

November 14, 2022

Q2FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,500		1,500	
Sales (Rs. m)	9,03,712	9,81,088	8,85,417	9,68,236
% Chng.	2.1	1.3		
EBITDA (Rs. m)	1,29,683	1,49,125	1,27,057	1,49,108
% Chng.	2.1	-		
EPS (Rs.)	74.4	86.2	73.3	85.7
% Chng.	1.5	0.5		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	574	794	904	981
EBITDA (Rs. bn)	70	103	130	149
Margin (%)	12.3	13.0	14.4	15.2
PAT (Rs. bn)	51	70	89	103
EPS (Rs.)	43.0	58.3	74.4	86.2
Gr. (%)	26.1	35.5	27.7	15.8
DPS (Rs.)	11.6	12.0	13.0	14.0
Yield (%)	0.9	0.9	1.0	1.1
RoE (%)	13.9	16.8	18.6	18.4
RoCE (%)	10.4	15.4	18.1	18.5
EV/Sales (x)	2.6	1.8	1.6	1.4
EV/EBITDA (x)	21.2	14.1	10.8	8.9
PE (x)	29.9	22.1	17.3	14.9
P/BV (x)	4.0	3.5	3.0	2.6

Key Data

MAHM.BO | MM IN

52-W High / Low	Rs.1,367 / Rs.671	
Sensex / Nifty	61,795 / 18,350	
Market Cap	Rs.1,600bn/ \$ 19,801m	
Shares Outstanding	1,243m	
3M Avg. Daily Value	Rs.4068.63m	

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	4.7	45.1	39.2
Relative	(3.2)	27.0	35.0

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Mahindra & Mahindra (MM IN)

Rating: BUY | CMP: Rs1,287 | TP: Rs1,500

Strong performance to continue

Quick Pointers:

- Automotive order book of ~260k units (80k units for XUV700, 130k for both Scorpios and 20k for Thar).
- Tractor industry to witness 5%+ growth in FY23.

M&M's 2QFY23 revenue at Rs 208bn (+6% QoQ) came slightly above our estimate of Rs 206bn, led by higher-than-expected ASPs (at Rs 762k, +6% QoQ). However, EBITDA margin at 12% came slightly below our estimate of 12.3%, +10bps QoQ. Management highlighted that though commodity costs have softened, semiconductor shortage has allowed the company to reap full benefits. With successful SUV launches and strong order book of 260k+ units, management has announced capacity expansion plans for SUV business from 29k units/month in FY22 end to 39k/49k units/month in FY23/FY24. Its domestic UV share has improved by 200bps since FY22 to 17%.

M&M is one of our preferred picks in the auto space, given (1) growing customer preference for SUV and back-to-back successful launches, (2) its leadership position in tractor industry, (3) proactiveness to leverage the EV trend, that can lead to value unlocking and, (4) well-played out capital allocation strategy. Also, RM tailwinds would further benefit margins (we built in 300bps expansion over FY22-25E). Our estimates remain largely unchanged. Retain 'BUY' with unchanged TP of Rs 1,500 (18x on Sep-24E core EPS and Rs 288 for subsidiaries).

- 2QFY23 financial performance: (1) Standalone:** Overall volumes were flat QoQ (tractors flat QoQ, auto +17% QoQ). ASPs at Rs 762k grew 5.8% QoQ. This led to a revenue growth of 6.3% to Rs 208bn (PLe: 206bn). EBITDA margin expanded 10bps QoQ to 12%. Gross margins were also flat QoQ. Company reported higher other income at Rs 13.2bn (Rs 2.38bn last quarter) on the back of dividend received from subsidiaries. Adjusted PAT grew by 59% QoQ to Rs 23.3bn. **(2) Automotive segment:** Segment reported revenue growth of ~20% QoQ, led by 17% increase in volumes. EBIT margin expanded to 6.1% (+42bps QoQ). **(3) Farm segment:** Revenue declined 17% QoQ, driven by 21% decline in volumes. EBIT margin was at 16.4% vs 16% QoQ.

- Key takeaways: (1) Capacity expansion plans for the SUV segment:** With successful SUV launches and strong order book (260k+ units), management has announced capacity expansion plans for the SUV business from 29k units/month in FY22 end to 39k units/month by FY23 end and 49k units/month by FY24 end. With these capacities, M&M will be able to service the existing booking, reduce waiting period, increase exports and cater to high customer preference for SUVs. It had earlier announced Rs 79bn worth of capex for automotive division over FY22-24. **(2) High single-digit growth for tractor industry:** Management has guided for 5%+ growth for the tractor industry considering above normal rainfall and healthy water reservoir level expectations of a healthy Rabi season. M&M gained 80bps of market share YoY (currently, 41.4% FY23YTD) led by new products – Yuvo Tech+. **(3) Margin expansion ahead:** Management highlighted that though commodity costs have softened, semiconductor shortage has allowed the company to reap full benefits. However, we expect margins to improve from here on, led by improved chip supplies to service healthy order book, fixed cost optimization, decrease in RM cost and aggressive pricing.

Exhibit 1: SOTP valuation

	Basis	(x)	M&M's holding	Sep-24 TP
Core business value excl subsidiary dividend	P/E	18		1,213
Subsidiaries value				
Tech Mahindra Limited	CMP		28.3%	220
Mahindra & Mahindra Financial Services Limited	PL target price		52.3%	108
Mahindra Holidays & Resorts India Limited	CMP		67.5%	20
Mahindra Logistics Limited	CMP		58.2%	18
CIE Automotive Spain	CMP		7.8%	16
Mahindra CIE	CMP		11.4%	11
Other subsidiaries	CMP			19
Total value of the subsidiaries				411
Value post 30% holding discount				288
Target price				1,500

Source: Company, PL

Exhibit 2: Q3FY22 Result Overview (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Net Revenues	208,393	133,054	56.6	196,126	6.3	404,519	250,682	61.4
Raw Materials	159,490	96,808	64.7	150,240	6.2	309,729	178,730	73.3
% of Net Sales	76.5	72.8		76.6		76.6	71.3	
Personnel	9,129	7,965	14.6	8,362	9.2	17,491	16,821	4.0
% of Net Sales	4.4	6.0		4.3		4.3	6.7	
Manufacturing & Other Exp	14,811	11,682	26.8	14,114	4.9	28,925	22,216	30.2
% of Net Sales	7.1	8.8		7.2		7.2	8.9	
Total Expenditure	183,429	116,455	57.5	172,716	6.2	356,145	217,767	63.5
EBITDA	24,964	16,598	50.4	23,410	6.6	48,374	32,915	47.0
EBITDA Margin (%)	12.0	12.5		11.9		12.0	13.1	
Depreciation	7,756	5,807	33.6	6,806	14.0	14,562	11,393	27.8
EBIT	17,208	10,792	59.5	16,604	3.6	33,812	21,522	57.1
Interest Expenses	637	425	49.8	698	(8.8)	1,335	1,139	17.2
Non-operating income	13,259	11,048	20.0	2,386	455.7	15,645	13,100	19.4
Extraordinary Income	(2,479)	(2,550)	(2.8)	(410)	505.0	(2,888)	(3,335)	(13.4)
PBT	27,351	18,865	45.0	17,882	53.0	45,234	30,149	50.0
Tax-Total	6,452	4,548	41.9	3,581	80.2	10,033	7,276	37.9
Tax Rate (%) - Total	23.6	24.1		20.0		22.2	24.1	
Reported PAT	20,899	14,317	46.0	14,302	46.1	35,201	22,873	53.9
Adj. PAT	23,378	16,867	38.6	14,711	58.9	38,089	26,208	45.3
PAT Margin	11.2	12.7		7.5		9.4	10.5	

Source: Company, PL

Exhibit 3: Operating Metrics (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Sales Volume (nos)	273,223	190,600	43.3	271,971	0.5	545,194	377,377	44.5
Net Realisation/Vehicle	762,720	698,078	9.3	721,130	5.8	741,973	664,273	11.7
Material cost / vehicle	583,735	507,910	14.9	552,410	5.7	568,108	473,610	20.0
Gross Profit / vehicle	178,985	190,168	(5.9)	168,720	6.1	173,864	190,663	(8.8)
Employee cost /vehicle	33,410	41,791	(20.1)	30,747	8.7	32,082	44,572	(28.0)
Other expenses / vehicle	54,208	61,292	(11.6)	51,897	4.5	53,055	58,871	(9.9)
EBITDA/vehicle	91,367	87,085	4.9	86,076	6.1	88,728	87,220	1.7
Net Profit/vehicle	85,563	88,496	(3.3)	54,091	58.2	69,863	69,448	0.6

Source: Company, PL

Exhibit 4: Segmental Breakup (Rs mn)

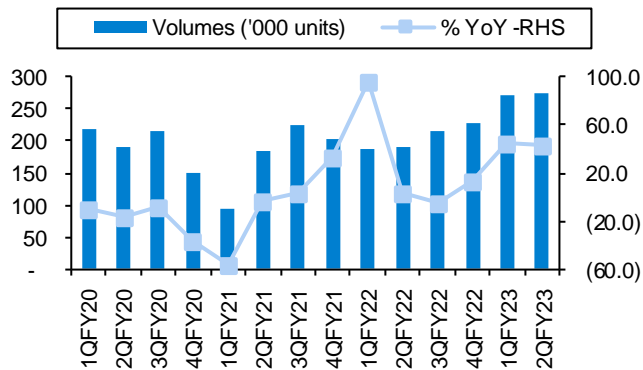
Automotive	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Volumes	179,683	101,680	76.7	153,462	17.1	333,145	188,528	76.7
Realisations	819,664	778,630	5.3	801,913	2.2	811,487	740,863	9.5
Revenue	147,280	79,171	86.0	123,063	19.7	270,343	139,674	93.6
EBIT	9,035	2,109	328.4	7,035	28.4	16,070	3,134	412.8
EBIT margin %	6.1	2.7	347 bps	5.7	42 bps	5.9	2.2	370 bps
	-	-		-		-	-	
Farm equipments	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Volumes	93,540	88,920	5.2	118,509	(21.1)	212,049	188,849	12.3
Realisations	592,060	551,423	7.4	564,399	4.9	576,601	541,269	6.5
Revenue	55,381	49,033	12.9	66,886	(17.2)	122,268	102,218	19.6
EBIT	9,085	9,159	(0.8)	10,735	(15.4)	19,820	19,970	(0.8)
EBIT margin %	16.4	18.7	-228 bps	16.0	35 bps	16.2	19.5	-333 bps

Source: Company, PL

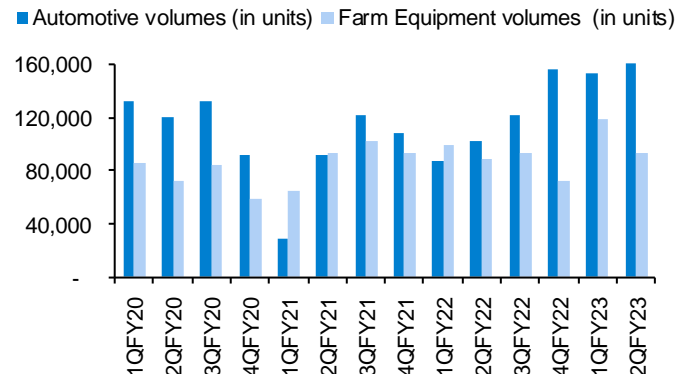
Exhibit 5: Key Assumptions

In units	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
SUV	222,541	233,915	235,362	179,405	155,530	223,682	360,120	409,890	429,384
YoY gr.	-2%	5%	1%	-24%	-13%	44%	61%	14%	5%
Pick-up	156,497	172,643	196,458	164,229	138,963	159,550	203,234	223,557	241,442
YoY gr.	5%	10%	14%	-16%	-15%	15%	27%	10%	8%
Tractors	263,177	319,623	330,436	301,915	354,498	354,698	379,880	405,245	429,348
YoY gr.	23%	21%	3%	-9%	17%	0%	7%	7%	6%
Others	128,249	142,627	176,212	134,260	58,188	82,369	111,503	133,130	148,079
YoY gr.	11%	11%	24%	-24%	-57%	42%	35%	19%	11%
Total volumes	770,464	868,808	938,468	779,809	707,179	820,299	1,054,736	1,171,822	1,248,253
YoY gr.	9%	13%	8%	-17%	-9%	16%	29%	11%	7%
Avg realisation (Rs)	537,051	547,617	563,133	575,341	630,314	703,212	752,536	771,202	785,969
YoY gr.	-7%	2%	3%	2%	10%	12%	7%	2%	2%

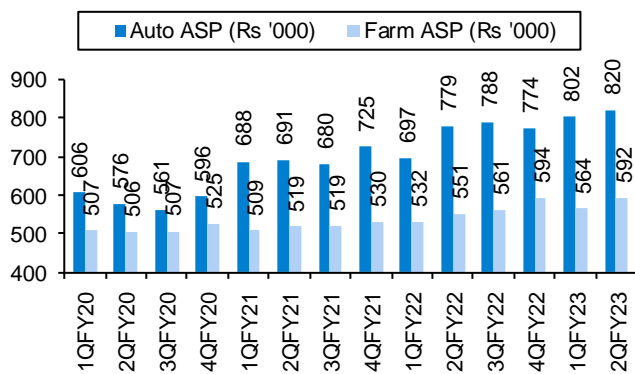
Source: Company, PL

Exhibit 6: Overall volumes were flat QoQ


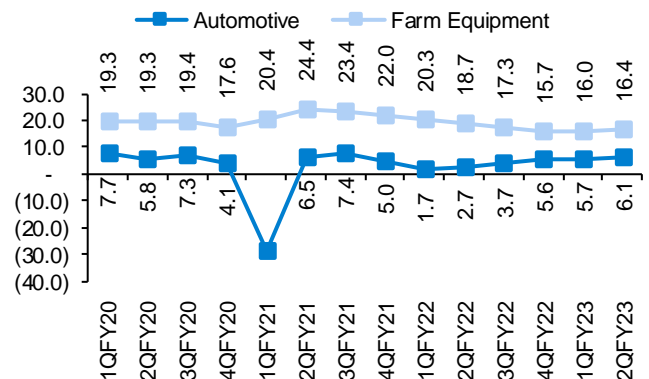
Source: Company, PL

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


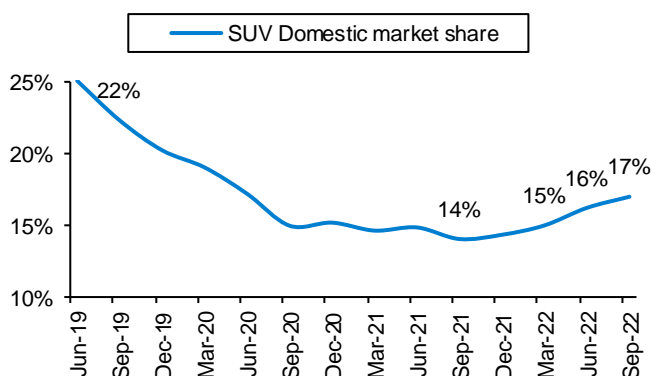
Source: Company, PL

Exhibit 8: Auto ASPs improve due to premiumisation


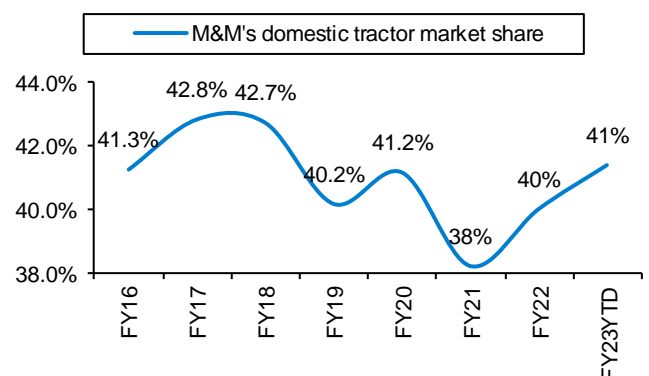
Source: Company, PL

Exhibit 9: ~40bps QoQ EBIT margin improvement


Source: Company, PL

Exhibit 10: SUV market share improved 200bps since FY22


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	7,93,727	9,03,712	9,81,088
YoY gr. (%)	28.7	38.2	13.9	8.6
Cost of Goods Sold	4,23,416	5,92,914	6,50,672	6,98,535
Gross Profit	1,51,044	2,00,813	2,53,039	2,82,553
Margin (%)	26.3	25.3	28.0	28.8
Employee Cost	33,060	36,511	49,252	52,979
Other Expenses	47,562	61,514	74,104	80,449
EBITDA	70,423	1,02,788	1,29,683	1,49,125
YoY gr. (%)	1.2	46.0	26.2	15.0
Margin (%)	12.3	13.0	14.4	15.2
Depreciation and Amortization	24,511	28,564	30,835	32,867
EBIT	45,912	74,224	98,847	1,16,258
Margin (%)	8.0	9.4	10.9	11.8
Net Interest	2,230	2,491	2,693	2,693
Other Income	20,759	21,224	22,554	23,894
Profit Before Tax	62,355	90,068	1,18,708	1,37,459
Margin (%)	10.9	11.3	13.1	14.0
Total Tax	13,002	22,517	29,677	34,365
Effective tax rate (%)	20.9	25.0	25.0	25.0
Profit after tax	49,352	67,551	89,031	1,03,094
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	51,439	69,717	89,031	1,03,094
YoY gr. (%)	26.3	35.5	27.7	15.8
Margin (%)	9.0	8.8	9.9	10.5
Extra Ord. Income / (Exp)	(2,087)	(2,166)	-	-
Reported PAT	49,352	67,551	89,031	1,03,094
YoY gr. (%)	401.5	36.9	31.8	15.8
Margin (%)	8.6	8.5	9.9	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	49,352	67,551	89,031	1,03,094
Equity Shares O/s (m)	1,197	1,197	1,197	1,197
EPS (Rs)	43.0	58.3	74.4	86.2

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	1,99,120	2,29,955	2,62,823
Tangibles	1,70,556	1,99,120	2,29,955	2,62,823
Intangibles	-	-	-	-
Net fixed assets	1,45,486	1,56,923	1,66,087	1,73,220
Tangibles	1,45,486	1,56,923	1,66,087	1,73,220
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	76,111	81,705	86,013
Trade receivables	30,351	41,317	44,567	48,382
Cash & Bank Balance	36,505	74,649	1,26,496	1,95,659
Other Current Assets	44,293	50,937	61,124	73,349
Total Assets	6,71,303	7,66,346	8,58,459	9,68,856
Equity				
Equity Share Capital	5,983	5,983	5,983	5,983
Other Equity	3,83,627	4,36,818	5,10,293	5,96,635
Total Network	3,89,610	4,42,801	5,16,276	6,02,618
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	1,63,095	1,73,315	1,88,154
Other current liabilities	68,414	75,256	82,781	91,059
Total Equity & Liabilities	6,71,303	7,66,346	8,58,459	9,68,856

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	64,441	90,068	1,18,708	1,37,459
Add. Depreciation	24,511	28,564	30,835	32,867
Add. Interest	2,230	2,491	2,693	2,693
Less Financial Other Income	20,759	21,224	22,554	23,894
Add. Other	(22,846)	(18,336)	(22,554)	(23,894)
Op. profit before WC changes	68,336	1,02,788	1,29,683	1,49,125
Net Changes-WC	(11,958)	(2,076)	(10,697)	(8,054)
Direct tax	(10,491)	(21,667)	(28,784)	(33,427)
Net cash from Op. activities	45,888	79,045	90,201	1,07,644
Capital expenditures	(37,970)	(42,387)	(42,659)	(42,930)
Interest / Dividend Income	-	-	-	-
Others	20,759	18,336	22,554	23,894
Net Cash from Invst. activities	(17,211)	(24,051)	(20,105)	(19,036)
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)	(2,491)	(2,693)	(2,693)
Others	-	-	-	-
Net cash from Fin. activities	(22,010)	(16,851)	(18,249)	(19,446)
Net change in cash	6,666	38,143	51,847	69,163
Free Cash Flow	7,077	41,554	52,585	69,909

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	1,52,388	1,71,240	1,96,126	2,08,393
YoY gr. (%)	8.4	28.2	66.7	56.6
Raw Material Expenses	1,13,931	1,30,755	1,50,240	1,59,490
Gross Profit	38,457	40,485	45,887	48,903
Margin (%)	25.2	23.6	23.4	23.5
EBITDA	18,058	19,455	23,410	24,964
YoY gr. (%)	(24.3)	(0.5)	43.5	50.4
Margin (%)	11.9	11.4	11.9	12.0
Depreciation / Depletion	6,312	6,805	6,806	7,756
EBIT	11,746	12,651	16,604	17,208
Margin (%)	7.7	7.4	8.5	8.3
Net Interest	533	558	698	637
Other Income	5,233	2,387	2,386	13,259
Profit before Tax	16,447	15,727	17,882	27,351
Margin (%)	10.8	9.2	9.1	13.1
Total Tax	2,916	2,808	3,581	6,452
Effective tax rate (%)	17.7	17.9	20.0	23.6
Profit after Tax	13,531	12,919	14,302	20,899
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,531	11,672	14,711	23,378
YoY gr. (%)	(22.5)	17.0	57.5	38.6
Margin (%)	8.9	6.8	7.5	11.2
Extra Ord. Income / (Exp)	-	1,248	(410)	(2,479)
Reported PAT	13,531	12,919	14,302	20,899
YoY gr. (%)	154.9	426.9	67.2	46.0
Margin (%)	8.9	7.5	7.3	10.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,531	12,919	14,302	20,899
Avg. Shares O/s (m)	1,197	1,197	1,197	1,197
EPS (Rs)	11.3	9.8	12.3	19.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	43.0	58.3	74.4	86.2
CEPS	63.5	82.1	100.2	113.6
BVPS	325.6	370.0	431.5	503.6
FCF	5.9	34.7	43.9	58.4
DPS	11.6	12.0	13.0	14.0
Return Ratio(%)				
RoCE	10.4	15.4	18.1	18.5
ROIC	11.1	16.9	21.7	24.8
RoE	13.9	16.8	18.6	18.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	(25)	(21)	(19)	(20)
Valuation(x)				
PER	29.9	22.1	17.3	14.9
P/B	4.0	3.5	3.0	2.6
P/CEPS	20.3	15.7	12.8	11.3
EV/EBITDA	21.2	14.1	10.8	8.9
EV/Sales	2.6	1.8	1.6	1.4
Dividend Yield (%)	0.9	0.9	1.0	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Tractor Volumes	3,54,698	3,79,880	4,05,245	4,29,348
Auto volumes	4,65,601	6,74,856	7,66,577	8,18,904

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,500	1,262
2	13-Sep-22	BUY	1,400	1,297
3	07-Aug-22	BUY	1,400	1,236
4	31-Jul-22	BUY	1,400	1,164
5	31-Jul-22	BUY	1,400	1,164
6	25-Jul-22	BUY	1,380	1,181
7	08-Jul-22	BUY	1,155	1,133
8	31-May-22	BUY	1,155	998
9	11-Apr-22	BUY	1,042	857
10	11-Feb-22	BUY	1,015	853

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	156
2	Bajaj Auto	Hold	3,865	3,571
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,775	1,617
5	Eicher Motors	BUY	4,190	3,701
6	Endurance Technologies	BUY	1,600	1,394
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,598
9	InterGlobe Aviation	Accumulate	2,015	1,798
10	Mahindra & Mahindra	BUY	1,500	1,262
11	Maruti Suzuki	BUY	10,230	9,493
12	Tata Motors	BUY	520	433
13	TVS Motors	BUY	1,275	1,114

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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