Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Mahindra & Mahindra Ltd

Strong performance continues

Automobiles	Sharekhan code: M&M

Reco/View: Buy	↔	CMP: Rs. 1,287	Price Target: Rs. 1,550	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 27.41

Updated Aug 08, 2022

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 1,59,999 cr
52-week high/low:	Rs. 1,366 / 671
NSE volume: (No of shares)	39.3 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	100.8 cr

Shareholding (%)

Promoters	18.9
FII	36.8
DII	28.2
Others	16.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	4.1	43.3	47.4
Relative to Sensex	-3.0	-1.7	32.3	44.6

Sharekhan Research, Bloomberg

Summary

- M&M continued to deliver strong numbers in Q2FY2023, with EBITDA exceeding expectations by 6.5%.
- We firmly believe that M&M is on track with its growth roadmap. The company is taking a leap towards creating a strong product portfolio for passenger electric vehicles (EVs), besides its aggressive plans for farm equipment and ICE passenger car segments.
- EVs would be the next growth driver, driven by investments in product development, new launches, and focus on technical partnerships.
- We retain our Buy rating on M&M with an unchanged PT of Rs. 1,550, led by increasing focus on new launches and rising brand value of its core SUV products. The stock trades at a P/E multiple of 17.8x and EV/EBITDA multiple of 11.4x its FY2024E estimates.

Mahindra and Mahindra Limited (M&M) continued to deliver strong numbers in Q2FY2023, with EBITDA exceeding expectations by 6.5%. Net revenue grew by 56.6% y-o-y to Rs. 20,839 crore in Q2FY2023, led by robust 86% growth in the automotive segment and 12.9% growth in the tractor segment. EBITDA margin improved by 10bps q-o-q to 12%, led by improved product mix. EBITDA and PAT improved by 50.4% y-o-y and 46% y-o-y, respectively, in Q2. The SUV segment continues to grow robustly with successful launches and softening raw-material prices. The company has a convincing electric vehicle (EV) growth roadmap, with a slew of new and exciting launches under XUV and BE brands, with deliveries of its first EV SUV – XUV 400 set to begin from January 2023. M&M will focus on the dual brand strategy in the EV portfolio, through leveraging its iconic brands under the XUV brand and creating an all-new brand under BE. We believe M&M is on track with its growth roadmap. 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 market share in the SUV and LCV segments. M&M has guided for strengthening of the SUV segment through 13 launches by FY2027E, including EV launches. Further, management continues to focus on the farm equipment segment and has maintained its revenue guidance. M&M has maintained its FY2025E guidance to deliver an 18% RoE and 15-20% EPS growth. We maintain our Buy rating on the stock with a 12-month price target (PT) of Rs. 1,550.

Key positives

- M&M's market share in the SUV and tractor segments continued to improve, led by new launches and brand-building exercises.
- Consolidated RoE of the business has crossed 20% in H1FY2023, led by the strong UV segment's performance and turnaround of subsidiaries.
- Automotive's EBIT margin came in at 6.1% (up 40bps q-o-q), while tractor's EBIT margin came in at 16.4% (up 40bps q-o-q).
- M&M witnessed strong growth in the UV segment in Q2FY2023 y-o-y, led by strong demand for Thar, XUV700, Bolero, and Scorpio with open booking of 2,60,000 units as of November 1, 2022.
- Turnaround in international farm and auto subsidiaries continues to improve M&M's consolidated performance.
- EBITDA margin expanded by 60bps q-o-q to 11.9% in Q2FY2023, led by favourable product mix and positive operating leverage, despite firm input costs.

Key negatives

- Chips shortage continues to affect production and increase the waiting period for new vehicle deliveries..

Management Commentary

- M&M has guided for 5%+ growth in the domestic tractor industry's volumes y-o-y in FY2023E.
- In the passenger vehicle segment, the company plans to expand its capacity to 39,000 units per month by end-Q4FY2023 and 49,000 units per month by end-Q4FY2024 from a capacity of 29,000 units in Q4FY2022.
- The company has cut down its cumulative capex requirements to Rs. 15,100 crore for FY2022 to FY2025E.
- The company is on track with its commitment of 15-20% revenue growth and ROE of 18% by 2025.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 1,550: We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment, and regaining its market share in the highly competitive SUV segment. M&M is on track its growth roadmap. The company eyes 10x growth in its farm equipment business by FY2027E, while strengthening its SUV segment by adding 13 new products by FY2027E, including EV launches. Investment commitment by M&M's partners in the company's passenger EV arm is a positive development and would help M&M in attracting additional sources of private capital into EV venture. Further, M&M continues to benefit from the turnaround of its key subsidiaries, scaling up of digital platforms, and impressive performance of its listed entities, which would improve the company's free cash flows (FCF) going forward. We reiterate our Buy rating on the stock with a 12-month PT of Rs. 1,550. The stock trades at a P/E multiple of 17.8x and EV/EBITDA multiple of 11.4x its FY2024E estimates.

Key Risks

Uneven distribution of monsoons can affect our volume estimates for M&M's farm equipment segment. Unsuccessful new launches can also impact our projection adversely.

Valuation (Standalone) Rs cr

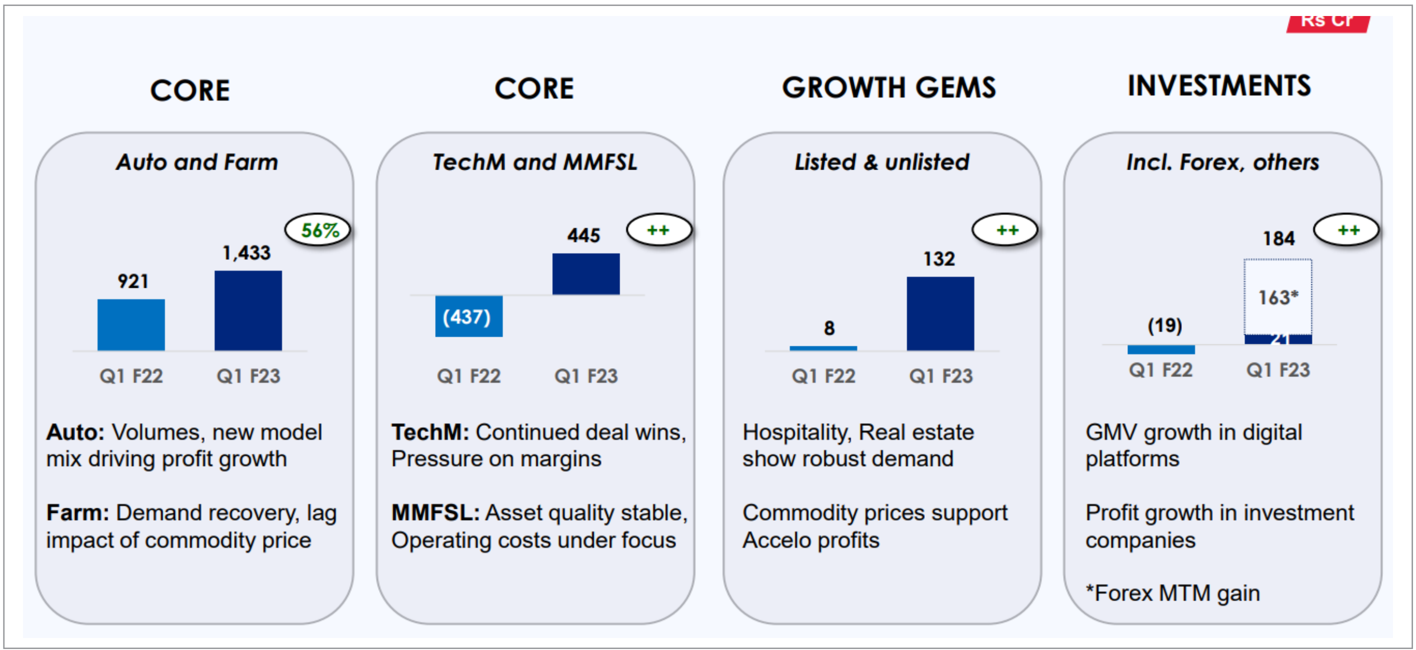
Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	44,574	57,446	72,257	86,715	99,864
Growth (%)	(0.6)	28.9	25.8	20.0	15.2
EBITDA	6,977	7,042	9,278	12,331	13,947
EBITDA margin (%)	15.7	12.3	12.8	14.2	14.0
PAT (Rs cr)	4,097	5,144	6,301	8,628	9,764
Growth (%)	15.4	25.5	22.5	36.9	13.2
FD EPS	33.0	43.0	52.7	72.1	81.6
P/E (x)	39.0	29.9	24.4	17.8	15.8
P/B (x)	4.3	3.9	3.6	3.2	2.8
EV/EBIDTA (x)	22.1	21.6	15.8	11.4	9.6
ROE (%)	11.0	12.6	14.1	17.1	17.2
ROCE (%)	13.8	14.6	17.1	20.8	21.0

Source: Company; Sharekhan estimates

Key analyst meet takeaways

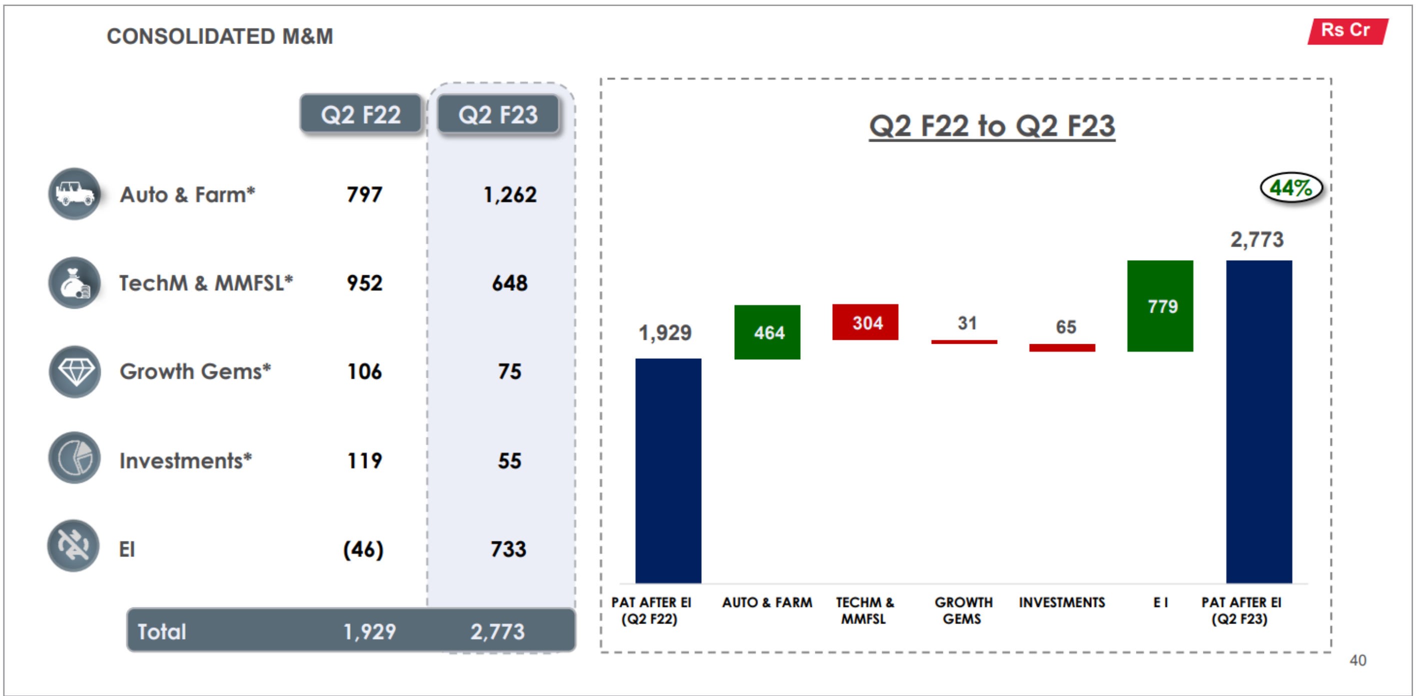
Strong performance continues: M&M continued to deliver strong numbers in Q2FY2023. EBITDA exceeded our expectations by 6.5%. Net revenue grew by 56.6% y-o-y to Rs. 20,839 crore in Q2FY2023, led by robust 86% growth in the automotive segment and 12.9% growth in the tractor segment. Net revenue increased by 6% q-o-q mainly due to a 6% q-o-q increase in average sales realisations (higher automotive mix) and 2-5% q-o-q rise in automotive and tractor average sales realisation in Q2FY2023. EBITDA margin improved by 10bps q-o-q to 12%, led by better product mix. Automotive's EBIT margin came in at 6.1% (up 40bps q-o-q), while tractor's EBIT margin came in at 16.4% (up 40bps q-o-q). EBITDA and PAT improved by 50.4% y-o-y and 46% y-o-y, respectively, in Q2.

Strong performance of group companies



Source: Company Presentation; Sharekhan Research

Segmental performance (consolidated) in Q2FY2023



Source: Company Presentation; Sharekhan Research

Overall performance: M&M's key businesses continued to grow strongly in Q2FY2023. The automotive and farm equipment businesses are witnessing strong and healthy demand, though the supply environment remains volatile. The semiconductor chip shortage situation has improved from the previous quarter. Tech Mahindra's performance improves on order wins and increased utilisation. MMFSL witnessed a sharp decline in GNPA with a focus on transformation. Growth in GEMs and digital platform businesses has shown significant improvement in profit in the current year.

Improving performance

Farm

#1 in Tractors

- Q2 F23 MS at 40.1% (= YoY)
- H1 F23 MS at 41.5% (50 bps ↑ YoY)

Highest Q2 Overall volumes

Vol : 92.6k (5.2% YoY growth)

Highest Q2 Export volumes

Vol : 4.6k (13.6% YoY growth)

Margin Improvement

Q2 F23 PBIT % at 16.4% vs 16.0% in Q1

Auto

#1 in SUVs

- Revenue MS in Q2 (19.0%) & H1 F23 (18.1%)
- Vol MS in Sep'22 (19.3%)

Highest ever Volumes (174k)

- **SUV**: 91.8K (85.6% YoY growth)
- **Pik-up**: 49k (86.4% YoY growth)

#1 in E-3Ws

- Q2 F23 MS at 67.2%
- Highest quarterly billing: 10.6k

Margin Improvement

Q2 F23 PBIT % at 6.1% vs 5.7% in Q1

Source: Company Presentation; Sharekhan Research

Segmental business: The automotive business flourishes very well during the quarter, led by new launches and exciting products. M&M launched five SUVs and expects EV launches to regain its lost market share during the last few years. New launches have seen a strong response with open booking of 2,60,000 units as of November 1, 2022. M&M continues to hold the No.1 position in SUV, in terms of revenue market share in Q2FY2023, with 18% share. M&M maintains its leadership position in LCV<3.5T. In the e-3W space, the company dominates with a 67.2% market share in FY2022. In the tractor segment, M&M's Q2FY2023 market share is 40.1%.

New EVCo to remain asset light: The EVCo business will include development, manufacturing, and selling of four-wheel Passenger EVs. The EVCo will be asset light and leverage M&M's ecosystem of suppliers, dealers, and financers. M&M will provide manufacturing support, design, product development, technology, and sourcing services on arm's length. Existing ICE brands will be licensed to EVCo for EVs, while new EV brands will be owned by EVCo. The company targets its Electric SUV penetration to be 20-30% of its overall SUV portfolio by FY2027 and expects EV volumes at ~2,00,000 per annum in the best-case scenario. The company would lay down its detailed EV plans on August 15, 2022. The company is expected to launch its first EV, XUV400, in September 2022. The company has lined up eight launches by FY2027E in the EV segment, 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.

Management maintains focus on SUVs and farm equipment: With renewed commitment, we expect M&M to further strengthen its position in the SUV and farm equipment segments. The company is looking for partners in the EV space to improve the ecosystem. We remain positive on the company's growth plans. 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 the target of 18% ROE and 15-20% EPS growth. We have revised our estimates to build in the impact of new launches, especially Scorpio-N in our estimates.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Revenue	20,839	13,305	56.6	19,613	6.3
Total Expenses	18,343	11,646	57.5	17,272	6.2
EBITDA	2,496	1,660	50.4	2,341	6.6
Depreciation	776	581	33.6	681	14.0
Interest	64	42	49.8	70	(8.8)
Other income	1,326	1,105	20.0	239	455.7
PBT	2,983	2,142	39.3	1,829	63.1
Tax	645	455	41.9	358	80.2
Reported PAT	2,338	1,687	38.6	1,471	58.9
Adjusted PAT	2,090	1,432	46.0	1,430	46.1
Adjusted EPS	17.5	12.0	45.8	12.0	46.1

Source: Company, Sharekhan Research

Key ratios (Standalone)

Particulars	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)
Gross margin (%)	23.5	27.2	(380)	23.4	10
EBIDTA margin (%)	12.0	12.5	(50)	11.9	-
EBIT margin (%)	8.3	8.1	10	8.5	(20)
Net profit margin (%)	10.0	10.8	(70)	7.3	270
Effective tax rate (%)	21.6	21.2	40	19.6	210

Source: Company, Sharekhan Research

Segmental Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Volume (Units)	**2,73,133**	**1,90,610**	**43.3**	**2,71,971**	**0.4**
- Automotive	1,79,683	1,01,690	76.7	1,53,462	17.1
- Tractors	93,450	88,920	5.1	1,18,509	(21.1)
Segmental revenue	**20,249**	**13,305**	**52.2**	**19,613**	**3.2**
- Automotive	14,725	7,917	86.0	12,306	19.7
- Tractors	5,538	4,903	12.9	6,689	(17.2)
Segmental realisation (Rs/Unit)	**7,41,349**	**6,98,042**	**6.2**	**7,21,130**	**2.8**
- Automotive	8,19,497	7,78,553	5.3	8,01,913	2.2
- Tractors	5,92,630	5,51,423	7.5	5,64,399	5.0
Segmental EBIT	**1,867**	**1,169**	**59.8**	**1,819**	**2.7**
- Automotive	903	211	328.4	704	28.4
- Tractors	908	916	(0.8)	1,074	(15.4)
			YoY (bps)		QoQ (bps)
Product mix (%)					
- Automotive	65.8	53.3	1,240	56.4	940
- Tractors	34.2	46.7	(1,240)	43.6	(940)
Segmental EBIT Margin (%)	**9.2**	**8.8**	**40**	**9.3**	**(10)**
- Automotive	6.1	2.7	350	5.7	40
- Tractors	16.4	18.7	(230)	16.0	40
Annualised segmental ROCE (%)	**47.9**	**25.5**	**2,240**	**49.0**	**(110)**
- Automotive	38.6	6.3	3,230	26.6	1,200
- Tractors	62.1	80.5	(1,850)	107.2	(4,510)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand likely to pick up in automotive and farm equipment

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

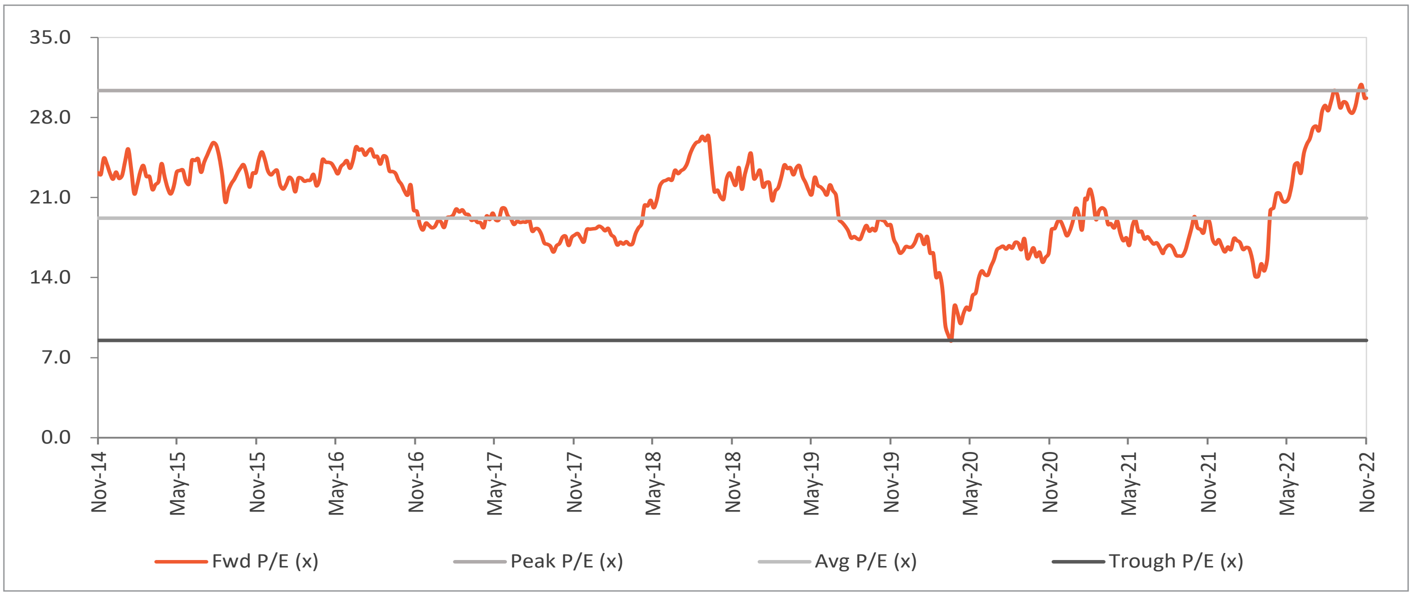
■ Company outlook - Strong earnings growth

M&M is the market leader in tractors with a 40% market share. The company is working on a lightweight compact global tractor project (named K2), which would see the launch of four new platforms. K2 would witness the 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 over 45% market share and a greater than 65% share in the 2-3.5 tonne LCV category. We expect M&M to further consolidate its 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 by investing in technology and launching new products regularly to regain its market share in the segment. M&M's focus continues to drive bookings in key brands – Thar, XUV-300, Scorpio, and Bolero, despite long waiting periods. The automotive business's roadmap is focused on brand strengthening and aggressive plans for new launches in ICE and EV segments. 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. 1,550

We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment, and regaining its market share in the highly competitive SUV segment. M&M is on track its growth roadmap. The company eyes 10x growth in its farm equipment business by FY2027E, while strengthening its SUV segment by adding 13 new products by FY2027E, including EV launches. Investment commitment by M&M's partners in the company's passenger EV arm is a positive development and would help M&M in attracting additional sources of private capital into EV venture. Further, M&M continues to benefit from the turnaround of its key subsidiaries, scaling up of digital platforms, and impressive performance of its listed entities, which would improve the company's free cash flows (FCF) going forward. We reiterate our Buy rating on the stock with a 12-month PT of Rs. 1,550. The stock trades at a P/E multiple of 17.8x and EV/EBITDA multiple of 11.4x its FY2024E estimates.

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 3W player. M&M also manufactures medium and heavy commercial vehicles (MHCV) and is present in the 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

M&M expects the tractor industry's growth to remain buoyant with strong farm sentiments on account of higher rainfall, expected increase in kharif output, and increased government spending. Higher ground water reservoir levels coupled with robust farmer cash flows 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 the 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 compelling case for re-rating of the stock. This would further substantially reduce losses in overseas subsidiaries and act as a key re-rating trigger for M&M. We maintain our Buy call on the stock.

Key Risks

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

Additional Data

Key management personnel

Anand G Mahindra	Chairman
Anish Shah	Managing Director and CEO
Rajesh Jejurikar	Executive Director (Auto and Farm Sectors)
Manoj Bhat	Group Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL MANAGEMENT & SERVICES	11.7
2	M&M BENEFIT TRUST	7.0
3	LIFE INSURANCE CORPORATION OF INDIA	7.5
4	First Sentier Investors Icvc	4.5
5	Icici Prudential Value Discovery Fund	4.1
6	SBI-ETF Nifty 50	3.2
7	Government Pension Fund Global	1.5
8	NPS Trust	1.3
9	Icici Prudential Life Insurance Company	1.2
10	Kuwait Investment Authority Fund	1.2

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

Know more about our products and services

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