Mahindra & Mahindra (MAHMAH)

CMP: ₹ 1,300 Target: ₹ 1,590 (22%) Target Period: 12 months

BUY

September 13, 2022

Being future ready, going full throttle on EV front…

About the stock: M&M is a conglomerate with a presence in auto, IT, financial services, logistics, hospitality, real estate among others. At the standalone level, it is India's largest tractor manufacturer (~40% FY22 market share) & second largest CV, fourth largest PV maker (24.7%, 7.4% FY22 market share, respectively).

- FY22 standalone revenue mix – ~62% automotive, ~34% tractors

Key Highlights

- Mahindra & Mahindra (M&M) recently concluded its EV day showcasing its upcoming EV products and competitive strength of the new platform. M&M shared comprehensive plans with timeline in the EV space and would want to stick to its core SUV strength (4.3-4.7 m) in the e-mobility space
- Key takeaways include: (i) target to sell 20-30% of its SUV portfolio as electric vehicles (EVs) by 2027 i.e. ~2 lakh units, (ii) entire EV capex outlay pegged at ₹ 9,000-10,000 crore, which includes INGLO platform shared by all upcoming born electric cars, manufacturing set-up, cost of developing products including XUV 400 (specific spend at ~₹ 600 crore), (iii) upcoming collaborations in the charging infra space, (iv) born electric vehicles supporting all new age tech features including ADAS level 2+ with battery size pegged at 60-80 Kwhr with targeted certified range of 652-675 km

What should investors do? M&M's stock price has grown at ~14.9% CAGR (i.e. ~₹ 647 levels in September 2017), outperforming Nifty Auto index in that time.

- We maintain **BUY** on M&M amid continued RoCE focus, proactive approach towards electrification and inexpensive valuations among peers

Target Price and Valuation: We value M&M at SOTP-based target price of ₹ 1,590 (10x FY24E standalone EV/EBITDA; 30% holding company discount to investments, ₹ 225/share value accrued pursuant to recently equity raise for electric PV arm).

Key triggers for future price performance:

- We expect 23.4% FY22-24E revenue CAGR backed by 24.8% volume CAGR in automotive space; margins seen at 12.7% along with RoE of 15% by FY24
- Strong order book in PV business amid innovative and tech enabled new product launches & capex spends to scale up execution capabilities

Alternate Stock Idea: Apart from M&M, in our OEM coverage we like Tata Motors.

- Long term value drivers (EV transition, deleveraging & FCF focus) intact
- BUY with target price of ₹ 530

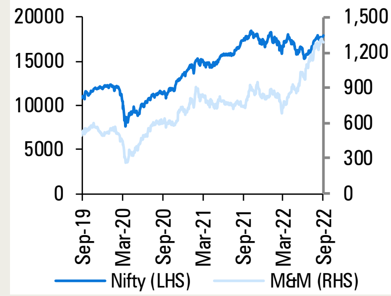
Particulars

Particular	Amount
Market Capitalization (₹ crore)	1,61,616
Total Debt (FY22, ₹ crore)	6,490
Cash and Inv (FY22, ₹ crore)	11,552
EV (₹ crore)	1,56,554
52 week H/L (₹)	1366/ 671
Equity capital (₹ crore) (FY22)	598.2
Face value (₹)	₹ 5

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	19.5	19.5	19.5	19.5
FII	38.9	38.7	37.3	37.9
DII	27.1	27.8	28.8	28.9
Other	14.5	14.1	14.4	13.7

Price Chart



Recent event & key risks

- Recently concluded EV Day
- **Key Risk:** (i) Slower than expected ramp in EV volumes, (ii) Supply chain issues limiting execution capabilities

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Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	53,614.0	45,487.8	44,629.9	57,446.0	5.5%	76,519.8	87,502.6	23.4%
EBITDA	6,639.6	5,798.0	6,957.5	7,042.3	9.3%	8,800.9	11,099.5	25.5%
EBITDA Margins (%)	12.4	12.7	15.6	12.3		11.5	12.7	
Net Profit	4,796.1	1,330.4	984.2	4,935.2	6.3%	5,814.3	7,230.7	21.0%
Adjusted Net Profit	4,818.6	2,190.4	2,303.2	5,100.4	9.6%	5,845.5	7,230.7	19.1%
EPS (₹)	40.2	11.2	8.2	41.4		48.7	60.6	
P/E	32.3	116.6	157.6	31.4		26.7	21.4	
RoNW (%)	14.1	6.4	6.6	13.1		13.5	14.9	
RoCE (%)	12.3	8.8	10.0	9.3		11.4	13.9	

Source: Company, ICICI Direct Research

Analyst meet & EV Day key highlights…

- INGLOW platform would enable it to deliver ~250 KW power in all wheels. This would result in super-fast acceleration and 0-100 km per hour in 5-6 seconds, along with fast charging and five-star rating
- INGLOW would enable the company to produce vehicles with higher battery capacity and advanced features like edge to edge display offering personalised experience to each individual, ADAS Level 2+
- INGLOW to come with "Stop thermal propagation", which would enable the company to prevent EV fires and would likely be standard, going forward
- For XUV 400, the company would start making deliveries from January 2023. To estimate demand M&M would be conducting customer fest during festive season (i.e. October/November 2022). Except cell, motor everything else is localised in XUV400. It will be the fastest C segment electric SUV
- XUV400 is largely aimed at youth who see electric vehicle as an extension of their personality and are environment conscious
- The company does not possess EV battery technology but could develop capabilities in this domain in due course of time
- The management foresees EV ultimately ruling auto space amid strong government push whereas hybrids are just midway towards electrification
- The company plans to spend ~₹ 9,000-10,000 crore for all six platforms including ~₹ 600 crore of expenditure done for developing XUV 400
- For the charging space, the management clarified that it will not make new investments and would be leveraging partnerships/collaborations for the same. Currently, the company is close to signing three MoUs for the charging space to leverage existing charging infra (private charging, fast charging at M&M's dealership, existing fast charging infrastructure)
- EV vehicles are 300-400 kg heavier than their ICE powered counterparts. They also possess a different suspension system. Real world range is ~20-30% less than the certified range and depends upon driving conditions, mode of driving as well as individual driving capabilities
- M&M's own design centre M.A.D.E in Oxford is equipped with state-of-the-art design tools to handle end-to-end design activities including conceptualisation, 3D digital and physical modelling, etc
- The company is cell chemistry agnostic. NMC cell chemistry was first to be adopted globally and is more preferred in cold countries with key advantage being high energy density. LFP chemistry is being adopted now, which is ~15% cheaper than NMC while it is more suitable for hot countries

Exhibit 1: INGLOW Platform features

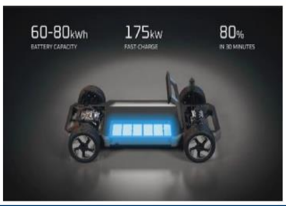
Thrill on Tap

Up to 250 kW power in All-Wheel Drive intending to take you from **0-100 km/h in 5-6 seconds.**

Endless Modularity

Variable lengths, widths, wheelbases and overhangs create an SUV that fits your lifestyle perfectly.

Incredible Fast Charging



Next-generation battery science **charging up to 80% in less than 30 minutes.**

World Class Safety

Building for **5 Star Global NCAP ratings** with Ultra-strong protection for the passenger cabin and battery tray.

Source: Company, ICICI Direct Research

VW MEB Electric components would be used for INGLOW platform.

Exhibit 2: Battery specifications for INGLOW platform

Battery

- **Energy** : 60 to 80 kWh
- **Cell Chemistry** : LFP, NMC
- **Cell type** : Blade, Prismatic
- **Pack design** : Cell to Pack
- **Highest cell integration efficiency** : 73% (benchmark range 60 % to 72 %)
- **Highest Energy density - LFP** : 142 Wh/kg

Charging

- **DC Charging Power** : 175 kW
- **Charging time** : 5% - 80% charging in 30 min.

Source: Company, ICICI Direct Research

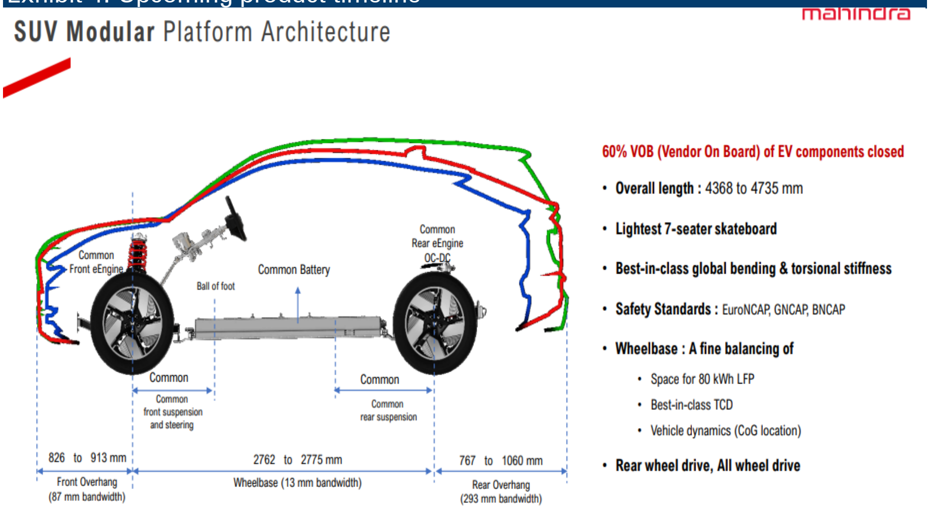
ICE converted EV can pack up to 40 Kwhr battery whereas INGLOW would enable the company to pack up to 80 Kwhr thereby translating to >650 kms of certified range

Exhibit 3: Upcoming product timeline

Source: Company, ICICI Direct Research

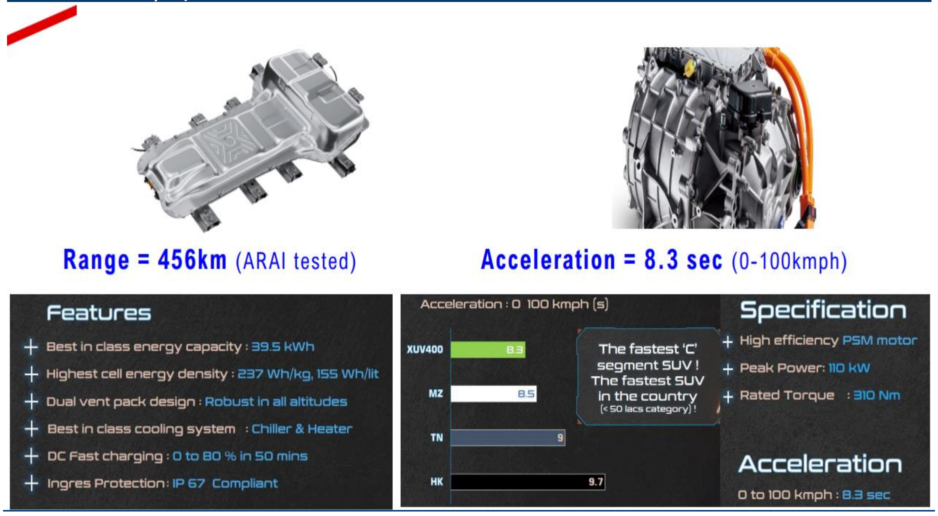
XUV E8 & E9 are production ready in terms of design and would likely be on similar lines whereas BE09 is in concept stage

Exhibit 4: Upcoming product timeline



Source: Company, ICICI Direct Research

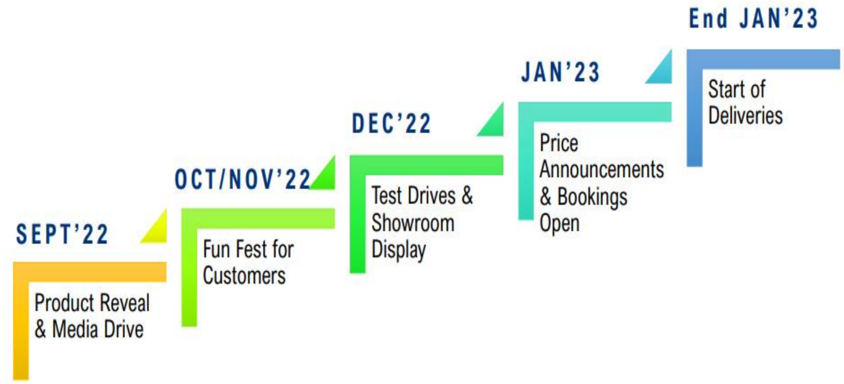
Exhibit 5: Key specifications for XUV 400



Source: Company, ICICI Direct Research

XUV 400 comes with best in class acceleration along with 60+ connected tech features

Exhibit 6: Timeline of launch – XUV 400



Source: Company, ICICI Direct Research

Exhibit 7: SOTP valuation

Valuation Matrix (SOTP)					
Automotive Business (UV+PV+CV+Tractors)		₹crore		₹/share	Remark
Standalone business					
FY24E EBITDA		11,100			
Assigning EV/EBITDA Multiple of 10x		10.00			
Enterprise Value		1,10,995		930	
Net Debt (FY24E)		(5,479)		-45	
Value of Standalone Business		**1,16,474**		**975**	
Valuation Pegging of electric PV business at lower valuation band (@₹1,925 crore for 4.76% stake) & 30% holding company discount		**26,961**		**225**	
Total value of automobile business including electric PV company (A)				**1200**	
Value of Investments (listed companies)	M&M stake	Co's Market Capitalisation	Contribution to M&M		Remark
	(%)	₹ crore	₹crore	₹/share	
Tech Mahindra	26	1,11,403	28,965	243	Current market cap
M&M Financial Services	52	27,801	14,501	122	Current market cap
Mahindra Life space	52	8,345	4,298	36	Current market cap
Mahindra CIE	11	10,150	1,161	10	Current market cap
Mahindra Holidays & Resorts	67	5,741	3,864	32	Current market cap
Mahindra Logistics	58	3,589	2,092	18	
Other subsidiaries & investments			11,787	99	
Total Value of subsidiaries & associates (B)			**66,668**	**559**	
Value of investments post 30% holding company discount (C = 0.7*B)				**390**	
M&M Target Price (value of equity per share , A+C)				**1,590**	

Source: ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	**44,629.9**	**57,446.0**	**76,519.8**	**87,502.6**
Growth (%)	-1.9	28.7	33.2	14.4
Raw Material Expenses	30,176.6	42,341.6	58,459.7	66,121.5
Employee Expenses	3,252.0	3,306.0	3,681.6	4,156.4
Other Expenses	4,243.9	4,756.2	5,577.7	6,125.2
Total Operating Expenditure	37,672.4	50,403.7	67,718.9	76,403.1
EBITDA	**6,957.5**	**7,042.3**	**8,800.9**	**11,099.5**
Growth (%)	20.0	1.2	25.0	26.1
Depreciation	2,369.9	2,451.1	2,754.7	3,062.6
Interest	396.3	223.0	253.2	209.6
Other Income	1,199.5	2,075.9	1,897.4	1,839.4
PBT	**5,390.8**	**6,444.1**	**7,690.4**	**9,666.8**
Others (incl exceptional item)	3,087.3	208.7	41.0	0.0
Total Tax	1,319.3	1,300.2	1,835.1	2,436.0
PAT	**984.2**	**4,935.2**	**5,814.3**	**7,230.7**
Adjusted PAT	**2,303.2**	**5,100.4**	**5,845.5**	**7,230.7**
Growth (%)	-26.0	401.5	17.8	24.4
EPS (₹)	**8.2**	**41.3**	**48.7**	**60.6**

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax (adj)	**4,071.5**	**4,935.2**	**5,814.3**	**7,230.7**
Add: Depreciation	2,369.9	2,451.1	2,754.7	3,062.6
(Inc)/dec in Current Assets	-1,212.2	-4,437.6	-4,042.9	-2,478.6
Inc/(dec) in CL and Provisions	5,579.2	2,492.3	3,920.5	2,917.5
CF from operating activities	**10,808.4**	**5,441.0**	**8,446.6**	**10,732.2**
(Inc)/dec in Investments	-4,931.8	-3,327.2	0.0	-400.0
(Inc)/dec in Fixed Assets	-6,102.6	-3,881.1	-6,000.0	-7,000.0
Others	-1,708.8	1,120.5	-97.3	-56.0
CF from investing activities	**(12,743.2)**	**(6,087.9)**	**(6,097.3)**	**(7,456.0)**
Issue/(Buy back) of Equity	0.9	0.8	0.0	0.0
Inc/(dec) in loan funds	4,594.3	-1,172.4	-750.0	-1,000.0
Dividend paid & dividend tax	-1,043.9	-1,378.0	-1,610.6	-1,998.3
Others	542.0	451.8	0.0	0.0
CF from financing activities	**4,093.3**	**(2,097.7)**	**(2,360.6)**	**(2,998.3)**
Net Cash flow	2,158.6	-2,744.6	-11.3	277.8
Opening Cash	4,236.4	6,395.0	3,650.4	3,639.1
Closing Cash	**6,395.0**	**3,650.4**	**3,639.1**	**3,916.9**

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	597.4	598.2	598.2	598.2
Reserve and Surplus	34,353.6	38,362.7	42,566.4	47,798.8
Total Shareholders funds	**34,951.0**	**38,960.9**	**43,164.6**	**48,397.0**
Total Debt	7,662.3	6,490.0	5,740.0	4,740.0
Deferred Tax Liability	1,449.7	1,700.8	1,700.8	1,700.8
Others	1,985.5	1,970.2	2,624.4	3,001.1
Total Liabilities	**46,048.5**	**49,121.8**	**53,229.7**	**57,838.8**
Assets				
Gross Block	28,496.7	33,485.1	40,503.3	48,503.3
Less: Acc Depreciation	16,485.4	18,936.5	21,691.2	24,753.8
Net Block	**12,011.3**	**14,548.6**	**18,812.1**	**23,749.5**
Capital WIP	6,125.4	5,018.2	4,000.0	3,000.0
Total Fixed Assets	18,136.7	19,566.8	22,812.1	26,749.5
Other investments	17,291.8	17,207.8	18,207.8	19,207.8
Liquid Investments	4,490.8	7,902.1	6,902.1	6,302.1
Inventory	4,783.0	5,882.9	7,337.5	8,390.7
Debtors	2,202.8	3,035.1	4,192.9	4,794.7
Loans and Advances	284.5	1,845.5	2,458.3	2,811.1
Other current assets	1,887.9	2,462.7	3,280.4	3,751.2
Cash	**6,395.0**	**3,650.4**	**3,639.1**	**3,916.9**
Total Current Assets	16,322.5	18,015.5	22,047.1	24,803.5
Creditors	10,642.7	12,893.5	15,723.3	17,980.0
Provisions	492.2	453.6	553.2	632.6
Total Current Liabilities	11,134.9	13,347.2	16,276.4	18,612.5
Net Current Assets	**5,187.5**	**4,668.3**	**5,770.7**	**6,191.0**
Application of Funds	**46,048.5**	**49,121.8**	**53,229.7**	**57,838.8**

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	8.2	41.4	48.7	60.6
Cash EPS	28.1	61.9	71.8	86.3
BV	293.0	326.6	361.8	405.7
DPS	8.8	11.6	13.5	16.8
Cash Per Share	91.2	96.8	88.4	85.7
Operating Ratios (%)				
EBITDA Margin	15.6	12.3	11.5	12.7
PBT / Net sales	10.3	8.0	7.9	9.2
PAT Margin	2.2	8.6	7.6	8.1
Inventory days	39.1	37.4	35.0	35.0
Debtor days	18.0	19.3	20.0	20.0
Creditor days	87.0	81.9	75.0	75.0
Net Working Capital days	-29.9	-25.3	-20.0	-20.0
Return Ratios (%)				
RoE	6.6	13.1	13.5	14.9
RoCE	10.0	9.3	11.4	13.9
RoIC	15.8	14.1	15.6	18.0
Valuation Ratios (x)				
P/E	157.6	31.4	26.7	21.4
EV / EBITDA	22.8	22.2	17.8	14.1
EV / Net Sales	3.5	2.7	2.0	1.8
Market Cap / Sales	3.6	2.8	2.1	1.8
Price to Book Value	4.4	4.0	3.6	3.2
Solvency Ratios				
Debt/Equity	0.2	0.2	0.1	0.1
Current Ratio	0.7	0.8	0.9	0.9
Quick Ratio	**0.3**	**0.5**	**0.5**	**0.5**

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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