	-	-					
Debt	45,093	-11,724	-2,000	-1,999	Days				
Financing cash flow	38,471	-20,977	-18,513	-18,512	Inventory	53.4	46.0	46.0	46.0
Net change in cash	21,587	-27,447	-7,700	20,833	Debtor	20.9	16.6	16.6	16.6
Opening cash	42,365	63,952	36,505	28,806	Creditor	73.0	74.8	70.7	59.6
Closing cash	63,952	36,505	28,806	49,639					

Source: Company, Arianth Research

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880