

MAHINDRA & MAHINDRA LIMITED

Decent Q4, robust all round growth to continue...

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M&M reported decent Q4 FY23 numbers wherein the topline was reported at ₹226 bn, a growth of 31.8% yoy and 4.2% qoq. Volumes rose by 17% yoy and realizations went up by about 12.6% yoy. Automotive division revenues came in at ₹164 bn, an increase of 36% yoy led by success of new launches –Thar, Bolero Neo, XUV 700, Scorpio variants and XUV 300 & 400 as M&M started rapidly catering to the order backlog. Automotive segment reported strong EBIT margins, which rose by 60 bps qoq, (170 bps yoy) to 7.3% due to positive operating leverage, model mix and price hikes. Tractor EBIT margins came in strong at 16.7% which were 10 bps up qoq and 100 bps up yoy. Overall EBITDA margins came in at 13.9% (70 bps jump qoq and 110 bps yoy). Due to low other income reported sequentially, and an exceptional item, PAT came in just 1.4% up. While adjusted for this one-off item, adjusted net profit came in at ₹20.6 bn which was up 77% yoy and 4.5% down qoq.

Superlative growth in SUVs paves way for bright prospects

M&M witnessed 27% yoy and 7.5% qoq growth in the UV segment volumes during the quarter. The company has received an excellent response for the new Scorpio N (incl. Classic) with 117K open bookings since its launch in June. The Thar and XUV 700 launches are still having huge order book of 14K and 8K per month respectively, though these models have long waiting periods. Neo Bolero was launched in July 2021 which already has received strong order bookings (10K monthly bookings for the entire Bolero family) and has made robust inroads into Southern markets where the earlier Bolero model was not having a wide presence. Also XUV300 and 400 combined have got a very strong response with 10K bookings per month. XUV 400 launched in Jan is now having a demand of 20k units p.m. The total order bookings (excluding Scorpio N) are 292K currently. With this, the company was able to increase their SUV revenue market share 19.6% and staying at #1 position. Also the company plans to launch its EV and ICE variants (4 door and 5 door Thar) in CY 24 along with several other new products such as BE.05, XUV.e9 and BE-RALL-E for the first time in India. From existing ICE capacity of 39K p.m, the company plans to expand it upto 49K p.m from June. M&M plans to launch 5 new SUVs this year.

Also on the CV side, the company is launching the Bolero Maxy Pick-up soon and has plans to launch several CVs and pick-ups over the next 5 years with a capacity expansion plan for each of the existing model in place. Also with chip shortage issue getting resolved now, we believe M&M will be able to cater to this burgeoning demand in FY24 and report solid growth thereby in line with reduction in waiting period.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total sales (₹ bn)	578	850	1,063	1,276
EBITDA margins (%)	12.8	12.3	13.2	13.9
PAT margins (%)	9.5	9.4	9.7	10.2
EPS (₹)	46.4	67.0	87.0	109.2
P/E (x)	28.7	19.8	15.3	12.2
P/BV (x)	4.1	3.6	3.1	2.6
EV/EBITDA (X)	20.0	13.7	10.1	7.8
ROE (%)	14.4	18.4	20.2	21.2
Dividend yield (%)	0.7	0.9	1.5	1.9

Rating	BUY
Current Market Price (₹)	1,330
12 M Price Target (₹)	1,685
Potential upside (%)	27

Stock Data

Sector :	Autos & FES
FV (₹) :	5
Total Market Cap (₹ bn) :	1,648
Free Float Market Cap (₹ bn) :	1,148
52-Week High / Low (₹) :	1,397 / 915
1 Yr Avg. Dly Traded Volume (in lakh) :	31
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

(%)	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	19.37	19.39	19.38	19.45
FPIs	39.24	39.16	38.27	37.94
MFs	14.68	15.30	15.01	14.81
Insurance	10.61	10.84	12.00	8.18
Others	16.10	15.31	15.34	19.62

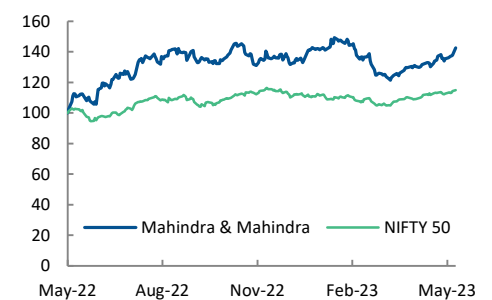
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
M&M	8.0%	4.4%	5.9%	32.7%
Nifty 50	3.0%	7.5%	0.2%	11.6%

* To date / current date : May 29, 2023

M&M vs Nifty 50



Out of this planned portfolio, there will be a strong presence of EV products (8 new products starting from CY 24), for which ₹30 bn investment is planned. The company plans to unveil its new INGLO platform for EV products soon. M&M has planned to increase its capex by ₹19 bn mainly for the EVs. M&M is looking for building partnerships with various EV players (Volkswagon) globally and build products such as XUV 700 EV and XUV 620 EV. The company has tied up with British International Investment (BII) to invest up to \$250 mn in new EV Co to be setup at a valuation of up to \$ 9.1 bn. We expect SUVs to register 20%/15% growth in FY24E/ FY25E respectively.

M&M has garnered 67% market share from 63.5% in the e-3W space qoq with the success of E-Alfa, Jeeto, Treo Auto and Treo Zor launched couple of quarters ago. A variant of Treo-Zor, named as Zor Grand was launched in Q2, which is also gaining momentum. M&M sold 14.6K units of E-3Ws in Q4 itself as compared to 16,000 units in FY22. M&M is expanding its existing capacity for e-3W and e-4W at its Zaheerabad plant in Telangana for an investment of ₹10 bn over the next 8 years.

The company's LCV business is also performing strong with 44.4% market share (170 bps up yoy) in <3.5T segment. The recent launch of Supro Profit Truck has strengthened offering in 0-2T 4W segment. M&M launched Jeeto CNG and Maxx Pick up in the LCV segment resulting in strong market share growth. We expect 17%/10% volume growth in CVs while 25%/15% growth in 3Ws in FY24E/25E respectively.

Tractor segment to report moderate growth in FY24

M&M witnessed about 29% growth in tractor volumes and 16.7% margins in Q4 FY23. M&M won market share by 2.3% yoy at 40.7% in Q4 FY23. However, with expected El Nino and its impact on monsoon and in turn on the tractor segment, we expect some impact on tractor sales, though the management believes that there is little correlation between El Nino and tractor sales. M&M highlighted that tractor segment fundamentals continue to remain strong led by (1) strong agricultural credit growth & MSPs and (2) strong infrastructural activities which would trigger non agri usage of tractors (3). Strong response to the newly launched Yuvo Tech + and launch of a 'Naya Swaraj' tractor in the lower HP range (already launched in 5 states) along with launch of Swaraj tractors in the 25HP and 29HP range on 2nd June. Range of small HP tractors 'Oja' will be launched on 15th August. Also in the farm machinery segment, M&M sees a robust demand with 15 new products launches in the Rice Cultivators, Rice and Vegetable Transplantors, Rotavators space. M&M is #2 in the Rotavator space with 16.5% market share (3.5% up yoy). On high base of FY23, we may see some base effect in FY24 along with impact of El Nino. We therefore expect FES segment to grow at 5%/8% in FY24E/25E respectively as against 16% FY23 volume growth.

Outlook and Valuation

We expect month on month upward trajectory in both Autos and tractor (at least for May, June and July post which we expect El Nino impact to be seen on tractor volumes) sales to continue hereon as the semi conductor issue is almost ironed out. Within the Auto sector, the robust order book of Scorpio N variants, Thar and XUV family should assist SUV growth in coming quarters. We expect mid to lower single digit growth for the FES segment on waning tractor cycle and possible El Nino impact. New launches may provide some fillip though. In EV 3Ws and LCVs too, with new launches the company is in a position to expand its market leadership position. Within EVs the company has entered a tie-up with Volkswagen for battery management and is in a position to increase its capex with reducing debt and increasing cash flows. M&M has over time exited its loss making businesses and have turned around several businesses which would definitely gather confidence of shareholders. The company has identified several growth drivers to leverage the core strength of M&M group and accelerate the growth for the company over the medium term. We maintain BUY on attractive valuations; SoTP-based target price stands at ₹1,685 (₹ 1,310 core business valued at 12x rolled over FY25E earnings + subsidiary valuation of ₹375) in line with our assumptions of margin improvement on increase in volumes and value of SUV, 3Ws and LCV segments, decent growth in FES, production increase offering operating leverage, price hikes and prudent cost reduction measures.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY23	Q3 FY23	% QoQ	Q4 FY22	% YoY
Net sales	2,25,713	2,16,537	4.2%	1,71,240	31.8%
Raw material costs	1,69,219	1,64,471	2.9%	1,30,755	29.4%
Employee costs	9,490	9,342	1.6%	7,461	27.2%
Other expenses	19,031	14,583	30.5%	13,568	40.3%
EBITDA	27,973	28,142	-0.6%	19,455	43.8%
<i>EBITDA margins (%)</i>	12.4%	13.0%	(60 bps)	11.4%	100 bps
<i>Other income</i>	3,339	6,700	-50.2%	2387	39.9%
Depreciation	8,385	8,292	1.1%	6805	23.2%
Interest expenses	698	686	1.8%	558	25.0%
PBT	22,229	25,865	-14.1%	14479	53.5%
Tax	1,621	4,296	-62.3%	2808	-42.3%
Reported PAT	15,489	15,281	1.4%	12919	19.9%
Exceptional items	(5,118)	(6,288)	-	1,248	-
Adjusted PAT	20,607	21,569	-4.5%	11672	76.6%
Adj EPS (₹)	17.23	18.03	-4.5%	9.8	76.6%

Source: Company, LKP Research

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@12x FY 25E EPS)	-	1,310
M&M Financial Services	Market cap	25%	52
Tech Mahindra	Market cap	25%	241
Mahindra Lifespaces	Market cap	30%	53
Mahindra Logistics	Market cap	30%	9
Mahindra Holiday & Resorts	Market cap	30%	13
Swaraj Engines	Market cap	30%	7
Subsidiaries Total SOTP value			375
Total			1,685

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	5,77,869	8,49,603	10,62,613	12,76,364
Raw Material Cost	4,23,416	6,45,582	8,04,398	9,62,379
Employee Cost	33,060	36,499	44,630	53,607
Other Exp	47,562	63,098	73,320	82,964
EBITDA	73,832	1,04,424	1,40,265	1,77,415
<i>EBITDA Margin(%)</i>	<i>12.8</i>	<i>12.3</i>	<i>13.2</i>	<i>13.9</i>
Other Income	20,759	25,452	27,000	29,000
Depreciation	24,511	31,545	33,165	38,730
Interest	2230	2728	3000	3200
PBT	67,851	95,603	1,31,099	1,64,485
<i>PBT Margin(%)</i>	<i>11.7</i>	<i>11.3</i>	<i>12.3</i>	<i>12.9</i>
Tax	12,673	15,821	27,531	34,542
Adj PAT	55,178	79,782	1,03,569	1,29,943
<i>Adj PAT Margins (%)</i>	<i>9.5</i>	<i>9.4</i>	<i>9.7</i>	<i>10.2</i>
Exceptional items	-2087	-14295	0	0
Reported PAT	53,091	65,487	1,03,569	1,29,943
<i>Rep. PAT Margins (%)</i>	<i>9.2</i>	<i>7.7</i>	<i>9.7</i>	<i>10.2</i>

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
Per Share Data (₹)				
Adj. EPS	46.4	67.0	87.0	109.2
CEPS	65.2	81.5	114.9	141.7
BVPS	321.0	364.4	431.4	515.5
DPS	9.2	12.1	20.0	25.1
Growth Ratios(%)				
Total revenues	28.3	47.0	25.1	20.1
EBITDA	13.5	41.4	34.3	26.5
PAT	40.3	44.6	29.8	25.5
EPS Growth	40.3	44.6	29.8	25.5
Valuation Ratios (X)				
PE	28.7	19.8	15.3	12.2
P/CEPS	20.4	16.3	11.6	9.4
P/BV	4.1	3.6	3.1	2.6
EV/Sales	2.6	1.7	1.3	1.1
EV/EBITDA	20.0	13.7	10.1	7.8
Operating Ratios (Days)				
Inventory days	51.5	50.2	44.0	47.0
Receivable Days	16.6	15.2	14.8	14.2
Payables day	101.8	85.1	82.0	78.0
Net Debt/Equity (x)				
Profitability Ratios (%)				
ROE	14.4	18.4	20.2	21.2
Dividend payout	19.7	18.0	23.0	23.0
Dividend yield	0.7	0.9	1.5	1.9

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	5,983	5,991	5,991	5,991
Reserves & Surplus	3,75,998	4,27,577	5,07,325	6,07,381
Total Networth	3,81,981	4,33,567	5,13,315	6,13,371
Total debt	76,656	49,128	45,128	41,128
Deferred tax liabilities	17,622	14,703	14,703	14,703
Current liabilities & Provisions	1,89,807	2,60,400	2,67,658	2,91,603
Total Liabilities	6,66,065	7,57,798	8,40,804	9,60,805
Assets				
Fixed assets	2,01,667	1,97,608	2,39,443	2,80,713
Non current Investments	1,63,024	1,75,391	1,85,391	2,00,391
Other non current assets	39,115	38,363	38,363	38,363
Current Assets	2,62,259	3,46,436	3,77,607	4,41,338
Cash and bank(i)	7,172	13,101	16,448	21,656
Bank deposits other than(i)	29,333	31,716	31,716	31,716
Inventories	59,704	88,814	96,969	1,23,923
Sundry Debtors	30,386	40,417	43,087	49,656
Loan, Advances & others	18,455	21,770	21,770	21,770
Other current assets	1,46,542	1,82,334	1,99,334	2,24,334
Total Assets	6,66,065	7,57,798	8,40,804	9,60,805

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	63,567	95,603	1,31,099	1,64,485
Depreciation	24,984	31,545	33,165	38,730
Interest	2,262	2,728	3,000	3,200
Chng in working capital	3,913	3,871	-1,567	-8,578
Tax paid	-5,984	-19,380	-27,531	-34,542
Other operating activities	-18,973	-23,074	0	0
Cash flow from operations (a)	69,768	91,293	1,38,167	1,63,295
Capital expenditure	-32,916	-34,313	-75,000	-80,000
Chng in investments	-37,699	-43,801	-27,000	-40,000
Other investing activities	30,979	30,579	0	0
Cash flow from investing (b)	-39,636	-47,535	-1,02,000	-1,20,000
Free cash flow (a+b)	30,132	43,758	36,167	43,295
Inc/dec in borrowings	-15,978	-19,752	-6,000	-5,000
Dividend paid (incl. tax)	-10,891	-14,359	-23,821	-29,887
Other financing activities	0	0	0	0
Cash flow from financing (c)	-31,659	-37,838	-32,821	-38,087
Net chng in cash (a+b+c)	-1,527	5,920	3,347	5,208
Closing cash & cash equivalents	7,173	13,102	16,448	21,656

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