

August 7, 2022

Q1FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,400		1,400	
Sales (Rs. m)	8,43,124	9,20,109	8,43,124	9,20,109
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,22,288	1,43,115	1,22,288	1,43,115
% Chng.	-	-	-	-
EPS (Rs.)	70.4	82.8	70.4	82.8
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	574	732	843	920
EBITDA (Rs. bn)	70	97	122	143
Margin (%)	12.3	13.3	14.5	15.6
PAT (Rs. bn)	51	66	84	99
EPS (Rs.)	43.0	55.3	70.4	82.8
Gr. (%)	26.1	28.6	27.3	17.6
DPS (Rs.)	11.6	12.0	13.0	14.0
Yield (%)	0.9	1.0	1.1	1.1
RoE (%)	13.9	15.9	17.7	18.0
RoCE (%)	10.4	14.5	17.0	17.8
EV/Sales (x)	2.5	1.9	1.6	1.4
EV/EBITDA (x)	20.3	14.4	11.0	9.0
PE (x)	28.8	22.3	17.6	14.9
P/BV (x)	3.8	3.4	2.9	2.5

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.1,279 / Rs.671	
Sensex / Nifty	58,388 / 17,398	
Market Cap	Rs.1,536bn / \$ 19,390m	
Shares Outstanding	1,243m	
3M Avg. Daily Value	Rs.4716.17m	

Shareholding Pattern (%)

Promoter's	23.40
Foreign	37.94
Domestic Institution	29.00
Public & Others	9.66
Promoter Pledge (Rs bn)	0.01

Stock Performance (%)

	1M	6M	12M
Absolute	14.2	46.8	62.8
Relative	4.0	47.5	51.9

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Successful auto launches to aid margins

Quick Pointers:

- Automotive order book of ~140k units (79k units for XUV700 and 25k for Thar).
- Tractor industry to witness 3-5% growth in FY23.

M&M's 1QFY23 EBITDA margin at 11.9% came slightly below our estimate of 12.2% owing to margin pressure in farm business (EBIT margin at 16% in 1Q vs 18-22% earlier), as company was unable to pass on inflated commodity cost. While the management expects tractor industry to report 3-5% growth in FY23 we anticipate outperformance on the back of its strong leadership position. Further, auto segment continues to be in limelight with 140k+ bookings (excl. 100k units of Scorpio-N), of which 79k units are for XUV700 (majorly for the top-end variants). Led by successful model launches, we believe that the company could regain 150-200bps of its lost SUV market share (from FY22 base of 15%) in the next 2 years.

M&M is one of our preferred picks in auto space given (1) healthy turnaround in the segment with back-to-back successful launches in highly competitive SUV space (2) its proactiveness to leverage EV trend for value unlocking (3) strong leadership position in tractor industry and (4) well-played out capital allocation strategy. Reiterate 'BUY' at target price of Rs 1,400 (18x on Jun-24 core EPS and Rs 285 for subsidiaries).

- 1QFY23 financial performance:** (1) **Standalone:** M&M's revenue at Rs 196bn (+15% QoQ) was below our estimates of Rs 199bn. The miss was on account of lower than expected ASPs at Rs 721k (-4%). EBITDA margin came in at 11.9% (+60bps QoQ) vs our expectation of 12.2%, impacted by commodity cost pressures. M&M reported APAT of Rs 14.7bn (+26% QoQ). (2) **Automotive segment:** Segment reported revenue growth of ~2% led by 4% increase in ASPs owing to SUV premiumisation. EBIT margin was at 5.7% vs 5.6% QoQ. (3) **Farm segment:** Revenue grew by 26% YoY driven by 19% growth in volumes led by onset of monsoons. EBIT margin at 16% vs 15.7% QoQ.

- Key takeaways:** (1) **Potential margin expansion in the auto segment:** M&M currently has an order of 140k+ units (excl. 100k units of Scorpio-N) of which 79k units are for XUV700. Despite long waiting period, M&M is receiving incremental bookings every month owing to value offerings in its products. Cancellation rate remains at the same 10-12% as earlier. However, the chip issue now resolving and monthly run-rate should improve to 30k in next few months from ~27k currently, along with Scorpio-N volumes. All this combined can lead to a margin expansion of 200-300bps, in our view. (2) **Electronic component shortage impacting volume ramp-up:** Shortage of electronic components is impacted at 10% of SUV volumes. Further, customer preference for top-end variants in XUV700 has further riled-up the issue. Constraint has also been on the engine capacity side, where it plans a steep jump in coming months. (3) **Farm segment to register single-digit growth:** Management guided that the tractor industry is expected to deliver 3-5% growth in FY23. The company has gained 0.9% market share to 42.7% vs 40% in FY22. EBIT margins for FES business continues to remain under pressure (16% vs 18.1% in FY22 and 22.7% in FY21) as M&M has not been able to fully pass on the prices.

Exhibit 1: SOTP valuation

	Jun-24
Core business value excl subsidiary dividend (@ 18x PE on FY24E EPS)	1,115
Value of the subsidiaries	
Tech Mahindra Limited	224
Mahindra & Mahindra Financial Services Limited	108
Mahindra Holidays & Resorts India Limited	17
Mahindra Logistics Limited	17
CIE Automotive Spain	16
Mahindra CIE	9
Other subsidiaries	16
Total value of the subsidiaries	407
Value post 30% holding discount	285
Target price	1,400

Source: Company, PL

Exhibit 2: Q3FY22 Result Overview (Rs mn)

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Net Revenues	196,126	117,628	66.7	171,240	14.5
Raw Materials	150,240	81,922	83.4	130,755	14.9
% of Net Sales	76.6	69.6		76.4	
Personnel	8,362	8,855	(5.6)	7,461	12.1
% of Net Sales	4.3	7.5		4.4	
Manufacturing & Other Exp	14,114	10,534	34.0	13,568	4.0
% of Net Sales	7.2	9.0		7.9	
Total Expenditure	172,716	101,311	70.5	151,784	13.8
EBITDA	23,410	16,317	43.5	19,455	20.3
EBITDA Margin (%)	11.9	13.9		11.4	
Depreciation	6,806	5,586	21.8	6,805	0.0
EBIT	16,604	10,731	54.7	12,651	31.3
Interest Expenses	698	714	(2.3)	558	25.0
Non-operating income	2,386	2,052	16.3	2,387	(0.1)
Extraordinary Income	(410)	(785)	(47.8)	1,248	(132.8)
PBT	17,882	11,284	58.5	15,727	13.7
Tax-Total	3,581	2,728	31.3	2,808	27.5
Tax Rate (%) - Total	20.0	24.2		17.9	
Reported PAT	14,302	8,556	67.2	12,919	10.7
Adj. PAT	14,711	9,341	57.5	11,672	26.0
PAT Margin	7.5	7.9		6.8	

Source: Company, PL

Exhibit 3: Operating Metrics (Rs mn)

Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Sales Volume (nos)	271,971	186,777	45.6	228,784	18.9
Net Realisation/Vehicle	721,130	629,777	14.5	748,478	(3.7)
Material cost / vehicle	552,410	438,608	25.9	571,521	(3.3)
Gross Profit / vehicle	168,720	191,169	(11.7)	176,957	(4.7)
Employee cost /vehicle	30,747	47,411	(35.1)	32,613	(5.7)
Other expenses / vehicle	51,897	56,399	(8.0)	59,306	(12.5)
EBITDA/vehicle	86,076	87,359	(1.5)	85,038	1.2
Net Profit/vehicle	54,091	50,010	8.2	51,015	6.0

Source: Company, PL

Exhibit 4: Segmental Breakup (Rs mn)

	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)
Automotive					
Volumes	153,462	86,848	76.7	155,902	(1.6)
Realisations	801,913	696,647	15.1	774,312	3.6
Revenue	123,063	60,502	103.4	120,717	1.9
EBIT	7,035	1,025	586.3	6,748	4.3
EBIT margin %	5.7	1.7	402	5.6	13
Farm equipment's					
Volumes	118,509	99,929	18.6	72,882	62.6
Realisations	564,399	532,235	6.0	593,735	(4.9)
Revenue	66,886	53,186	25.8	43,273	54.6
EBIT	10,735	10,811	(0.7)	6,778	58.4
EBIT margin %	16.0	20.3	(428)	15.7	39

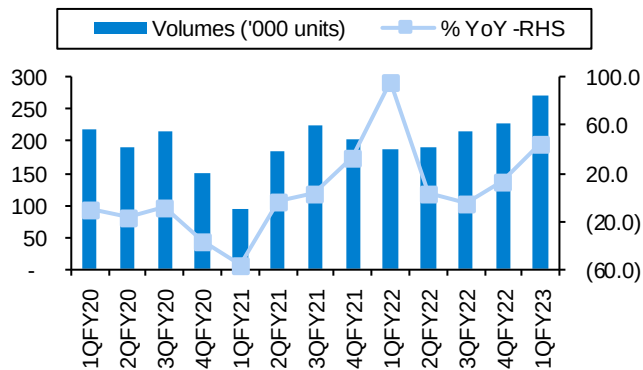
Source: Company, PL

Exhibit 5: Key Assumptions

In units	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SUV	222,541	233,915	235,362	179,405	155,530	223,682	322,020	369,476	392,943
YoY gr.	-2%	5%	1%	-24%	-13%	44%	44%	15%	6%
Pick-up	156,497	172,643	196,458	164,229	138,963	159,550	189,369	208,306	224,971
YoY gr.	5%	10%	14%	-16%	-15%	15%	19%	10%	8%
Tractors	263,177	319,623	330,436	301,915	354,498	354,698	373,315	400,030	424,885
YoY gr.	23%	21%	3%	-9%	17%	0%	5%	7%	6%
Others	128,249	142,627	176,212	134,260	58,188	82,369	99,203	118,446	130,978
YoY gr.	11%	11%	24%	-24%	-57%	42%	20%	19%	11%
Total volumes	770,464	868,808	938,468	779,809	707,179	820,299	983,908	1,096,258	1,173,777
YoY gr.	9%	13%	8%	-17%	-9%	16%	20%	11%	7%
Avg realisation (Rs)	537,051	547,617	563,133	575,341	630,314	703,212	744,254	769,092	783,887
YoY gr.	-7%	2%	3%	2%	10%	12%	6%	3%	2%

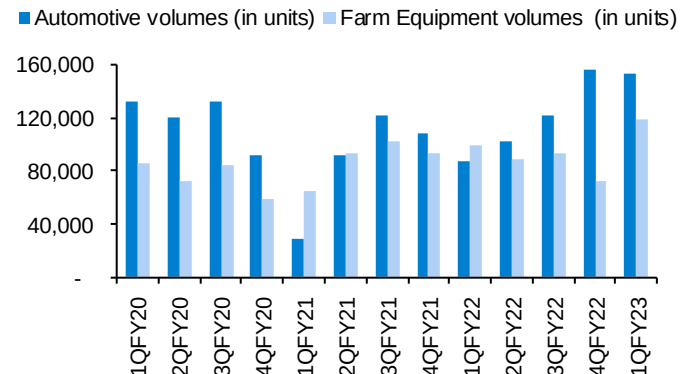
Source: Company, PL

Exhibit 6: Overall volumes grew 19% QoQ



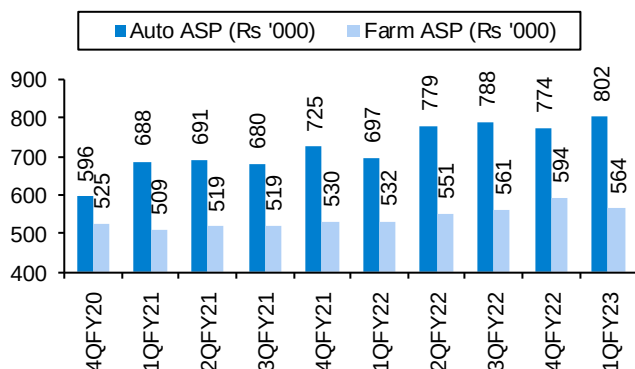
Source: Company, PL

Exhibit 7: Growth in auto vols on the back of new launches



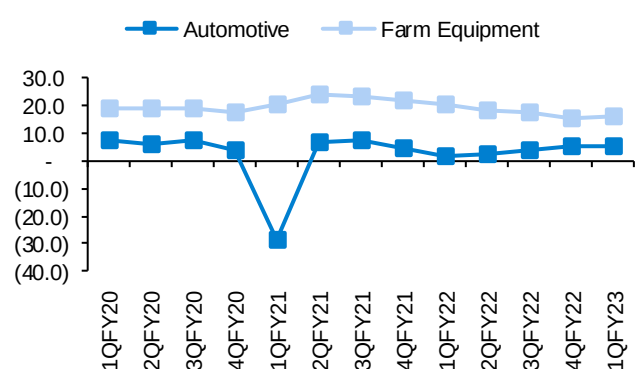
Source: Company, PL

Exhibit 8: Auto ASPs improve due to premiumisation



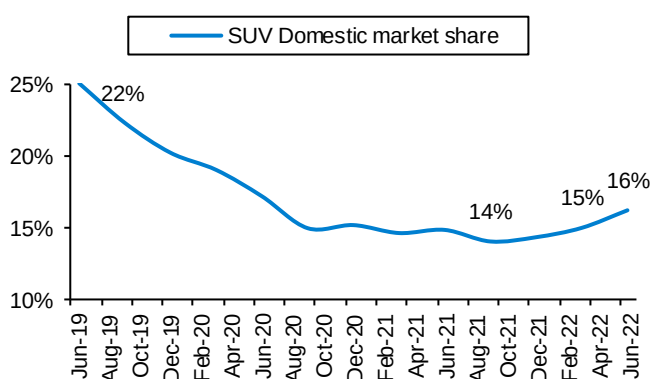
Source: Company, PL

Exhibit 9: FES margins impacted due to RM cost inflation



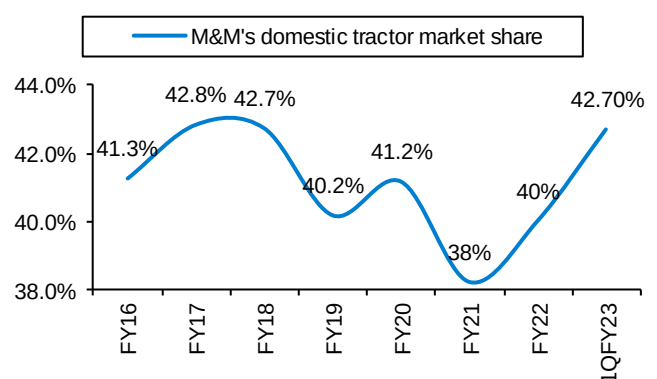
Source: Company, PL

Exhibit 10: SUV market share improved 100bps in 1QFY23



Source: SIAM, PL

Exhibit 11: Market share gains in the tractor segment



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	5,74,460	7,32,277	8,43,124	9,20,109
YoY gr. (%)	28.7	27.5	15.1	9.1
Cost of Goods Sold	4,23,416	5,32,365	6,07,049	6,53,277
Gross Profit	1,51,044	1,99,912	2,36,075	2,66,832
Margin (%)	26.3	27.3	28.0	29.0
Employee Cost	33,060	41,008	45,950	49,686
Other Expenses	47,562	61,847	67,837	74,031
EBITDA	70,423	97,057	1,22,288	1,43,115
YoY gr. (%)	1.2	37.8	26.0	17.0
Margin (%)	12.3	13.3	14.5	15.6
Depreciation and Amortization	24,511	27,219	29,895	32,867
EBIT	45,912	69,838	92,392	1,10,248
Margin (%)	8.0	9.5	11.0	12.0
Net Interest	2,230	2,357	2,357	2,289
Other Income	20,759	20,162	21,200	22,820
Profit Before Tax	62,355	87,643	1,11,236	1,30,778
Margin (%)	10.9	12.0	13.2	14.2
Total Tax	13,002	21,473	26,975	31,714
Effective tax rate (%)	20.9	24.5	24.3	24.3
Profit after tax	49,352	66,171	84,261	99,065
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	51,439	66,171	84,261	99,065
YoY gr. (%)	26.3	28.6	27.3	17.6
Margin (%)	9.0	9.0	10.0	10.8
Extra Ord. Income / (Exp)	(2,087)	-	-	-
Reported PAT	49,352	66,171	84,261	99,065
YoY gr. (%)	401.5	34.1	27.3	17.6
Margin (%)	8.6	9.0	10.0	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	49,352	66,171	84,261	99,065
Equity Shares O/s (m)	1,197	1,197	1,197	1,197
EPS (Rs)	43.0	55.3	70.4	82.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	3,16,042	3,56,042	3,96,042	4,36,042
Tangibles	3,16,042	3,56,042	3,96,042	4,36,042
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,70,556	1,97,776	2,27,671	2,60,538
Tangibles	1,70,556	1,97,776	2,27,671	2,60,538
Intangibles	-	-	-	-
Net fixed assets	1,45,486	1,58,267	1,68,371	1,75,504
Tangibles	1,45,486	1,58,267	1,68,371	1,75,504
Intangibles	-	-	-	-
Capital Work In Progress	50,182	47,673	45,289	43,025
Goodwill	-	-	-	-
Non-Current Investments	1,72,078	1,76,973	1,82,016	1,87,210
Net Deferred tax assets	(17,008)	(17,858)	(18,751)	(19,689)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	79,021	79,021	79,021	79,021
Inventories	58,829	68,212	69,298	75,625
Trade receivables	30,351	38,119	41,579	45,375
Cash & Bank Balance	36,505	70,395	1,21,838	1,84,895
Other Current Assets	44,293	50,937	61,124	73,349
Total Assets	6,71,303	7,52,338	8,40,689	9,46,982
Equity				
Equity Share Capital	5,983	5,983	5,983	5,983
Other Equity	3,83,627	4,35,438	5,04,144	5,86,456
Total Network	3,89,610	4,41,421	5,10,127	5,92,439
Non-Current Liabilities				
Long Term borrowings	58,408	57,962	57,493	57,001
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	8,927	9,374	9,842	10,335
Trade payables	1,28,935	1,50,468	1,61,695	1,76,459
Other current liabilities	68,414	75,256	82,781	91,059
Total Equity & Liabilities	6,71,303	7,52,338	8,40,689	9,46,982

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	64,441	87,643	1,11,236	1,30,778
Add. Depreciation	24,511	27,219	29,895	32,867
Add. Interest	2,230	2,357	2,357	2,289
Less Financial Other Income	20,759	20,162	21,200	22,820
Add. Other	(22,846)	(20,162)	(21,200)	(22,820)
Op. profit before WC changes	68,336	97,057	1,22,288	1,43,115
Net Changes-WC	(11,958)	(3,605)	(5,392)	(10,130)
Direct tax	(10,491)	(20,622)	(26,082)	(30,776)
Net cash from Op. activities	45,888	72,830	90,814	1,02,209
Capital expenditures	(37,970)	(42,387)	(42,659)	(42,930)
Interest / Dividend Income	-	-	-	-
Others	20,759	20,162	21,200	22,820
Net Cash from Invt. activities	(17,211)	(22,224)	(21,459)	(20,109)
Issue of share cap. / premium	4,568	-	-	-
Debt changes	(10,528)	-	-	-
Dividend paid	(13,821)	(14,359)	(15,556)	(16,752)
Interest paid	(2,230)	(2,357)	(2,357)	(2,289)
Others	-	-	-	-
Net cash from Fin. activities	(22,010)	(16,716)	(17,913)	(19,042)
Net change in cash	6,666	33,890	51,443	63,058
Free Cash Flow	7,077	35,339	53,198	64,474

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	1,33,054	1,52,388	1,71,240	1,96,126
YoY gr. (%)	14.8	8.4	28.2	66.7
Raw Material Expenses	96,808	1,13,931	1,30,755	1,50,240
Gross Profit	36,246	38,457	40,485	45,887
Margin (%)	27.2	25.2	23.6	23.4
EBITDA	16,598	18,058	19,455	23,410
YoY gr. (%)	(19.3)	(24.3)	(0.5)	43.5
Margin (%)	12.5	11.9	11.4	11.9
Depreciation / Depletion	5,807	6,312	6,805	6,806
EBIT	10,792	11,746	12,651	16,604
Margin (%)	8.1	7.7	7.4	8.5
Net Interest	425	533	558	698
Other Income	11,048	5,233	2,387	2,386
Profit before Tax	18,865	16,447	15,727	17,882
Margin (%)	14.2	10.8	9.2	9.1
Total Tax	4,548	2,916	2,808	3,581
Effective tax rate (%)	24.1	17.7	17.9	20.0
Profit after Tax	14,317	13,531	12,919	14,302
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	16,867	13,531	11,672	14,711
YoY gr. (%)	28.6	(22.5)	17.0	57.5
Margin (%)	12.7	8.9	6.8	7.5
Extra Ord. Income / (Exp)	(2,550)	-	1,248	(410)
Reported PAT	14,317	13,531	12,919	14,302
YoY gr. (%)	785.1	154.9	426.9	67.2
Margin (%)	10.8	8.9	7.5	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14,317	13,531	12,919	14,302
Avg. Shares O/s (m)	1,197	1,197	1,197	1,197
EPS (Rs)	14.1	11.3	9.8	12.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	43.0	55.3	70.4	82.8
CEPS	63.5	78.0	95.4	110.3
BVPS	325.6	368.9	426.3	495.1
FCF	5.9	29.5	44.5	53.9
DPS	11.6	12.0	13.0	14.0
Return Ratio(%)				
RoCE	10.4	14.5	17.0	17.8
ROIC	11.1	15.8	20.4	23.5
RoE	13.9	15.9	17.7	18.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	(25)	(22)	(22)	(22)
Valuation(x)				
PER	28.8	22.3	17.6	14.9
P/B	3.8	3.4	2.9	2.5
P/CEPS	19.5	15.8	13.0	11.2
EV/EBITDA	20.3	14.4	11.0	9.0
EV/Sales	2.5	1.9	1.6	1.4
Dividend Yield (%)	0.9	1.0	1.1	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Tractor Volumes	3,54,698	3,73,315	4,00,030	4,24,885
Auto volumes	4,65,601	6,10,593	6,96,228	7,48,892

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	31-Jul-22	BUY	1,400	1,164
2	31-Jul-22	BUY	1,400	1,164
3	25-Jul-22	BUY	1,380	1,181
4	08-Jul-22	BUY	1,155	1,133
5	31-May-22	BUY	1,155	998
6	11-Apr-22	BUY	1,042	857
7	11-Feb-22	BUY	1,015	853
8	12-Jan-22	BUY	1,004	839
9	10-Nov-21	BUY	1,061	892
10	07-Oct-21	BUY	978	878

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	177	154
2	Bajaj Auto	Hold	4,120	3,884
3	Bharat Forge	BUY	900	664
4	CEAT	UR	-	1,122
5	Eicher Motors	BUY	3,150	2,944
6	Endurance Technologies	BUY	1,700	1,493
7	Exide Industries	UR	-	145
8	Hero Motocorp	BUY	3,150	2,839
9	InterGlobe Aviation	Hold	1,900	1,977
10	Mahindra & Mahindra	BUY	1,400	1,164
11	Mahindra & Mahindra	BUY	1,400	1,164
12	Maruti Suzuki	BUY	9,500	8,658
13	Tata Motors	BUY	535	444
14	TVS Motors	BUY	950	868

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

ANALYST CERTIFICATION

(Indian Clients)

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