

MAHINDRA & MAHINDRA

BUY

Lethal Combination of Growth and Value Creation

Summary

M&M's Q4FY22 results were ahead of Consensus estimates on all account. In the Analyst meet, Management shared its intentions of aggressive business growth and value creation for shareholders. The Company reiterated its plans of attaining ~15-20% Sales and EPS CAGR over FY22-25E. To meet growing demand (especially for XUV700 and Thar), the Company has increased its capex plan for its Auto division from Rs90bn to Rs119bn. Management anticipates strong demand for its UV business with launch of Scorpio-N in June 2022. We retain our estimates for FY23 and FY24. M&M's Sales and PAT is expected to grow at 19% and 25% CAGR respectively over FY22-24E. The stock is quoting at PER of 14.8x FY24 earnings (25% earnings CAGR/ ~17% ROE profile). We find current valuations extremely attractive and retain BUY rating and target price of Rs 1,565.

Key Highlights and Investment Rationale

- Q4FY22 Results Highlights:** During Q4FY22, M&M's sales grew by 28% YoY to Rs171bn primarily driven by its Auto division. EBITDA margins during the quarter declined by 328bps YoY to 11.4% on account of lower gross margins. Adjusted PAT increased by 17% to Rs11.6bn.
- Management's view:** The Company reiterated its plans of attaining ~15-20% Sales and EPS CAGR over FY22-25E and highlighted its priorities for aggressive business growth and value creation in the medium term.
- Retain Estimates:** We retain our estimates for FY23 and FY24. M&M's earnings cycle which has been stalled since FY14 is likely to enter into a blistering phase with 19% Sales CAGR and 25% 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 60% to its FY24E EBITDA compared to 36% in FY21.

TP **Rs 1,565**
CMP **Rs 998**

 Potential upside/downside **57%**

 Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.2	26.2	17.9
Rel to Sensex	10.2	26.7	9.2

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	53	67
Consensus	55	59
% difference	(3.4)	13.8

Key Stock Data

Bloomberg/Reuters	MM IN / MAHM.BO
Sector	Automobile
Shares o/s (mn)	1,243
Market cap. (Rs mn)	1,240,582
3-m daily avg Trd value (Rs mn)	209.8
52-week high / low	979 / 671
Sensex / Nifty	55,926 / 16,661

Shareholding Pattern (%)

Promoters	19.5
FII	37.3
DII	23.1
Public	20.1

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,48,655	4,45,744	5,74,460	7,14,359	8,08,034
Change (yoy, %)	(15)	(1)	29	24	13
EBITDA	63,506	69,766	70,423	97,105	1,20,343
Change (yoy, %)	(16)	10	1	38	24
EBITDA Margin(%)	14.2	15.7	12.3	13.6	14.9
Adj.PAT	35,509	40,974	51,439	62,977	80,553
EPS (Rs)	30	34	43	53	67
Change (yoy, %)	(35)	15	25	22	28
PE(x)	34	29	23	19	15
Dividend Yield (%)	0	1	1	1	2
EV/EBITDA (x)	19	17	17	12	9
RoE (%)	10	12	14	15	17
RoCE (%)	21	20	18	28	32

Source: IDBI Capital Research

- **Compelling Valuations: BUY with 57% upside:** Based on Standalone earnings, the stock is quoting at PER of 14.8x FY24 earnings despite 25% earnings CAGR and ~17% ROE profile. However, based on its core business (Auto and Farm), net of subsidiary valuations of Rs 574/share, the stock is quoting at PER of 7.1x FY24 earnings. We find current valuations extremely attractive and retain BUY rating and target price of Rs 1,565 implying 57% upside.

Concall Highlights

- M&M's capex plan of Rs 170bn from FY22-24 includes
 - Auto capex Rs -119bn towards capacity addition, of which Rs 19bn will be deployed to XUV700 and others.
 - Farm capex of Rs -34bn towards capacity addition
 - Auto & Farm Investments capex (excl. Ssangyong) at Rs -15bn
 - Group Cos. Investments capex at Rs -27bn and
 - Monetization & Partnerships at Rs +25bn.
- The SUV revenue market share for Q4FY22 at 17.9%.
- The XUV700 model currently has open bookings of more than 78k and has monthly booking rate of 9.5k plus.
- The cancellation rate for XUV700 at 10-15% and dramatic shift from premium customer base to this model is seen. As per the Management, the waiting period for XUV700 will come down gradually.
- M&M will launch the all new Scorpio-N model on June 27th 2022 which is expected to perform well which is highly focused on good customer experience.
- The Management stated that, new target customer base will be tapped with launch of Scorpio-N which will recover the lost market share in Rural, semi-urban and urban areas.
- The Thar model has 1 lakh bookings till date.
- On the EV segment, the future capex will be towards new product developments specifically for EV and focus would be on platform based EV business.
- The cost of new ICE models introduction to be lower and much higher capex will move towards EV.
- M&M's tie-up with Volkswagen for its MEB platform in the quarter will be leveraged for EV business growth.

- M&M's Born Electric platform will be unveiled on August 15th, 2022.
- The Management is optimistic on Auto segment margin uptake and model mix will drive growth further.
- The green shoots in Domestic tractor demand were witnessed in April-22 and the Management expects single digit industry growth in FY23.
- The FY22 market share in FES at 40%.
- The reduction in losses International Auto and Farm operation were seen in FY22 at Rs -1.9bn compared to Rs -34bn in FY20.
- The growth gems (includes listed and unlisted subsidiaries) PAT in FY22 at Rs 2.8bn compared to Rs 450mn in FY21.
- The investments (includes Digital platforms namely Porter, Brainbees & carandbike) PAT in FY22 at Rs 1bn compared to loss of Rs -1.9bn in FY21.
- On the 2W segment, Classic legends and Peugeot Motorcycles has strong brand value and are present in niche markets only.
- M&M has no plans on 2W launches for mass market segment.
- On M&M Defence, the company is Tier-I supplier for Boeing and Airbuses.
- The focus in Defence segment will more towards cyber security and not looking for weapons production.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Total Volumes	2,28,784	2,02,223	13.1	2,14,134	6.8
Net Sales	1,71,240	1,33,559	28.2	1,52,388	12.4
Expenditure	1,51,784	1,14,007	33.1	1,34,330	13.0
<i>as % of sales</i>	<i>88.6</i>	<i>85.4</i>	<i>-</i>	<i>88.1</i>	<i>-</i>
Consumption of RM	1,30,755	92,255	41.7	1,13,931	14.8
<i>as % of sales</i>	<i>76.4</i>	<i>69.1</i>	<i>-</i>	<i>74.8</i>	<i>-</i>
Employee Cost	7,461	7,977	(6.5)	8,790	(15.1)
<i>as % of sales</i>	<i>4.4</i>	<i>6.0</i>	<i>-</i>	<i>5.8</i>	<i>-</i>
Other expenditure	13,568	13,776	(1.5)	11,609	16.9
<i>as % of sales</i>	<i>7.9</i>	<i>10.3</i>	<i>-</i>	<i>7.6</i>	<i>-</i>
EBITDA	19,455	19,552	(0.5)	18,058	7.7
Depreciation	6,805	5,900	15.3	6,312	7.8
EBIT	12,651	13,652	(7.3)	11,746	7.7
Other Income	2,387	1,177	102.8	5,233	(54.4)
Interest	558	957	(41.6)	533	4.8
PBT	14,479	13,873	4.4	16,447	(12.0)
Total Tax	-2,808	-3,894	(27.9)	-2,916	(3.7)
Adjusted PAT	11,672	9,979	17.0	13,531	(13.7)
Extra ordinary items	1,248	(7,527)	NA	0	NA
Reported PAT	12,919	2,452	426.9	13,531	(4.5)
Adjusted EPS	9.8	8.4	16.8	11.3	(13.8)
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	11.4	14.6	(328)	11.9	(49)
EBIT	7.4	10.2	(283)	7.7	(32)
EBT	8.5	10.4	(193)	10.8	(234)
PAT	6.8	7.5	(66)	8.9	(206)

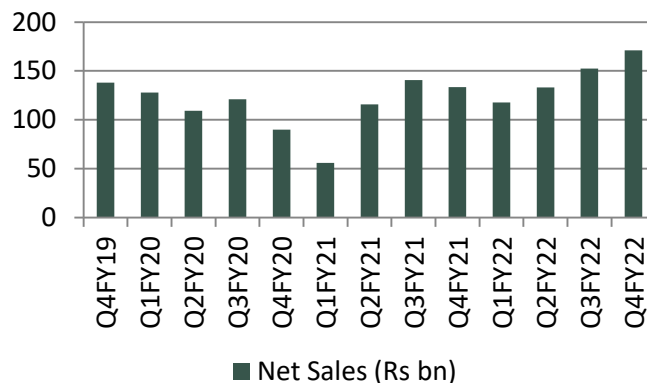
Source: Company; IDBI Capital Research

Exhibit 2: Valuation Matrix

Segments	Valuation	Mcap (mn)	Value/share	Comments
Business Segment				
Auto Business	11xFY24EV/EBITDA (FY24 EBITDA - Rs 73,383 mn)	7,96,217	666	We have Auto business at 11xFY24 EV/EBITDA considering 30% discount to MSIL's target multiple
Farm Business	7xFY24EV/EBITDA (FY24 EBITDA- Rs 44,918 mn)	3,14,424	263	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 Current Auto Business	1,59,243	133	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	2,92,803	245	
Mahindra & Mahindra Financial Services	Market Price	1,15,348	97	
Mahindra Holidays & Resorts	Market Price	20,405	17	
Mahindra Logistics	Market Price	19,275	16	
CIE Automotive	Market Price	27,012	23	
Mahindra Lifespace Developers	Market Price	9,254	8	
Mahindra CIE Automotive Limited.	Market Price	8,322	7	
Listed Subsidiaries	Market Price	4,92,418	412	
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)		5,96,205	499	
Sub Valuations Post Discount (20%)		4,76,964	399	
Total Value		18,70,253	1,565	

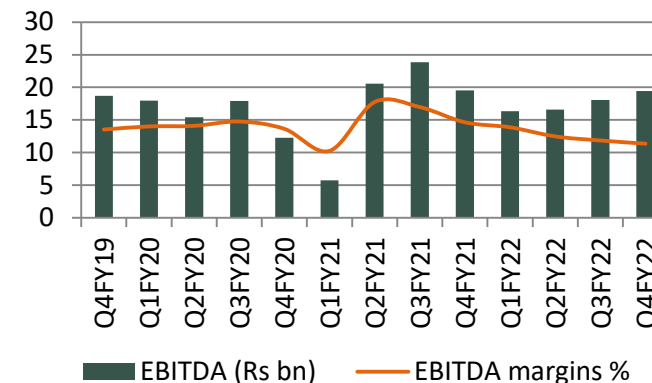
Source: Company, IDBI Capital Research

Exhibit 3: Quarterly Sales



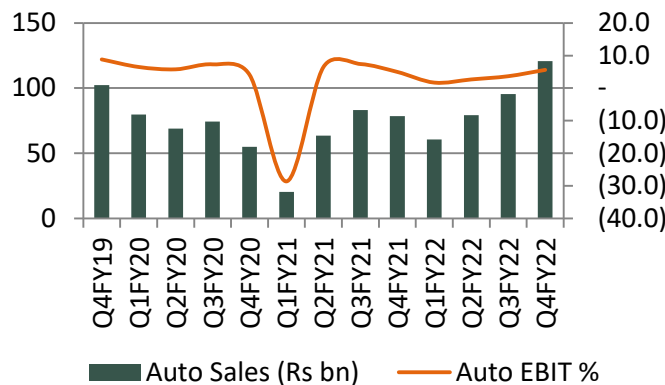
Source: Company, IDBI Capital Research

Exhibit 4: Quarterly EBITDA and margins



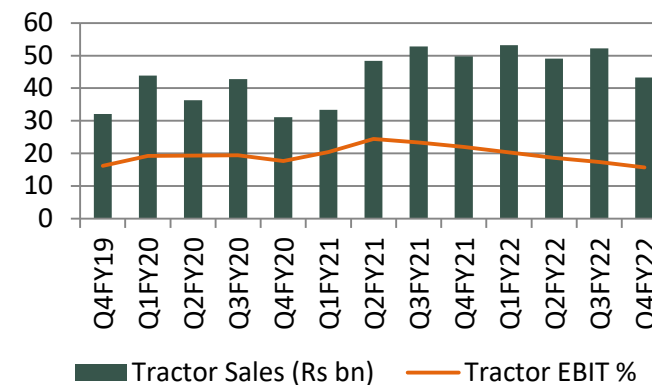
Source: Company, IDBI Capital Research

Exhibit 5: Auto Sales & EBIT margins



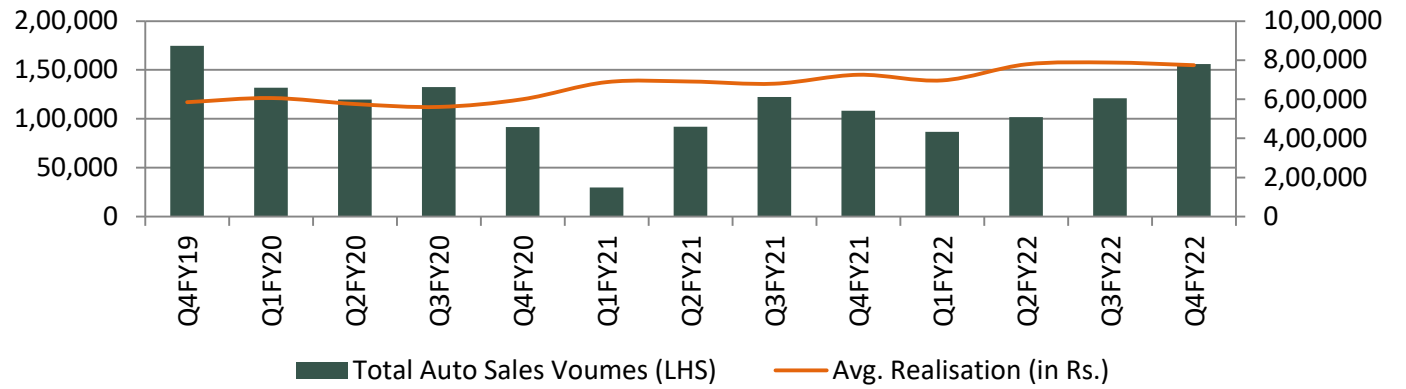
Source: Company, IDBI Capital Research

Exhibit 6: Tractor Sales & EBIT margins



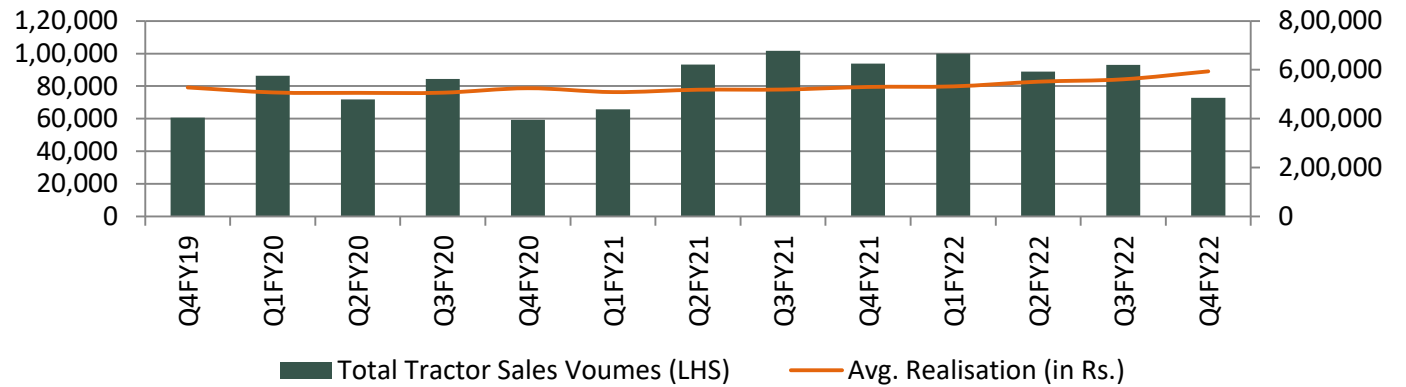
Source: Company, IDBI Capital Research

Exhibit 7: Total Auto Sales volumes & Avg. Realisations



Source: Company, IDBI Capital Research

Exhibit 8: Total Tractor Sales volumes & Avg. Realisations



Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	5,28,482	4,48,655	4,45,744	5,74,460	7,14,359	8,08,034
<i>Change (yoy, %)</i>	11	(15)	(1)	29	24	13
Operating expenses	(4,53,182)	(3,85,150)	(3,75,979)	(5,04,037)	(6,17,254)	(6,87,691)
EBITDA	75,301	63,506	69,766	70,423	97,105	1,20,343
<i>Change (yoy, %)</i>	7	(16)	10	1	38	24
<i>Margin (%)</i>	14.2	14.2	15.7	12.3	13.6	14.9
Depreciation	(20,030)	(23,631)	(23,624)	(24,511)	(28,706)	(32,486)
EBIT	55,271	39,875	46,142	45,912	68,398	87,857
Interest paid	(1,467)	(1,245)	(3,957)	(2,230)	(4,392)	(4,042)
Other income	16,303	15,391	11,973	20,759	19,963	23,588
Pre-tax profit	70,333	82,133	85,902	62,355	83,970	1,07,403
Tax	(15,867)	(18,513)	(13,183)	(13,002)	(20,992)	(26,851)
<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	62,977	80,553
Exceptional items	227	28,112	31,745	(2,087)	-	-
Adjusted net profit	54,239	35,509	40,974	51,439	62,977	80,553
<i>Change (yoy, %)</i>	29	(35)	15	26	22	28
EPS	45.5	29.8	34.3	43.0	52.6	67.3
Dividend per sh	9	2	9	9	13	17
<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	3,49,937	3,46,291	3,53,212	3,89,610	4,36,843	4,97,257
Share capital	5,958	5,965	5,974	5,983	5,983	5,983
Reserves & surplus	3,43,979	3,40,326	3,47,239	3,83,627	4,30,860	4,91,274
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	1,59,635	1,18,009	1,71,446	1,97,330	2,60,899	2,97,225
Current liabilities	1,43,857	1,03,617	1,56,369	1,83,667	2,39,571	2,73,101
Provisions	15,778	14,393	15,077	13,663	21,327	24,124
Total liabilities	39,223	52,490	94,452	36,836	59,526	74,852
Total equity & liabilities	3,54,796	3,10,529	4,43,781	4,46,324	5,04,011	5,95,752
Net fixed assets	1,44,969	1,69,093	1,81,325	1,95,668	2,16,961	2,24,476
Investments	2,06,262	1,75,329	2,22,862	2,51,098	2,51,098	2,51,098
Other non-curr assets	-	-	-	-	-	-
Current assets	1,97,564	1,72,368	2,14,923	2,22,420	2,87,050	3,71,276
Inventories	47,631	40,408	47,827	58,829	65,095	75,831
Sundry Debtors	38,119	29,012	22,012	30,351	47,427	56,022
Cash and Bank	38,321	42,365	62,556	36,505	60,233	1,13,846
Loans and advances	35,565	35,929	36,609	37,658	55,218	66,499
Total assets	3,54,796	3,10,529	4,43,781	4,46,324	5,04,011	5,95,752

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	1,09,055
Depreciation	20,030	23,631	23,624	24,511	28,706	32,486
Tax paid	(15,867)	(10,628)	(13,623)	(10,845)	(20,992)	(26,851)
Chg in working capital	(7,328)	(12,385)	31,072	(7,663)	2,788	5,714
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	66,714	26,528	63,485	69,280	96,101	1,20,403
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)	(15,744)	(20,138)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(13,782)	(4,948)	40,225	(27,671)	(20,744)	(25,138)
Net chg in cash (a+b+c)	9,080	4,044	20,190	(32,081)	25,356	55,265

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	294	290	296	326	365	416
Adj EPS (Rs)	45.5	29.8	34.3	43.0	52.6	67.3
Adj EPS growth (%)	29	(35)	15	25	22	28
EBITDA margin (%)	14.2	14.2	15.7	12.3	13.6	14.9
Pre-tax margin (%)	13.3	18.3	19.3	10.9	11.8	13.3
Net Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	(0.1)
ROCE (%)	15	9	11	18	28	32
ROE (%)	17	10	12	14	15	17

DuPont Analysis

Asset turnover (x)	1.6	1.3	1.2	1.3	1.5	1.5
Leverage factor (x)	1.0	1.0	1.1	1.2	1.1	1.2
Net margin (%)	10.3	7.9	9.2	9.0	8.8	10.0

Working Capital & Liquidity ratio

Inventory days	33	33	39	37	33	34
Receivable days	26	24	18	19	24	25
Payable days	83	68	103	93	83	86

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	22	34	29	23	19	15
Price/Book value (x)	3.4	3.4	3.4	3.1	2.7	2.4
EV/Net sales (x)	2	3	3	2	2	1
EV/EBITDA (x)	16	19	17	17	12	9
Dividend Yield (%)	1	0	1	1	1	2

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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