

Mahindra & Mahindra

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Reuters: MAHM.BO; Bloomberg: MM IN

Continuing the growth run in Auto segment

We recently hosted Mr. Sriram Ramachandran, Head of Investor Relations (IR) and GM - Corp. Finance at Mahindra & Mahindra Ltd (M&M) as part of our "Investors Conference Week" to gain insights into the current business environment, demand trends & outlook and opportunities. Following are the key takeaways from the meeting.

Demand trends and outlook:

- M&M is seeing strong demand for its products and expects the growth momentum to continue, backed by a robust order book. Average monthly bookings are (1) 10k units for XUV700 (2) 16.5k units for Scorpio-N & Scorpio and (3) 4.5k units for Thar. XUV400 has garnered ~15k bookings in 13 days. The cancellation rate stands at ~8-10%.
- It will launch the 5-door Thar by the end of FY24.
- The company will ramp up capacity for the PVs to 39k units/month by FY23-end, and 49k units/month by FY24-end.
- M&M has recently hiked the prices of Scorpio N and XUV700, which is in line with its well thought out strategy, as these models have gained significant acceptance among the customers. Earlier, the launch price was aggressive and was impacting the margins.
- The company expects 10% growth in Tractor volume in FY23, mainly driven by a good monsoon season and improving rural cash flows. On a long-term basis, the company expects growth of 7-8%, led by Agri-machinery & Implements. M&M has gained 160bps market share in the Tractors segment in a year and the same stands at 41%.
- The company expects the strong growth momentum to continue in the Farm Implements business and expects revenue to become 10x in five years. It sees a huge opportunity in the Farm Implements segment as currently the penetration is quite low.
- In the Farm Implements business, initially, the margins are low as competition is very stiff from the unorganized players.

CV Business:

- M&M is seeing good traction in the 2-3.5 tonne segment and has gained 900bps market share, becoming a dominant player with ~65% market share. This segment is further strengthening the company's Auto business volume.
- LCV<2 tonne are seeing weakness as they don't get demand from the growing e-commerce segment and this is a very price-sensitive segment.

Changing Regulations:

- RDE norms will lead to price increase of ~Rs20-22k for some models, which will be passed on in a staggered manner. For CAFÉ norms, the company expects to meet the stipulated timelines.
- For TREM5, the company believes that the implementation date for <50HP tractors will be deferred as FY25 timelines are very aggressive and difficult to meet for the industry. The tractor industry is in discussion with the government for the same.

EV plans:

- M&M has signed a MOU with Volkswagen to explore the use of MEB electric components and evaluate the scope of collaboration for its "Born Electric Platform". The first model from the BE series will be launched by Dec. 2024.
- For XUV400, the company has adopted a conservative approach; thus, for the time being, the company is not planning any separate distribution channel although it does realise that the marketing skills required for ICE vehicles and EVs are very different.
- The management indicated that it has worked on the EV tractor, but does not see it being feasible for agriculture as high torque is required for farm activities, which cannot be generated by low cost EV tractors. The company is developing EV tractors for the international markets where it can be used for niche applications.
- EV 3W Treo is seeing a very good growth and the company believes it to be a new growth engine with high growth potential. It has also planned a new capacity for EVs in Andhra Pradesh.

Our view: We are building in ~23% volume growth for the Auto segment over FY22-FY25, led by new capacity addition, backed by a strong order book. In FES, the company has guided for industry-level volume growth of 10%+ for FY23 on the back of increasing rural incomes and positive rural sentiments. We expect M&M to outperform industry growth in FES, led by market share gains (160bps gain over last year) and network expansion. We further believe that with increase in production levels, softening RM costs and improvement in the product mix, margins will improve going ahead. We are building in margin expansion of 220bps over FY22-FY25. We expect 23%/6% volume CAGR for Auto/FES segments over FY22-FY25. We estimate 22%/29% CAGR in Revenue/EBITDA. We value M&M on SoTP basis, with the core business valued at ~16x Sept'24E core EPS, owing to strong new model launch pipeline and robust demand outlook while the other listed entities are valued at the current market value to arrive at a target price (TP) of Rs1,575. We maintain BUY on M&M.

BUY

Sector: Automobile

CMP: Rs1,280

Target Price: Rs1,575

Upside: 23%

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Key Data

| | |
|--------------------------|--------------|
| Current Shares O/S (mn) | 1,243.2 |
| Mkt Cap (Rsbn/US\$bn) | 1,591.5/19.2 |
| 52 Wk H / L (Rs) | 1,397/671 |
| Daily Vol. (3M NSE Avg.) | 2,223,835 |

Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|-------------|-------|-------|------|
| M&M | (2.4) | 0.4 | 58.5 |
| Nifty Index | (0.8) | (0.5) | 4.8 |

Source: Bloomberg

[3QFY23 results presentation](#)

Financials (MM+MVML)

Exhibit 1: Income statement

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--|----------------|----------------|----------------|----------------|------------------|
| Net Sales | 446,299 | 574,460 | 822,659 | 932,906 | 1,042,928 |
| % Growth | (0.5) | 28.7 | 43.2 | 13.4 | 11.8 |
| Raw material | 301,766 | 423,416 | 627,689 | 699,680 | 782,196 |
| Gross margin (%) | 32.4 | 26.3 | 23.7 | 25.0 | 25.0 |
| Staff costs | 32,520 | 33,060 | 36,197 | 41,981 | 44,846 |
| Other expenses | 42,439 | 47,562 | 55,941 | 60,639 | 64,662 |
| Total expenses | 376,724 | 504,037 | 719,827 | 802,300 | 891,704 |
| EBITDA | 69,575 | 70,423 | 102,832 | 130,607 | 151,225 |
| % Growth | 9.6 | 1.2 | 46.0 | 27.0 | 15.8 |
| EBITDA margin (%) | 15.6 | 12.3 | 12.5 | 14.0 | 14.5 |
| Other income | 11,995 | 20,759 | 21,174 | 22,868 | 24,698 |
| Interest costs | 3,963 | 2,230 | 2,271 | 1,947 | 1,947 |
| Depreciation | 23,699 | 24,511 | 25,278 | 27,368 | 29,118 |
| Profit before tax (before exceptional items) | 53,907 | 64,441 | 96,457 | 124,160 | 144,857 |
| Exceptional items | (30,873) | (2,087) | - | - | - |
| Tax | 13,193 | 13,002 | 22,667 | 29,178 | 34,041 |
| Profit after tax | 9,842 | 49,352 | 73,790 | 94,982 | 110,816 |
| Adj. Profit after tax | 29,909 | 50,709 | 73,790 | 94,982 | 110,816 |
| % Growth | (15.8) | 69.5 | 45.5 | 28.7 | 16.7 |
| Adj PAT margin (%) | 6.7 | 8.8 | 9.0 | 10.2 | 10.6 |
| EPS (Rs) | 25.0 | 42.4 | 61.6 | 79.5 | 92.7 |
| % Growth | (15.8) | 69.5 | 45.2 | 29.0 | 16.7 |
| DPS (Rs) | 8.8 | 11.6 | 12.5 | 12.0 | 13.0 |
| Payout (incl. div. tax) (%) | 29.1 | 26.8 | 20.2 | 15.1 | 14.0 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|--|----------------|----------------|----------------|----------------|----------------|
| Share capital | 5,973 | 5,983 | 5,983 | 5,983 | 5,983 |
| Reserves | 347,239 | 383,627 | 442,479 | 523,122 | 618,402 |
| Net worth | 353,212 | 389,610 | 448,462 | 529,105 | 624,385 |
| Total debt | 72,143 | 64,900 | 64,900 | 64,900 | 64,900 |
| Deferred tax liability | 14,497 | 17,008 | 17,008 | 17,008 | 17,008 |
| Capital employed | 439,851 | 471,517 | 530,369 | 611,012 | 706,293 |
| Net block | 120,070 | 145,486 | 170,486 | 195,486 | 220,486 |
| Capital work-in-progress | 61,255 | 50,182 | 40,182 | 30,182 | 20,182 |
| Investments | 222,862 | 251,098 | 286,098 | 321,098 | 346,098 |
| Inventories | 47,827 | 58,829 | 84,246 | 95,536 | 106,803 |
| Debtors | 22,012 | 30,351 | 43,465 | 49,289 | 55,102 |
| Cash | 62,555 | 36,505 | 62,540 | 100,819 | 163,720 |
| Loans & advances | 19,399 | 28,057 | 28,057 | 28,057 | 28,057 |
| Other current assets | 63,130 | 70,795 | 77,874 | 85,661 | 94,227 |
| Total current assets | 214,922 | 224,537 | 296,182 | 359,362 | 447,910 |
| Creditors | 106,438 | 128,935 | 184,643 | 209,387 | 234,082 |
| Other current liabilities & provisions | 72,821 | 70,850 | 77,935 | 85,729 | 94,302 |
| Total current liabilities | 179,258 | 199,786 | 262,578 | 295,116 | 328,383 |
| Net current assets | 35,664 | 24,751 | 33,603 | 64,246 | 119,527 |
| Application of funds | 439,851 | 471,517 | 530,369 | 611,012 | 706,293 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---------------|-----------------|-----------------|-----------------|-----------------|
| OP/(loss) before tax | 45,876 | 45,912 | 77,555 | 103,239 | 122,107 |
| Depreciation & amortization | 23,699 | 24,511 | 25,278 | 27,368 | 29,118 |
| Other income | 11,995 | 20,759 | 21,174 | 22,868 | 24,698 |
| (Inc.)/dec. in working capital | 32,992 | (15,136) | 17,182 | 7,636 | 7,621 |
| Direct taxes paid | (13,764) | (10,491) | (22,667) | (29,178) | (34,041) |
| Cash flow from operations before EO | 100,797 | 65,555 | 118,521 | 131,933 | 149,502 |
| Extraordinary (EO) items | (30,873) | (2,087) | - | - | - |
| Cash flow from operations after EO | 69,925 | 63,468 | 118,521 | 131,933 | 149,502 |
| Capital expenditure (-) | (35,931) | (38,854) | (40,278) | (42,368) | (44,118) |
| Net cash after capex | 33,994 | 24,614 | 78,244 | 89,565 | 105,384 |
| Other investing activities | (47,533) | (28,236) | (35,000) | (35,000) | (25,000) |
| Dividends paid (-) | (10,456) | (13,802) | (14,937) | (14,340) | (15,535) |
| Inc./(dec.) in total borrowings | 36,650 | (9,473) | (2,271) | (1,947) | (1,947) |
| Others | 7,535 | 848 | 0 | 0 | 0 |
| Cash from financial activities | 33,729 | (22,428) | (17,209) | (16,287) | (17,482) |
| Opening cash balance | 42,365 | 62,555 | 36,505 | 62,540 | 100,819 |
| Closing cash balance | 62,555 | 36,505 | 62,540 | 100,819 | 163,720 |
| Change in cash balance | 20,190 | (26,050) | 26,035 | 38,278 | 62,902 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

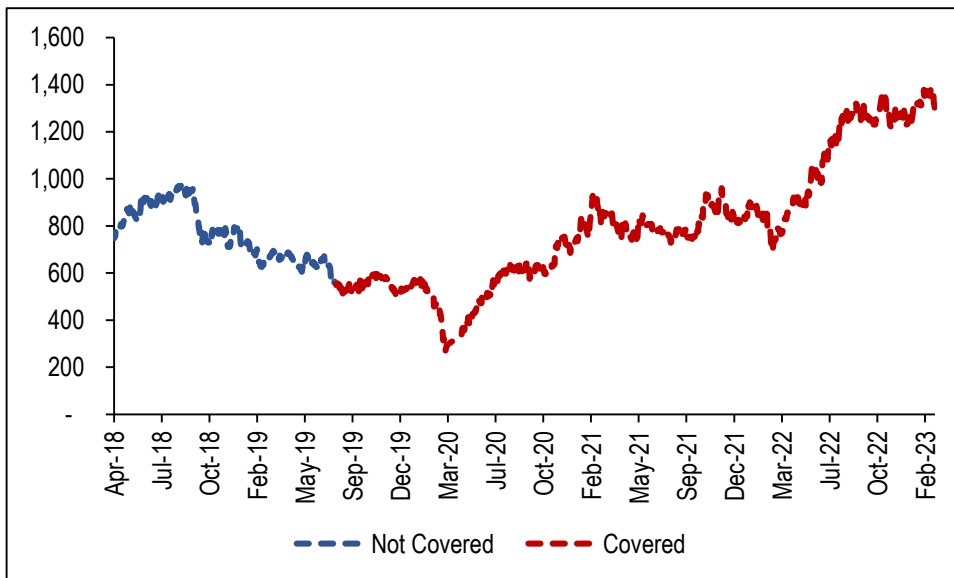
| Y/E March | FY21 | FY22 | FY23E | FY24E | FY25E |
|---------------------------------|--------|-------|-------|-------|-------|
| Per share (Rs) | | | | | |
| EPS | 25.0 | 42.4 | 61.6 | 79.5 | 92.7 |
| EPS Growth (%) | (15.8) | 69.5 | 45.2 | 29.0 | 16.7 |
| Cash EPS | 44.9 | 62.9 | 82.9 | 102.4 | 117.1 |
| Book value per share | 295.7 | 325.6 | 374.8 | 442.2 | 521.8 |
| DPS | 8.8 | 11.6 | 12.5 | 12.0 | 13.0 |
| Payout (incl. div. tax) % | 29.1 | 26.8 | 20.2 | 15.1 | 14.0 |
| Valuation (x) | | | | | |
| P/E | 50.5 | 29.8 | 20.5 | 15.9 | 13.6 |
| Cash P/E | 28.2 | 20.1 | 15.3 | 12.4 | 10.8 |
| EV/Sales | 2.9 | 2.2 | 1.5 | 1.2 | 1.0 |
| EV/EBITDA | 18.7 | 18.3 | 12.0 | 8.9 | 7.1 |
| P/BV | 4.3 | 3.9 | 3.4 | 2.9 | 2.4 |
| Dividend yield (%) | 0.7 | 0.9 | 1.0 | 0.9 | 1.0 |
| Return ratios (%) | | | | | |
| RoCE | 13.2 | 14.1 | 18.6 | 20.6 | 20.8 |
| RoE | 8.5 | 13.0 | 16.5 | 18.0 | 17.7 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 15.6 | 12.3 | 12.5 | 14.0 | 14.5 |
| PAT margin | 2.2 | 8.6 | 9.0 | 10.2 | 10.6 |
| Turnover ratios | | | | | |
| Debtors (days) | 18 | 19 | 19 | 19 | 19 |
| Inventory (days) | 39 | 37 | 37 | 37 | 37 |
| Creditors (days) | 87 | 82 | 82 | 82 | 82 |
| Working capital (days) | (30) | (25) | (25) | (25) | (25) |
| Asset turnover (x) | 1.0 | 1.2 | 1.6 | 1.5 | 1.5 |
| Leverage Ratio | | | | | |
| Debt/equity (x) | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|--------|-------------------|-------------------|
| 29 July 2019 | Buy | 565 | 800 |
| 08 August 2019 | Buy | 517 | 782 |
| 23 September 2019 | Buy | 565 | 711 |
| 11 November 2019 | Buy | 582 | 686 |
| 12 February 2020 | Buy | 524 | 663 |
| 30 March 2020 | Buy | 295 | 438 |
| 15 June 2020 | Acc | 510 | 518 |
| 10 August 2020 | Buy | 603 | 695 |
| 22 September 2020 | Buy | 618 | 830 |
| 11 November 2020 | Buy | 622 | 810 |
| 6 January 2021 | Buy | 739 | 929 |
| 7 February 2021 | Buy | 863 | 1,033 |
| 30 May 2021 | Buy | 845 | 972 |
| 7 August 2021 | Buy | 758 | 972 |
| 26 September 2021 | Buy | 779 | 972 |
| 10 November 2021 | Buy | 893 | 1,042 |
| 11 February 2022 | Buy | 853 | 1,025 |
| 31 May 2022 | Buy | 1,032 | 1,184 |
| 7 August 2022 | Buy | 1,237 | 1,444 |
| 13 November 2022 | Buy | 1,289 | 1,493 |
| 13 February 2023 | Buy | 1,363 | 1,575 |
| 27 February 2023 | Buy | 1,280 | 1,575 |

Rating track graph



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ACCUMULATE -5% to 15%

SELL < -5%

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