

New launches will drive the growth

CMP: INR 1,287

Rating: Hold

Target Price: INR 1,391

Stock Info

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (INR)	5
Equity Capital (INR mn)	5985
Mkt Cap (INR mn)	15,40,607
52w H/L (INR)	1366/671
Avg Yearly Vol (in 000')	3,549

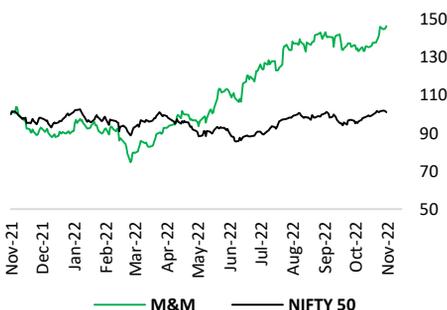
Shareholding Pattern %

(As on June, 2022)

Promoters	19.45
FII	43.61
DII	23.26
Others	13.68

Stock Performance (%)	1m	3m	12m
M&M	2.96	1.55	38.95
Nifty	8.04	3.91	2.66

M&M Vs Nifty



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M&M has reported revenue largely in line with our estimates in Q2FY23: Standalone revenue stood at INR 208,393 Mn, against our estimate of INR 206,233 Mn registering a growth of 6.3% QoQ/ 56.6% YoY. This was driven by traction in both the segments, autos, and tractor. Farm Equipment Sector (FES) achieved the highest Q2 volume and auto achieved the highest ever quarterly volume and strong booking in SUVs, reflecting strong automotive demand.

EBITDA improved led by better product mix: EBITDA stood at INR 24,964 Mn, against our estimate of INR 25,886 Mn, registering a growth of 6.6%QoQ/50.4%YoY.Improvement in margins supported by better mix and operating leverage. On the margins front, the EBITDA margin is flat QoQ/(38bps) YoY to 12%, against our estimate of 12.6%. (In Q2FY22 12.5%).

Beat on profitability led by higher other income and good operational performance: Standalone PAT saw a growth of 46.1% QoQ/(10.7%)YoY to INR 20,899 Mn against our estimate of INR 15,711 Mn. Exceptional items' loss of INR. 2,479 Mn for the Q2FY23 represents impairment provision(net) for long-term investments and gain on sale of certain investments.

Multiple new launches drive the growth in Q2FY23: It has been an action-packed quarter with multiple product launches and new products across segments, in addition to partnership announcements with BII and Volkswagen. The company recorded the highest quarterly revenue for Auto and Farm segments. In SUVs, the company continues to be the Revenue market share leader. Festive sales have been strong this year across Auto and Farm sectors. With the unveil of the XUV400 and M&M Born Electric Vision, the company enter the Electric SUV segment and aim to establish leadership position in the future.

Outlook and valuation

M&M has reported a decent set of numbers in Q2FY23 backed by multiple product launches and new products across segments. Recent launches helped M&M to recover the lost market share partially in the core SUV space. Going ahead, we are expecting growth in the agriculture segment led by the sizable presence in the tractor segment and robust product pipeline. Also expects margin improvement on a lower commodity cost ahead. For the Auto segment, we are expecting a margin in the range of 12.8%-13.6% for the FY23E-FY25E. Electric C-SUV is expected to be launched in Jan FY23. **However, due to valuation, we downgrade the stock from Accumulate to Hold with a SOTP-based target price of INR 1,391 per share.**

Exhibit 1: Financial Performance

INR in Mn (Standalone)	FY22	FY23E	FY24E	FY25E
Revenue	5,74,460	7,23,055	9,18,055	11,06,898
EBITDA	70,423	92,854	1,22,447	1,50,069
EBITDA margin(%)	12.3%	12.8%	13.3%	13.6%
PAT	51,439	71,790	96,219	1,19,558
EPS (in INR)	43.0	60.0	80.4	99.9
PE(x)	30.0	21.5	16.0	12.9
EV/EBITDA (X)	17.9	13.4	9.8	7.6
ROE(%)	13.9%	17.2%	19.8%	20.8%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Exhibit 2: Quarterly results summary (MM + MVML) Q2FY23

INR Mn	Q2FY23	Q1FY23	Q2FY22	YoY %	QoQ %
Net Sales	2,08,393	1,96,126	1,33,054	56.6%	6.3%
Cost of material consumed	1,59,490	1,50,240	96,808	64.7%	6.2%
Staff Cost	9,129	8,362	7,965	14.6%	9.2%
Other expenses	14,811	14,114	11,682	26.8%	4.9%
Total expenses	1,83,429	1,72,716	1,16,455	57.5%	6.2%
EBITDA	24,964	23,410	16,598	50.4%	6.6%
Depreciation	7,756	6,806	5,807	33.6%	14.0%
EBIT	17,208	16,604	10,792	59.5%	3.6%
Interest	637	698	425	49.8%	-8.8%
Other Income	13,259	2,386	11,048	20.0%	455.7%
PBT	29,830	18,292	21,415	39.3%	63.1%
Tax	(6,452)	(3,581)	(4,548)	41.9%	80.2%
PAT	23,378	14,711	25,963	-10.0%	58.9%
Extraordinary	(2,479)	(410)	(2,550)	-2.8%	505.0%
Reported PAT	20,899	14,302	23,413	-10.7%	46.1%
EPS	17.46	11.95	12.0	45.7%	46.1%
Margins	Q2FY23	Q1FY23	Q2FY22	YoY %	QoQ %
Gross margins	23.5%	23.4%	27.2%	-38bps	1bps
EBITDA	12.0%	11.9%	12.5%	-5bps	0bps
PAT	11.2%	7.5%	12.7%	-15bps	37bps
Tax Rate	-21.6%	-19.6%	-21.2%	-4bps	-21bps
Tractor Segment	Q2FY23	Q1FY23	Q2FY22	YoY %	QoQ %
Total Tractors Volume	88,922	1,13,383	90,720	-2.0%	-21.6%
Total Automotive Volume	1,79,683	1,53,462	1,15,151	56.0%	17.1%
Total Volume (Auto + Farm)	2,73,223	2,71,971	2,05,871	32.7%	0.5%
Aveg Relizations (Auto)	4,40,615	52,857	6,87,542	-35.9%	733.6%
Aveg Relizations (FES)	5,24,188	4,45,674	5,40,482	-3.0%	17.6%
Blended realisation	4,89,469	2,43,732	6,49,602	-24.7%	100.8%

Source: Arianth Research, Company Filings

Conference call key takeaways

- **Guidance:** M&M is positive on the tractor industry on the back of a strong festival up-tick and expect industry growth of 5-6% for FY23E and expects margin improvement on a lower commodity cost ahead. For Auto segment, the company maintains its EBIT margin guidance of ~5%+ for FY23. Electric C-SUV is expected to be launched in Jan FY23.
- **Expansion:** The company plans to expand its overall SUV capacity to 39k/ month by 4QFY23 and to 49k/month in 4QFY24 (up from 29k/month in 4QFY22). Capacity expansions planned are for its very successful models of Thar, XUV300, XUV400, XUV700 and Scorpio-N.
- The company will do a 15% to 20% growth in EPS for the next five years. 15-20% growth for the next 5 years.
- Farm side, maintained Q2FY23 market share, but on a YTD H1 basis, gained 50 bps, and on the YTD October basis, gained 80 basis points. Sequential improvement in margin from 16% to 16.4%. On the auto side, continue to be strong on the SUV's, where revenue market share was at 19% and maintained the number one position on revenue market share.
- The company 19.3% market share by volume in September, and in September and October were number one by way of volumes market share in SUVs or this is the highest auto of highest-ever volumes in a quarter in auto 174k. SUVs grew by 85% and pickups through by 86%. Electric 3W with the quarter market share of 67% and the highest quarterly building 10,600.
- **Margin:** Improvement led by the end of introductory pricing for two products. A restructured cost reduction program and operating leverage kicking. Farm segment and combine both together.
- Reduction in fixed costs, including personnel costs. This year, M&M sees an annualized saving of INR570 crores over the F19 base. Fixed costs as a percentage of revenue x-460 bps as 250 bps around cost and 210 bps are on operating leverage.
- **Monsoon:** Rainfalls has been reasonably good at an overall level of 6 above LPA and the geographic queue. So West, Central and South has been good and East has been bad, North has been okay. Though, seen some excessive rainfall especially in South, in Karnataka and so on which has not been very good in the short run to have excessive rainfall, as all levels are at a good level.
- **Market share:** 0.8% improvement April to October, a very successful launch of Yuvo Tech, where 12.3% of H1FY23 volumes of tractors came out of a new product, farm machinery revenue grew 36% y/y, and critical projects like K2 are on track.
- **Global subsidiary,** overall, good profit will continue focus in the global subsidiary. The highlight on this side is the Brazil performance, which gets stronger, as market share it's 7.4% in the <100 horsepower, and see very good traction in that market.
- **Automotive business:** Volumes, had gone to a level of 14k in the SUV portfolio. Portfolio up to 34k in September and stayed about 30k in October.
- **Subsidiary:** M&M bought a 17.4% stake in Swaraj Engines and completed the balance stake purchase in Sampo. Sampo became a 100% subsidiary, while Swaraj Engines became a subsidiary.

Exhibit 3: SOTP Valuation

Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,059	25,15,48,691	25.9	2,66,315	222
Mahindra & Mahindra Financial Services		222	64,43,99,987	52.2	1,42,960	119
Mahindra Holidays & Resorts		271	13,48,35,922	67.6	36,507	30
Mahindra Lifespace Developers		408	7,93,19,550	51.3	32,362	27
Mahindra CIE Automotive Limited.		291	37,93,17,379	9.3	10,198	9
CIE Automotive SA (CMP €24.30 x 83.55 Euro/INR)		2,030	95,90,706	7.4	19,472	16
Mahindra EPC Irrigation		96	1,51,44,433	54.4	1,455	1
Swaraj Engines		1,602	42,16,792	34.8	6,754	6
Mahindra Logistics Ltd		505	4,18,12,257	58.2	21,111	18
EV Business (Invested INR 1925 Cr for 4.76% stake including @30% Holdco discount)			2,69,613	4.76		217
Listed Subsidiaries (INR mn)					5,37,133	449
Total Subsidiaries (INR Mn)					5,37,133	449
Sub Valuations Post Discount (30%)			30%		3,75,993	314
Core auto business EV/EBITDA	FY25E	6.6x				531.03
Value/Share						860
						1391
					CMP	1287
					Upside	8.1%

*CMP as on 11th Nov 2022

Exhibit 4: Margin expansion led by better product Mix.

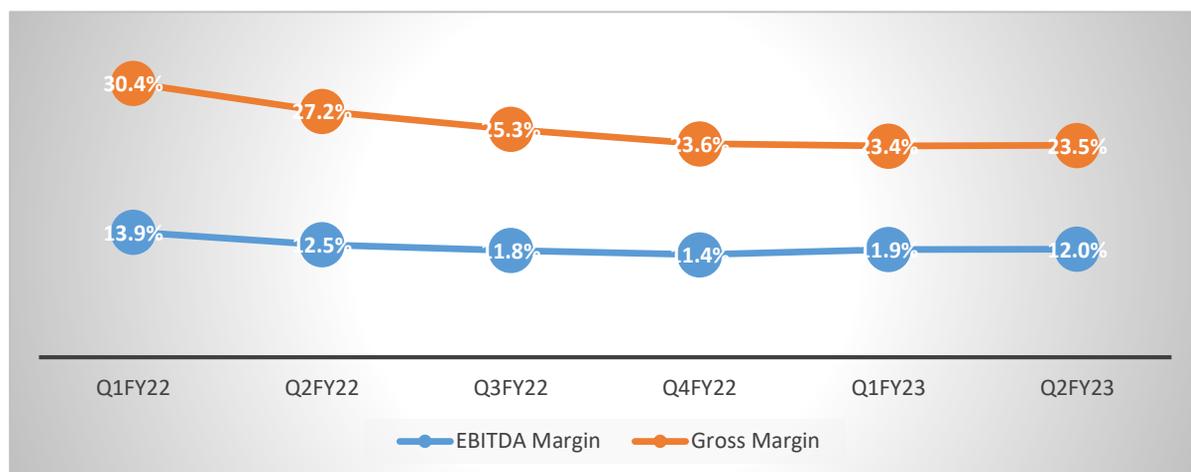


Exhibit 5: Capacity Expansion

Per Month Capacity	Q4 F22 Exit Capacity	Q4 F23 Exit Capacity	Q4 F24 Exit Capacity	H1 F25 Exit Capacity
Thar Family	4k	6k	6k	+
XUV300 & XUV400	5k	7.5k	9.5k (Q3FY24)	+
XUV700	6k	6k	10k (Q3FY24)	=
Bolero Family	9.5k	9.5k	9.5k	=
Scorpio-N	-	6k	10k	=
Scorpio Classic (incl IO PU)	5.5k	5.5k	5.5k	=
BEVs	-	-	-	+
Overall SUVs Capacity*	29k	39k	49k	+

*Excl IO PU capacity

Source: Company, Arianth Research

Standalone Financial

P&L (INR mn)	FY22	FY23E	FY24E	FY25E	B/S/Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Net sales	5,74,460	7,23,055	9,18,055	11,06,898	Equity capital	5,985	5,985	5,985	5,985
YoY (%)	28.7	25.9	27.0	20.6	Reserves	3,83,627	4,38,903	5,18,610	6,21,655
Raw material cost	4,23,416	5,34,337	6,78,443	8,17,998	Net worth	3,89,611	4,44,888	5,24,595	6,27,640
Employee Cost	31,600	38,019	43,721	50,280	Total Loans	64,900	62,900	60,901	58,903
Admin Expenses	49,021	57,844	73,444	88,552	Def Tax Liability	17,008	17,008	17,008	17,008
Total expenses	5,04,037	6,30,200	7,95,609	9,56,829	Assets held for sale	504			
EBIDTA	70,423	92,854	1,22,447	1,50,069	Total Liabilities	4,72,023	5,24,796	6,02,503	7,03,551
(%)	12.3%	12.8%	13.3%	13.6%	Gross Block	1,35,451	1,52,451	1,72,351	1,92,251
Depreciation	24,511	26,818	26,837	25,935	Less: Acc. depreciation	24,511	51,329	78,166	1,04,101
EBIT	45,912	66,036	95,610	1,24,134	Net block	1,10,940	1,01,122	94,185	88,150
Interest	2,230	2,236	2,167	2,097	Investments	3,11,507	3,31,222	3,50,723	3,79,770
Other income	20,759	26,632	28,715	30,432	Inventories	58,829	67,300	85,450	1,03,027
PBT	64,441	90,432	1,22,158	1,52,469	Debtors	30,351	32,964	41,854	50,464
(-) Tax	-13,002	18,642	25,939	32,911	Cash	36,505	30,961	52,838	86,165
Tax/ PBT	(20.2)	20.6	21.2	21.6	Loans and advances	92,217	1,14,651	1,35,167	1,57,828
PAT	51,439	71,790	96,219	1,19,558	Other Current assets	24,627	24,873	25,221	25,574
YoY (%)	26.3	39.6	34.0	24.3	Current assets	2,42,528	2,70,749	3,40,529	4,23,057
PAT(%)	9.0%	9.9%	10.5%	10.8%	Current liabilities	1,61,100	1,61,100	1,61,100	1,61,100
Extraordinary	2087	-	-	-	Current liabilities & Provisions	1,92,955	1,78,297	1,82,934	1,87,426
Reported Profit	51,439	71,790	96,219	1,19,558	Net current assets	49,574	92,452	1,57,595	2,35,631
					Total Assets	4,72,021	5,24,796	6,02,503	7,03,551
Cash Flow	FY22	FY23E	FY24E	FY25E	Key Ratios	FY22	FY23E	FY24E	FY25E
Net Profit	49,352	71,790	96,219	1,19,558	EPS	43.0	60.0	80.4	99.9
Depreciation	24,511	26,818	26,837	25,935	P/E (Standalone)	30.0	21.5	16.0	12.9
Deferred tax	-13,002	18,642	25,939	32,911	EV/EBDITA (x)	17.9	13.4	9.8	7.6
Change in W/C	-21,347	-30,231	-43,266	-44,709	Book value	326	372	438	524
Operating cash flow	39,514	87,019	1,05,730	1,33,696	P/B (x)	4.0	3.5	2.9	2.5
Change in intangible	-381	5,728	18,662	28,199	Subsidiary				
Capex	-1,703	-17,000	-19,900	-19,900	Valuation	314	314	314	314
Investments	-38,142	-19,715	-19,501	-29,047	EPS (Core EPS)	34.7	49.9	68.6	86.3
Investing cash flow	-43,756	-71,815	-63,174	-79,761	P/E (Core)	28.0	19.5	14.2	11.3
Free Cash Flow	35,581	67,783	83,663	1,11,699	EV/EBITDA (Core)	16.6	12.5	9.1	7.0
Dividend	-16,513	-16,513	-16,513	-16,513	ROCE	11.8%	14.9%	17.5%	18.6%
Equity	7,262	-	-	-	ROE	13.9%	17.2%	19.8%	20.8%
Debt	-11,724	-2,000	-1,999	-1,998	Days				
Financing cash flow	-20,975	-18,513	-18,512	-18,511	Inventory	46.0	46.0	46.0	46.0
Net change in cash	-27,447	-5,545	21,877	33,327	Debtor	16.6	16.6	16.6	16.6
Opening cash	63,952	36,505	30,961	52,838	Creditor	74.8	86.2	87.0	87.0
Closing cash	36,505	30,961	52,838	86,165					

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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