

# Mahindra & Mahindra

## Looking to up the ante

M&M Q3 adjusted PAT at INR 20bn came in above our estimate of INR 18.7bn, primarily due to higher-than-expected other income, even as its operational performance was in line with our estimates. M&M's performance highlights for YTD FY23 are: (1) steady market share revival in the UV segment every quarter on the back of its new launches; (2) 90bps market share improvement in tractors to 41.4%, without compromising on margins; (3) revival in market share in <3.5T segment; (4) continued leadership in e-3Ws with 65% market share in Q3. Also, it is commendable that M&M has already achieved most of the targets it earmarked a couple of years back (including EPS CAGR, improvement in auto margins, RoE at 18%, calibrated asset allocation etc.) and management has indicated that it is now time to raise its targets from here on. We continue to remain positive on the business momentum given: (1) a strong order backlog for UVs; (2) positive rural sentiment that is likely to be boosted with some freebies from the government in an election year, which bodes well for tractors; (3) focused strides taken to achieve a strong position in EVs; (4) continuing focus on careful capital allocation. Due to better-than-expected volume recovery in tractors, we raise our EPS estimates by 1-4% over FY23-25E. **Maintain BUY, with a revised TP of INR1,554/sh (earlier at INR1,528/share).**

- Q3 PAT beats estimates:** M&M Q3 adjusted PAT at INR 20bn came in above our estimates of INR 18.7bn, primarily due to higher-than-expected other income, even as its operational performance was in line with our estimates, at 13% EBITDA margin. Even on a segmental basis, both auto and farm segment margins came in at 6.7%/16.6%, largely in line with our estimates. However, what was disappointing in Q3 was that M&M has taken a write-off of an estimated INR 9bn in the domestic CV business. Even in Q4, management has guided for an exceptional loss on account of its stake in Peugeot Motorcycles.
- Call takeaways:** (1) XUV400 has seen 15k bookings in 15 days. However, adjusted for this, its total ICE order backlog stands at 250k units, lower than the 260k units seen in Q2. While the order momentum for its top models remains strong, the decline in order book has been on account of increased production QoQ. (2) Post RDE norms, M&M expects price hikes in the range of INR9-22k per unit, the lowest amongst peers, which is likely to help it improve its competitive position in the UV segment. (3) As per management, the highly price-sensitive sub 2T LCV segment is seeing weak demand off late, given rising inflationary pressure. (4) Given the current strong demand momentum, management has revised its growth guidance for the tractor industry upwards to 10%+ for FY23, from 5%+ earlier. (5) In tractors, M&M's market share has improved 90bps to 41.4%. This is commendable, given that M&M has taken aggressive price hikes relative to the competition. (6) M&M expects the EV segment to witness an inflection point in FY25, by which time it will also be rolling out its Born Electric products.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	2,16,537	1,52,388	42.1	2,08,393	3.9	5,74,460	8,41,586	9,32,043	10,35,622
EBITDA	28,142	18,058	55.8	24,964	12.7	70,423	1,05,495	1,21,166	1,34,631
APAT	19,997	13,531	47.8	23,378	-14.5	50,917	73,755	82,078	89,738
Diluted EPS (INR)	16.7	11.3	47.8	19.5	-14.5	42.4	61.5	68.4	74.8
P/E (x)						32.2	22.2	19.9	18.2
EV / EBITDA (x)						23.6	15.8	13.6	12.0
RoCE (%)						14.1	19.2	18.9	18.6

Source: Company, HSIE Research

## BUY

CMP (on 10 Feb 2023)	INR 1,365
Target Price	INR 1,554
NIFTY	17,857

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,528	INR 1,554
EPS %	FY23E	FY24E
	3.6%	1.1%

### KEY STOCK DATA

Bloomberg code	MM IN
No. of Shares (mn)	1,243
MCap (INR bn) / (\$ mn)	1,698/20,556
6m avg traded value (INR mn)	3,539
52 Week high / low	INR 1,392/671

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.2	7.7	60.1
Relative (%)	5.1	4.5	57.1

### SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	19.38	19.39
FIs & Local MFs	28.50	27.42
FPIs	38.27	39.16
Public & Others	13.85	14.03
Pledged Shares	0.01	0.01

Source : BSE

Pledged shares as % of total shares

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**Disclosure:**

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