



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

Updated Aug 08, 2022

27.41

Medium Risk

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

Source: Morningstar

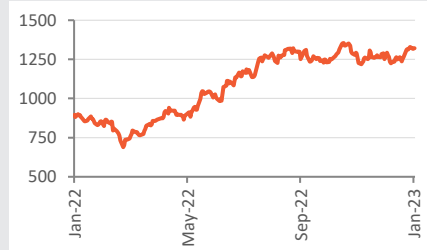
Company details

Market cap:	Rs. 1,64,226 cr
52-week high/low:	Rs. 1,366 / 671
NSE volume: (No of shares)	28.8 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	100.8 cr

Shareholding (%)

Promoters	18.9
FII	37.3
DII	27.8
Others	16.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.4	5.4	15.3	47.5
Relative to Sensex	3.6	1.9	2.0	47.8

Sharekhan Research, Bloomberg

Mahindra & Mahindra Ltd
Competitively positioned in e-SUV

Automobiles

Sharekhan code: M&M

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,321

Price Target: Rs. 1,550

Summary

- M&M priced its first e SUV, XUV 400 competitively – well under Rs 20 lakh bracket, which in our view would help it to garner healthy bookings in line with XUV's brand equity.
- Implementation of BS-VI phase-2 is likely to have a minimal impact on cost inflation, helping M&M to maintain its growth trajectory.
- We believe M&M is on track with its growth roadmap, across its core segments, viz. farm equipment, ICE passenger car segments, passenger EVs, and LCV business.
- We retain our Buy rating on M&M with an unchanged PT of Rs. 1,550, led by increasing focus on new launches and growing brand value of its core SUV products. The stock trades at a P/E multiple of 18.3x and EV/EBITDA multiple of 11.6x its FY2024E estimates.

M&M has launched its electric SUV (eSUV) – XUV 400 as per its guidance. The company is targeting to sell 20,000 units of XUV-400 in the next 12 months, with its competitive pricing. M&M has been strategically looking to play in the electric vehicle (EV) space through dual branding via leveraging its iconic brands under the XUV brand and creating an all-new brand under BE. We continue to remain positive on M&M, driven by its robust pipeline of new launches in the SUV segment, including EV penetration. Further, management continues to focus on the farm equipment segment and is aiming for 10x revenue growth by FY2027E. M&M is looking for 18% RoE and 15-20% EPS CAGR by FY2025. M&M's new products in the passenger vehicle (PV) segment have been receiving strong customer response, which is reflecting in its robust order book position. With rising volumes, operating leverage would come into play and M&M is expected to register 160 bps margin expansion over FY2022-FY2024. Historically, M&M's operating performance has been largely dependent on the tractor segment; however, we believe the auto segment is expected to drive its operating performance due to increasing volumes going ahead. We continue to maintain our Buy rating with an SOTP-based price target (PT) of Rs. 1,550, as we believe while M&M would continue to do well in the PV segment, it would maintain its leadership position in the tractor segment as well.

- XUV-400 priced competitively:** M&M has entered the eSUV segment with the launch of XUV-400. M&M has pegged XUV-400 in a price band of Rs. 15.99 lakh to Rs. 18.99 lakh compared to MG's EV at a price band of Rs. 22.98 lakh to Rs. 27.0 lakh. M&M has come out with an attractive introduction pricing, which we believe would help it in gaining healthy customer response. M&M aims to sell 20,000 EVs in the next 12 months, subject to the availability of components.
- Addressing capacity constraints in the PV segment:** Despite a strong order book, M&M's PV volume growth was restricted due to capacity constraints. However, M&M is expanding its manufacturing capacity in the PV segment to 49,000 units/month by the end of FY2024 and 39,000 units/month by the end of FY2023 from 29,000 units/month in FY2022 to clear out order backlog and register sustainable volume growth. We believe timely capacity expansion would help M&M to increase its market share and improve profitability in the auto segment due to operating leverage.
- BS-VI phase-2 cost hike is manageable:** While the street has been concerned about the diesel PV segment due to the probable increase in the cost of manufacturing on implementation of BS-VI phase-2, M&M has indicated that it would observe a rise in cost of Rs 9000 to Rs. 15,000 due to BS-VI phase-2 norms. We believe this kind of cost is easy to pass on to the customer due to high demand and waiting period in the market.

Our Call

Valuation – M&M has introduced its eSUV – XUV-400 as per its guidance and has been optimistic on the overall EV play. While the PV segment has been observing strong demand, as reflected in the healthy order book, capacity addition programme would eliminate the concerns about capacity constraints. Despite the high base, the tractor segment is expected to deliver a 6% volume CAGR over FY2022-FY2024E on account of M&M's leadership position in the tractor segment. We continue to maintain our Buy rating on the stock with an SOTP-based TP of Rs. 1,550. Further, M&M continues to benefit from the turnaround of loss-making subsidiaries, scaling up of digital platforms, and impressive performance of its listed entities, which would improve the company's free cash flow (FCF) going forward. The stock trades at a P/E multiple of 18.3x and EV/EBITDA multiple of 11.6x its FY2024E estimates.

Key Risks

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

Valuation (Standalone)

Particulars	Rs cr				
	FY21	FY22	FY23E	FY24E	FY25E
Revenue	44,574.4	57,446.0	76,253.3	89,385.6	1,02,938.2
Growth (%)	(0.6)	28.9	32.7	17.2	15.2
EBITDA	6,976.6	7,042.3	10,316.6	12,463.4	14,343.9
EBITDA margin (%)	15.7	12.3	13.5	13.9	13.9
PAT (Rs cr)	4,097.4	5,143.9	7,191.9	8,626.5	9,949.0
Growth (%)	15.4	25.5	39.8	19.9	15.3
FD EPS	33.0	43.0	60.1	72.1	83.1
P/E (x)	40.1	30.7	22.0	18.3	15.9
P/B (x)	4.4	4.0	3.6	3.2	2.9
EV/EBITDA (x)	22.8	22.2	14.6	11.6	9.6
ROE (%)	11.0	12.6	15.8	16.9	17.3
ROCE (%)	13.8	14.6	19.3	20.7	21.3


Source: Company; Sharekhan estimates

XUV-400 priced competitively: M&M has launched eSUV – XUV-400 as per the indicated timeline with an introductory price band of Rs. 15.99 lakh to Rs. 18.99 lakh. XUV-400 would be available in two variants (EL and EC) and bookings would begin from January 26, 2023. While the deliveries for EL variants would begin from March 23, deliveries for EC variants would begin from the festive season in 2023. The company would deliver the first 5,000 units of each of the variant at an introductory price and has been targeting to sell 20,000 units in the next 12 months. Given the aggressive pricing and its past record of bookings, we believe XUV-400 would also receive a healthy customer response in the market. M&M has been highly optimistic on the EV segment and assumes that eSUVs would constitute 20-30% of its SUV portfolio by FY2027. In addition to XUV 400, the company plans to launch XUV e8 and XUV e9 in December 2024 and April 2025, respectively, while BE.05 and BE.07 would be launched in October 2025 and October 2026, respectively.

Adding capacity in the PV segment: Production in the PV segment has been lagging to demand due to capacity constraints, which is leading to build-up of a strong order book and increased waiting period. M&M has been enjoying an order book at 260,000 units (by the end of Q2FY2023). However, now it has been increasing its capacity and is expected to reach a capacity of 39,000 units/month by the end of FY2023 and 49,000 units/month by the end of FY2024 compared to average monthly wholesale volume of 28.8k units in 9MFY2023. M&M has lost significant market share in the SUV segment over FY2012-FY2021 due to increased competition and dependence on few old models, given M&M’s market share in the SUV segment came down from 55% in FY2012 to 14.7% in FY2021. Post FY2021, the company has regained its market share in the SUV segment – thanks to new product launches and shift of consumer demand towards the SUV segment. M&M’s market share stood at 21.1% in Q2FY2023.

No major cost pressure due to BS-VI phase-2 norms: The manufacturing cost of passenger cars is expected to increase on implementation of BS-VI phase-2 norms from April 2023. Given M&M has largely adopted maximum changes during the implementation of BS-VI phase-1 and, hence, the cost pressure on implementation of BS-VI phase-2 would not be so high. Management has indicated that cost pressure due to the implementation of BS-VI phase-2 would not be so high and is likely to be manageable. M&M assumes a cost pressure of Rs. 9,000 to Rs. 15,000 due to the implementation of BS-VI phase-2 norms. Considering this, we believe M&M’s PV segment would not face a significant demand headwind due to the implementation of BS-VI phase-2 norms.

M&M :dual brand strategy in EV through XUV and BE brands



Leveraging iconic brands




Creating all-new revolutionary brand

Source: Company Presentation; Sharekhan Research


XUV 400 positioned competitively in B & C segments

XUV400 vs C - Segment

XUV 400 vs MZ




XUV 400 vs HK



Parameter*	XUV 400	MZ	HK
Overall Length	4200	4323	4180
Overall Height	1634	1649	1570
Overall Width	1821	1809	1800
Wheelbase (WB)	2600	2585	2600

XUV400 vs B - Segment

XUV 400 vs TN

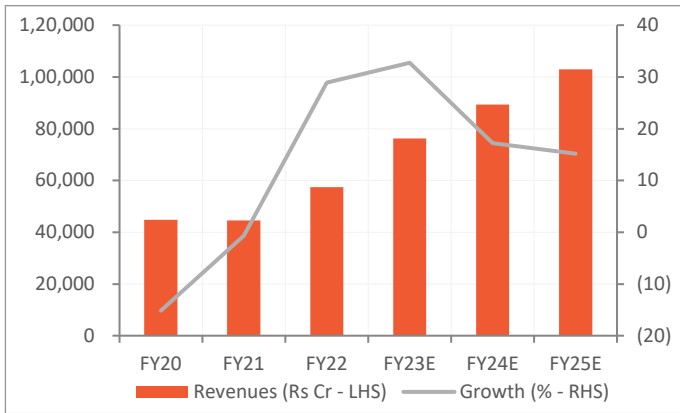


Parameter*	XUV 400	TN
Overall Length	4200	3993
Overall Height	1634	1616
Overall Width	1821	1811
Wheelbase (WB)	2600	2498

Source: Company Presentation; Sharekhan Research

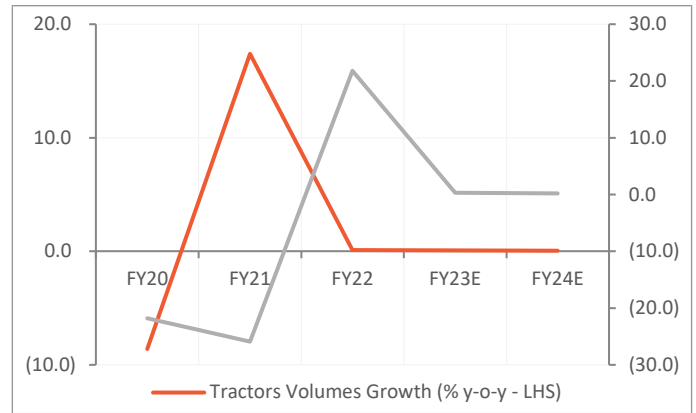
Financials in charts

Revenue and growth trend



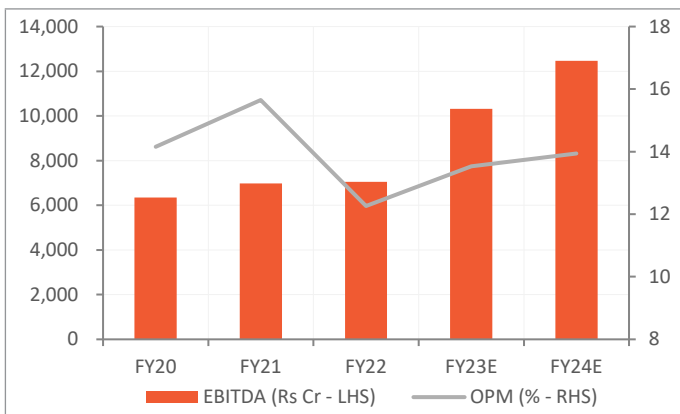
Source: Company, Sharekhan Research

Volume growth trend – Tractors & Automotive segment



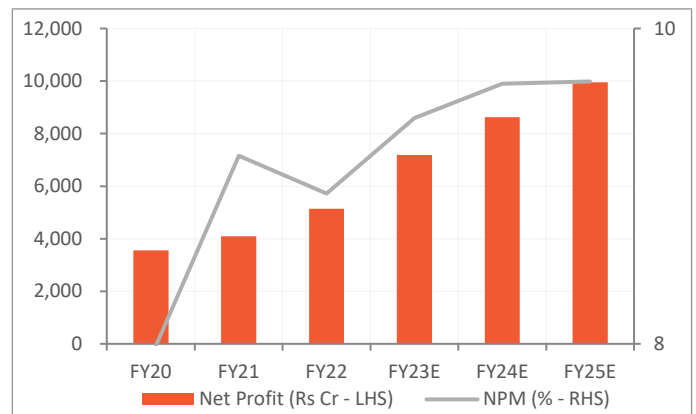
Source: Company, Sharekhan Research

EBITDA and OPM trend



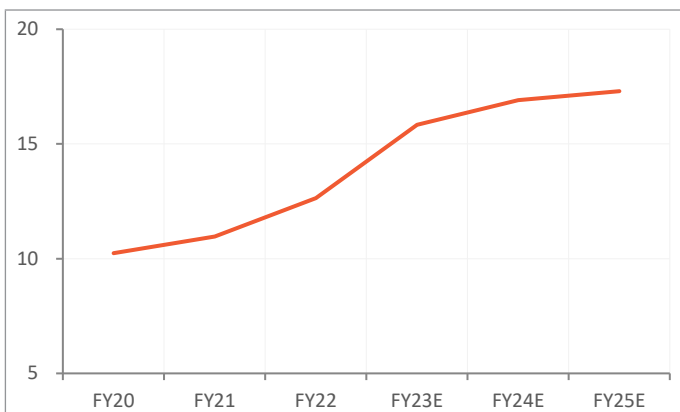
Source: Company, Sharekhan Research

Net profit and NPM trend



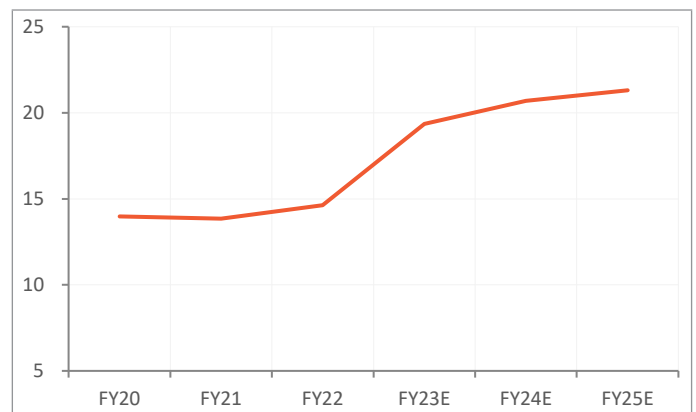
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand likely to pick up in automotive and farm equipment

We stay positive on structural demand for automobiles in the medium term and expect a 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 the 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&HCV sales are expected to continue growing strongly, driven by intensifying economic and infrastructure activities. LCVs are expected to do well because of surge in e-commerce and better last-mile connectivity. Buses and three-wheelers (3W) are also expected to see recovery, driven by the gradual reopening of schools and offices and easing of mobility restrictions.

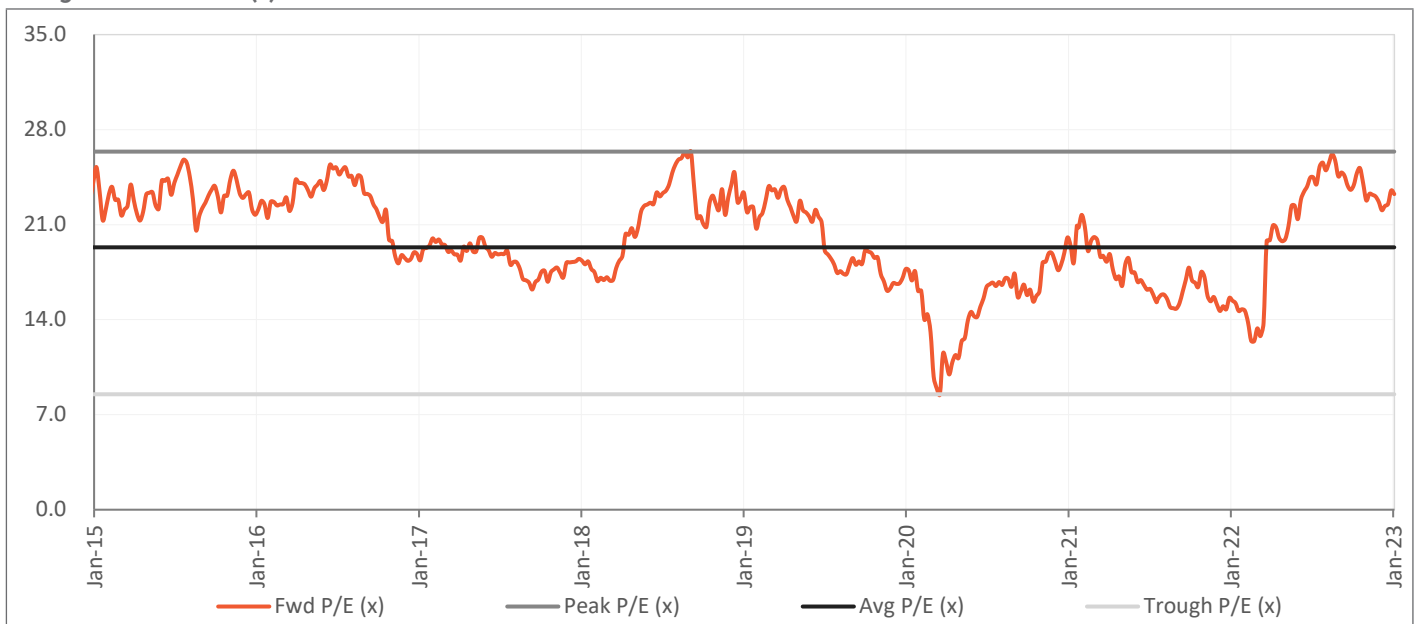
■ Company Outlook – Strong earnings growth

M&M is the market leader in tractors with a 40% market share. The company is working on 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 2.0-3.5 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 the 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 CAGR.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,550

M&M has introduced its eSUV – XUV-400 as per its guidance and has been optimistic on the overall EV play. While the PV segment has been observing strong demand, as reflected in the healthy order book, capacity addition programme would eliminate the concerns about capacity constraints. Despite the high base, the tractor segment is expected to deliver a 6% volume CAGR over FY2022-FY2024E on account of M&M's leadership position in the tractor segment. We continue to maintain our Buy rating on the stock with an SOTP-based TP of Rs. 1,550. Further, M&M continues to benefit from the turnaround of loss-making subsidiaries, scaling up of digital platforms, and impressive performance of its listed entities, which would improve the company's free cash flow (FCF) going forward. The stock trades at a P/E multiple of 18.3x and EV/EBITDA multiple of 11.6x its FY2024E estimates.

One-year forward P/E (x) band



Source: Company, 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 utility vehicle (UV) and 3W player. M&M also manufactures medium and heavy commercial vehicles (MHCV) and is present in the two-wheeler (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 and 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

With strong farm sentiments on account of higher rainfall, expected increase in kharif output, and increased government spending, M&M expects the tractor industry's growth to remain buoyant. Higher ground water reservoir levels coupled with robust farmer cash flows would 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 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 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 recommendation on the stock.

Key Risks

- ◆ Uneven distribution of monsoon 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL MANAGEMENT & SERVICES	11.4
2	M&M BENEFIT TRUST	6.8
3	First state Investments Icvc	5.5
4	SBI Funds Management	3.8
5	M&M Esot	3.7
6	First Sentier Investors LLC	3.51
7	Vanguard Group	2.8
8	Blackrock Inc	2.7
9	JP morgan Chase	2.6
10	Icici Prudential AMC	2.2

Source: Bloomberg

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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 deteriorating 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

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