

MAHINDRA & MAHINDRA

BUY

Auto Business in Breakout Mode

Summary

M&M's Q1FY23 results were broadly in line with our and Consensus estimates. The Company reported highest ever sales during Q1FY23. Management expects its tractor business to grow by 3-5% during FY23 while UV business continues surprise on upside. Post Scorpio N launch, M&M has 240K+ open booking in UV segment with monthly inflow of 34k+ units Vs current monthly sales of ~26000 units. Despite capacity constraint, we expect M&M to deliver 45% volume CAGR in UV segment over FY22-24E. To factor in strong response to its UV portfolio, we are raising volume/PAT estimates by 8.2%/8.3% for FY24E. M&M's PAT is expected to grow at 36% CAGR over FY22-24E. The stock is quoting at PER of 15.6x FY24E (36% PAT CAGR/ ~20% ROE). We find valuations extremely attractive and retain BUY with target price of Rs 1,765.

Key Highlights and Investment Rationale

- Q1FY23 Results Highlights:** During Q1FY23, M&M's sales grew by 67% YoY to Rs196bn primarily driven by its Auto division. EBITDA margins during the quarter declined by 194bps YoY to 11.9% on account of lower gross margins. Adjusted PAT increased by 58% to Rs14.7bn.
- Strong Momentum in UV :** Currently the Company has 140K+ open booking in UV segment (excl Scorpio-N) with monthly inflow of 34k+ units which gives strong sales visibility for the Company going forward.
- Earnings Revision Upwards:** We are raising our volume and PAT estimates by 8.2%/8.3% for FY24E to factor in Scorpio N volumes. M&M's earnings cycle to enter into a blistering phase with 27% Sales CAGR and 36% PAT CAGR over FY22-24E. We expect M&M's earnings growth to be primarily led by its Auto business which is likely to contribute 66% to its FY24E EBITDA Vs 36% in FY21.

TP **Rs 1,765**
CMP **Rs 1,236**

 Potential upside/downside **43%**

 Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	9.1	38.2	63.0
Rel to Sensex	1.3	31.7	55.4

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	57	79
Consensus	59	63
% difference	(3.7)	24.5

Key Stock Data

Bloomberg/Reuters	MM IN / MAHM.BO
Sector	Automobile
Shares o/s (mn)	1,243
Market cap. (Rs mn)	1,536,835
3-m daily avg Trd value (Rs mn)	166.7
52-week high / low	1,265 / 671
Sensex / Nifty	58,388 / 17,398

Shareholding Pattern (%)

Promoters	19.5
FII	37.9
DII	23.2
Public	19.4

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	448,655	445,744	574,460	778,661	929,974
Change (yoy, %)	(15)	(1)	29	36	19
EBITDA	63,506	69,766	70,423	103,028	137,847
Change (yoy, %)	(16)	10	1	46	34
EBITDA Margin(%)	14.2	15.7	12.3	13.2	14.8
Adj.PAT	35,509	40,974	51,439	67,644	94,520
EPS (Rs)	30	34	43	57	79
Change (yoy, %)	(35)	15	25	32	40
PE(x)	42	36	29	22	16
Dividend Yield (%)	0	1	1	1	2
EV/EBITDA (x)	23	21	21	14	10
RoE (%)	10	12	14	16	20
RoCE (%)	21	20	18	29	35

Source: IDBI Capital Research

- **Compelling Valuations: BUY with 43% upside:** Based on Standalone earnings, the stock is quoting at PER of 15.6x FY24 earnings despite 36% earnings CAGR and ~20% ROE profile. However, based on its core business (Auto and Farm), net of subsidiary valuations of Rs 605/share, the stock is quoting at PER of 8.8x FY24 earnings. We find current valuations extremely attractive and retain BUY rating and revised target price of Rs 1,765 implying 43% upside.

Concall Highlights

- The Company gained market share of 0.9% YoY to 42.7% in FES segment in 1QFY23 also in SUV segment the revenue market share was at 17.1%.
- M&M also reported the highest ever domestic volumes at 112.3K in their FES segment and reported an growth of 18% YoY the company also reported the highest ever SUV & Pick-up volumes sales SUV stood at 75.4K an growth of 77.2% followed by Pick-up at 46.4k an growth of 79.7% both on YoY.
- The Company took a price hike of 1.5-2% in FES & Auto segment in 1QFY23. The Management indicated that its FES international subsidiaries reported a PBIT of Rs710mn in 1QFY23.
- ECU shortages & China lockdowns led to volume loss of 10% in automobile segment. Agri-implement business grew by 35% YoY.
- The Company's market share in electric 3W stood at 74.4% and recorded highest ever quarterly volumes with billing of 6.5k.
- The company received strong bookings for Scorpio-N with 25k bookings in 1min and 100k bookings within 30mins with total booking value of Rs 18000 cr. The company also received strong bookings for Thar, XUV300, Bolero NEO and XUV700.
- M&M has the strong demand and booking pipeline 140k+ open bookings (excl Scorpio-N) as follows XUV300 13k open bookings, XUV700 79k open bookings, THAR 25k open bookings, BOLERO 15k open bookings, SCORPIO 7k open bookings.
- The Management expects the tractor industry volume to grow by 3-5% in FY23 and indicated that industry would continue growing at its long-term average of 7-8% CAGR going ahead.
- The Company maintained earlier guidance of 7% to 8% auto EBIT margins for mid-term. It expects margins to remain under pressure in Q2FY23, due to lag effect of commodity prices softening, while Q3FY23 onwards there could be an margin improvement.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Total Volumes	271,971	186,777	45.6	228,784	18.9
Net Sales	196,126	117,628	66.7	171,240	14.5
Expenditure	172,716	101,311	70.5	151,784	13.8
<i>as % of sales</i>	<i>88.1</i>	<i>86.1</i>		<i>88.6</i>	
Consumption of RM	150,240	81,922	83.4	130,755	14.9
<i>as % of sales</i>	<i>76.6</i>	<i>69.6</i>		<i>76.4</i>	
Employee Cost	8,362	8,855	(5.6)	7,461	12.1
<i>as % of sales</i>	<i>4.3</i>	<i>7.5</i>		<i>4.4</i>	
Other expenditure	14,114	10,534	34.0	13,568	4.0
<i>as % of sales</i>	<i>7.2</i>	<i>9.0</i>		<i>7.9</i>	
EBITDA	23,410	16,317	43.5	19,455	20.3
Depreciation	6,806	5,586	21.8	6,805	0.0
EBIT	16,604	10,731	54.7	12,651	31.3
Other Income	2,386	2,052	16.3	2,387	(0.1)
Interest	698	714	(2.3)	558	25.0
PBT	18,292	12,069	51.6	14,479	26.3
Total Tax	-3,581	-2,728	31.3	-2,808	27.5
Adjusted PAT	14,711	9,341	57.5	11,672	26.0
Extra ordinary items	410	-785	NA	1,248	NA
Reported PAT	15,121	8,556	76.7	12,919	17.0
Adjusted EPS	12.3	7.8	57.3	9.8	26.0
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	11.9	13.9	(194)	11.4	57
EBIT	8.5	9.1	(66)	7.4	108
EBT	9.3	10.3	(93)	8.5	87
PAT	7.5	7.9	(44)	6.8	69

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

	Actual	IDBI Est	Variance (%)
Net Sales	196,126	199,197	(1.5)
EBIDTA	23,410	25,620	(8.6)
<i>EBITDA margin (%)</i>	11.9	12.9	(93)
Adj. PAT	14,711	14,595	(0.8)

Source: IDBI Capital Research

Exhibit 3: Change in estimates

(Rs mn)	FY23E			FY24E		
	Old	New	% Chg	Old	New	% Chg
Net Sales	733,939	778,661	6.1%	859,561	929,974	8.2%
EBITDA	99,857	103,028	3.2%	128,830	137,847	7.0%
<i>EBITDA margin (%)</i>	13.6%	13.2%	(37.4)	15.0%	14.8%	(16.5)
Net Profit	65,121	67,644	3.9%	87,268	94,520	8.3%

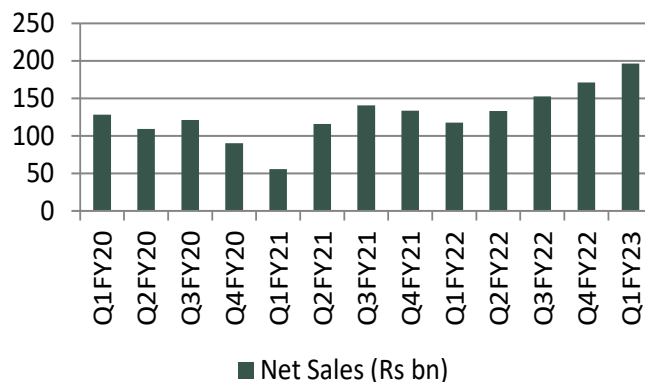
Source: IDBI Capital Research

Exhibit 4: Valuation Matrix

Segments	Valuation	Mcap (mn)	Value/share	Comments
Business Segment				
Auto Business	11xFY24EV/EBITDA (FY24 EBITDA - Rs 90,420 mn)	994,620	832	We have Auto business at 11xFY24 EV/EBITDA considering 30% discount to MSIL's target multiple
Farm Business	7xFY24EV/EBITDA (FY24 EBITDA- Rs 45,412 mn)	317,885	266	Tractor business to report volume and EBITDA CAGR of 8% & 15% over FY22-24E. We have valued at 7xFY24 EV/EBITDA (Valuation to growth - 0.5x)
EV Business	20% of Auto Business	198,924	166	We have valued EV business in relation to its existing Auto business valuation (20% of Current Auto Business)
Growth Gems and Digital Platforms		50,000	42	Porter, Firstcry, Rural Finance, etc.
Net Cash		73,405	61	
Listed Subsidiary				
Tech Mahindra Limited	Market Price	266,139	223	
Mahindra & Mahindra Financial Services	Market Price	125,658	105	
Mahindra Holidays & Resorts	Market Price	21,214	18	
Mahindra Logistics	Market Price	19,777	17	
CIE Automotive	Market Price	32,422	27	
Mahindra Lifespace Developers	Market Price	11,158	9	
Mahindra CIE Automotive Limited.	Market Price	11,746	10	
Listed Subsidiaries	Market Price	488,114	409	
Unlisted Subsidiaries	1 X Book value	1,03,786	87	includes M&M Aerospace, M&M Defence and M&M USA
Total Subsidiaries (Rs Mn)		591,900	495	
Sub Valuations Post Discount (20%)		473,520	396	
Total Value		2,108,355	1,765	

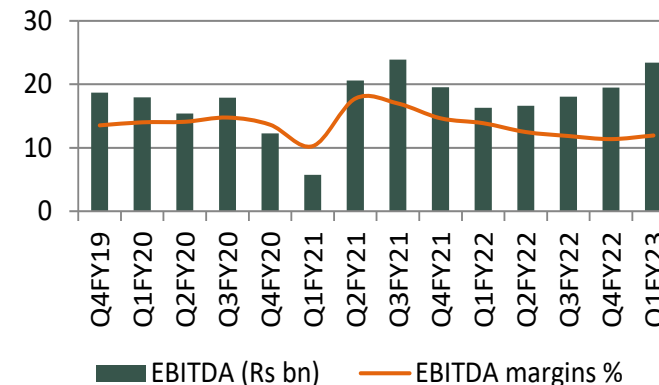
Source: Company, IDBI Capital Research

Exhibit 5: Quarterly Sales



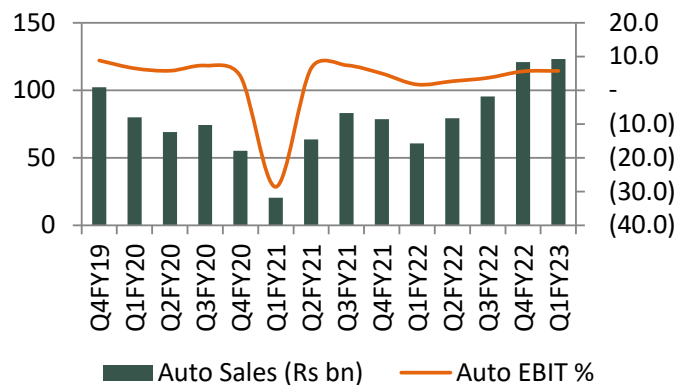
Source: Company, IDBI Capital Research

Exhibit 6: Quarterly EBITDA and margins



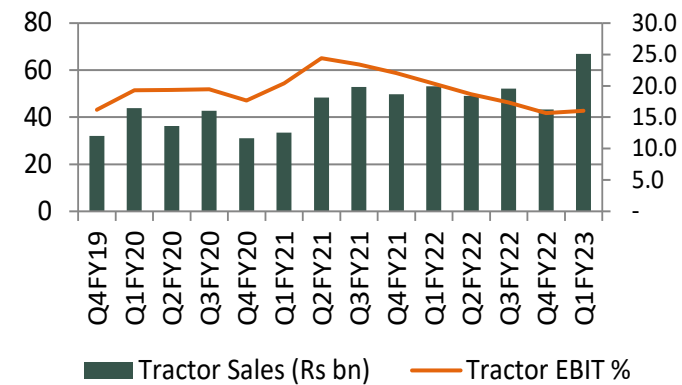
Source: Company, IDBI Capital Research

Exhibit 7: Auto Sales & EBIT margins



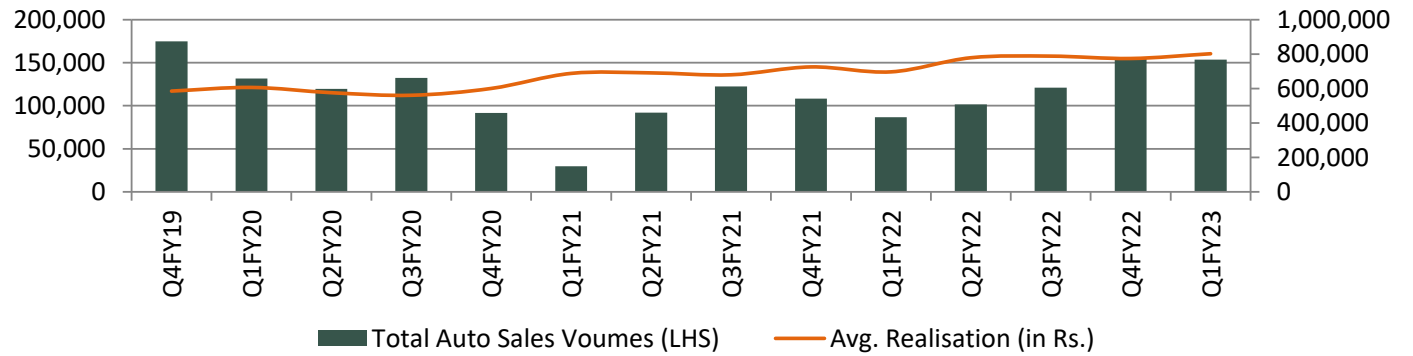
Source: Company, IDBI Capital Research

Exhibit 8: Tractor Sales & EBIT margins



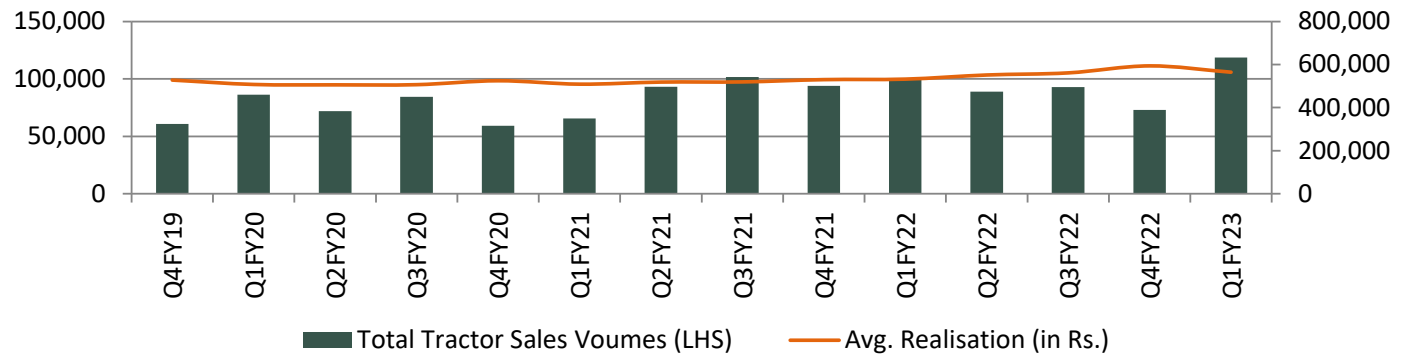
Source: Company, IDBI Capital Research

Exhibit 9: Total Auto Sales volumes & Avg. Realizations



Source: Company, IDBI Capital Research

Exhibit 10: Total Tractor Sales volumes & Avg. Realizations



Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	528,482	448,655	445,744	574,460	778,661	929,974
<i>Change (yoy, %)</i>	11	(15)	(1)	29	36	19
Operating expenses	(453,182)	(385,150)	(375,979)	(504,037)	(675,632)	(792,127)
EBITDA	75,301	63,506	69,766	70,423	103,028	137,847
<i>Change (yoy, %)</i>	7	(16)	10	1	46	34
<i>Margin (%)</i>	14.2	14.2	15.7	12.3	13.2	14.8
Depreciation	(20,030)	(23,631)	(23,624)	(24,511)	(28,706)	(32,486)
EBIT	55,271	39,875	46,142	45,912	74,322	105,361
Interest paid	(1,467)	(1,245)	(3,957)	(2,230)	(4,392)	(4,042)
Other income	16,303	15,391	11,973	20,759	20,262	24,707
Pre-tax profit	70,333	82,133	85,902	62,355	90,192	126,027
Tax	(15,867)	(18,513)	(13,183)	(13,002)	(22,548)	(31,507)
<i>Effective tax rate (%)</i>	22.6	22.5	15.3	20.9	25.0	25.0
Minority Interest	-	-	-	-	-	-
Net profit	54,466	63,620	72,719	49,352	67,644	94,520
Exceptional items	227	28,112	31,745	(2,087)	-	-
Adjusted net profit	54,239	35,509	40,974	51,439	67,644	94,520
<i>Change (yoy, %)</i>	29	(35)	15	26	32	40
EPS	45.5	29.8	34.3	43.0	56.5	79.0
Dividend per share	9	2	9	9	14	20
<i>Dividend Payout %</i>	23	8	27	21	25	25

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	349,937	346,291	353,212	389,610	440,343	511,233
Share capital	5,958	5,965	5,974	5,983	5,983	5,983
Reserves & surplus	343,979	340,326	347,239	383,627	434,360	505,250
Total Debt	31,327	37,422	79,956	65,239	60,239	55,239
Other liabilities	7,896	15,068	14,497	36,887	17,008	17,008
Curr Liab & prov	159,635	118,009	171,446	197,330	277,420	335,121
Current liabilities	143,857	103,617	156,369	183,667	254,173	307,356
Provisions	15,778	14,393	15,077	13,663	23,247	27,764
Total liabilities	4,859	(35,762)	90,569	56,715	83,690	136,391
Total equity & liabilities	354,796	310,529	443,781	446,324	524,033	647,624
Net fixed assets	144,969	169,093	181,325	195,668	216,961	224,476
Investments	206,262	175,329	222,862	251,098	251,098	251,098
Other non-curr assets	-	-	-	-	-	-
Current assets	197,564	172,368	214,923	222,420	307,071	423,148
Inventories	47,631	40,408	47,827	58,829	68,543	85,430
Sundry Debtors	38,119	29,012	22,012	30,351	49,793	62,876
Cash and Bank	38,321	42,365	62,556	36,505	69,469	139,230
Loans and advances	35,565	35,929	36,609	37,658	60,188	76,534
Total assets	354,796	310,529	443,781	446,324	524,033	647,624

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	69,879	25,910	22,413	63,279	85,599	109,055
Depreciation	20,030	23,631	23,624	24,511	28,706	32,486
Tax paid	(15,867)	(10,628)	(13,623)	(10,845)	(22,548)	(31,507)
Chg in working capital	(7,328)	(12,385)	31,072	(7,663)	8,524	11,385
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	66,714	26,528	63,485	69,280	100,281	121,419
Capital expenditure	(31,590)	(48,468)	(35,987)	(45,454)	(50,000)	(40,000)
Chg in investments	(12,263)	30,933	(47,533)	(28,236)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(43,853)	(17,536)	(83,520)	(73,690)	(50,000)	(40,000)
Equity raised/(repaid)	3,563	(8,122)	8,570	(2,064)	-	-
Debt raised/(repaid)	(4,833)	6,096	42,533	(14,716)	(5,000)	(5,000)
Dividend (incl. tax)	(12,512)	(2,922)	(10,878)	(10,891)	(16,911)	(23,630)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(13,782)	(4,948)	40,225	(27,671)	(21,911)	(28,630)
Net chg in cash (a+b+c)	9,080	4,044	20,190	(32,081)	28,370	52,789

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	294	290	296	326	368	427
Adj EPS (Rs)	45.5	29.8	34.3	43.0	56.5	79.0
Adj EPS growth (%)	29	-35	15	25	32	40
EBITDA margin (%)	14.2	14.2	15.7	12.3	13.2	14.8
Pre-tax margin (%)	13.3	18.3	19.3	10.9	11.6	13.6
Net Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	-0.2
ROCE (%)	30	21	20	18	29	35
ROE (%)	17	10	12	14	16	20

DuPont Analysis

Asset turnover (x)	1.6	1.3	1.2	1.3	1.6	1.6
Leverage factor (x)	1.0	1.0	1.1	1.2	1.2	1.2
Net margin (%)	10.3	7.9	9.2	9.0	8.7	10.2

Working Capital & Liquidity ratio

Inventory days	33	33	39	37	32	34
Receivable days	26	24	18	19	23	25
Payable days	83	68	103	93	79	84

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	27.2	41.5	36.0	28.8	21.9	15.6
Price/Book value (x)	4.2	4.3	4.2	3.8	3.4	2.9
EV/Net sales (x)	2.8	3.3	3.4	2.6	1.9	1.5
EV/EBITDA (x)	19.5	23.1	21.4	21.4	14.3	10.1
Dividend Yield (%)	0.7	0.2	0.7	0.7	1.1	1.6

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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