

BUY

TP: Rs 1,665 | ▲ 25%

MAHINDRA & MAHINDRA | Automobiles

30 May 2023

Healthy performance; strong show to continue

- Robust Q4 volume growth of 22% YoY despite slow tractor sales; prudent product mix aids realisation gains of 13%
- Gross margin improved 135bps YoY to 25% helped by a better mix and pricing
- We raise FY24/FY25 EPS 6%/7% and roll forward to a new TP of Rs 1,665 (vs. Rs 1,496), based on 17x FY25E P/E (vs. 18x)

Milind Raginwar | Yash Thakur
research@bobcaps.in

Strong topline: MM's Q4FY23 revenue grew 31% YoY (+4% QoQ) to Rs 225.7bn driven by blended volume gains of 22% YoY (-1% QoQ). Net blended realisation per vehicle (NRPV) stood at Rs 810.9k, up 13%/5% YoY/QoQ, helped by price hikes and a healthy product mix.

Gross margin improves, EBITDA margin slips slightly QoQ: Raw material cost softened to 75% of sales from 76.3% in Q4FY22 as realisations moved up, aiding gross margin gains of 135bps/100bps YoY/QoQ to 25%. Opex increased 37%/31% YoY/QoQ due to Q4-specific expenses, negating the benefits of positive operating leverage. EBITDA grew 45% YoY (-1% QoQ) to Rs 27.9bn and the margin rose 115ps YoY but dipped 60bps QoQ to 12.4% due to a weak performance in the farm equipment segment and higher other expenses. Adj. PAT grew 80% YoY (-5% QoQ) to Rs 20.6bn.

Auto segment healthy; FES weaker QoQ: The automotive segment continued to dominate revenue, growing by 36%/11% YoY/QoQ. However, revenue for the farm equipment segment (FES) post a sequential decline of 11% (+29% YoY) due to a 15% QoQ drop in volumes (+23% YoY), and margins remained under pressure. MM is targeting 10-fold growth in farm machinery revenue by FY27. Automotive segment EBIT grew by 82%/20% YoY/QoQ and FES grew 38% YoY but declined 10% QoQ.

Capacity expansion plans: MM has capacity of 39k units per month but remains short of optimal utilisation by 10% due to the semiconductor shortage. A further 49k units of capacity is due to be added by Feb'24 (ex-BEV but including XUV400).

Maintain BUY: New capacity and high-end launches are likely to boost MM's revenue even as moderating cost, a prudent product mix and improving realisations should support margin gains and mitigate supply chain issues. We raise our FY24/FY25 EPS estimates by 6%/7% to factor in the same. We now value MM's core business at 17x EPS (from 18x) and roll valuations over to FY25E, yielding a new SOTP-based TP of Rs 1,665 (vs. Rs 1,496) that includes Rs 282 as the value of subsidiaries.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 1,328
Market cap	US\$ 20.2bn
Free float	81%
3M ADV	US\$ 36.1mn
52wk high/low	Rs 1,397/Rs 973
Promoter/FPI/DII	19%/37%/29%

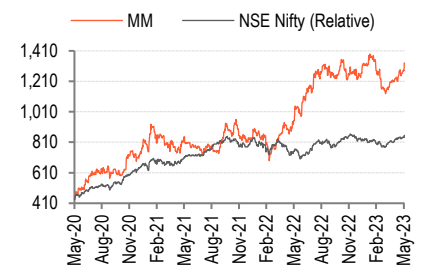
Source: NSE | Price as of 30 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	8,49,603	9,37,850	10,39,378
EBITDA (Rs mn)	1,04,424	1,30,440	1,45,782
Adj. net profit (Rs mn)	65,486	87,775	97,379
Adj. EPS (Rs)	54.7	73.3	81.3
Consensus EPS (Rs)	51.9	72.5	83.0
Adj. ROAE (%)	15.9	18.8	18.0
Adj. P/E (x)	24.3	18.1	16.3
EV/EBITDA (x)	15.4	12.5	11.2
Adj. EPS growth (%)	37.6	34.0	10.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our view
Market share	<p>Tractor market share up 230bps YoY to 40.7%</p> <p>Automotive business revenue market share up 170bps YoY to 19.6%. In case of <3.5t LCVs, market leader MM gained 500bps YoY to 44.4%</p> <p>MM retained leadership in electric three-wheelers (3W) with 67% market share</p>	<p>Tractor market share up 160bps YoY to 41%</p> <p>Automotive business revenue market share at 20.6% (+500bps YoY). In case of <3.5t LCVs, market leader MM gained 900bps YoY to 46.5%.</p> <p>Electric 3W market share at 63.5%</p>	<p>Contribution from all business segments remains healthy, helping MM focus on revenue mix and earnings traction</p>
Order book	<p>Open bookings as on 1 May 2023 at 292k, with 33k billings per month, 57k fresh bookings per month and cancellation rate of sub-8% per month</p> <p>Due to semiconductor issues in Q4FY23, MM indicated that it lost 3k units per month in <i>Scorpio</i> and <i>XUV700</i> and saw some impact on <i>XUV300</i></p>	<p>Total open bookings at 266k as on 1 Feb 2023; cancellations are at an average of 7-8%</p> <p>Management aims to bring the order book down by improving deliveries and reducing the waiting period (reduced by 1-1.5month currently)</p>	<p>Cancellations remain at just ~8% despite a long waiting period in the high-end segment. With increasing competition and supply-chain issues resurfacing, MM will have to keep a tab on cancellations</p>
Electric vehicles	<p>MM has clocked orders of 20k+ in <i>XUV400</i> and has sold 3k+ units since deliveries started in March. Targeting 18k units in FY24, largely in H2FY24</p> <p>In case of the 'Born Electric' programme, MM plans to start producing the first lot of EVs in Q4CY24, for launch in early-2025</p>	<p><i>XUV400</i> recorded a high of 15k booking in 15 days on 26 January</p>	<p>Meaningful contribution from the EV segment is expected from FY25/FY26</p>
FES	<p>The focus on farm machinery is likely to dampen overall margin gains for the next 3-4 years till MM scales up.</p> <p>In the lightweight tractor portfolio, MM launched the new <i>Swaraj</i> in five states. New platform 25-29HP segment is to be launched on 2 June and <i>Oja</i> on 15 August</p> <p>MM's market share in the lightweight segment is below the national average, which should improve with <i>Swaraj</i> and <i>Oja</i>.</p> <p>Management expects the tractor industry to grow in low single digits for FY24</p>	<p>Targeting 10x growth in FES revenue by FY27, even at the expense of margins</p> <p>Management expects the tractor industry to grow 10% in FY23</p>	<p>With return ratios meeting MM's targets (ROE at 17-18%), the company has room to focus on the tractor segment</p> <p>We expected MM to pursue revenue growth over earnings in the next couple of years</p>
Margins	<p>MM saw no commodity price benefits in Q4 over Q3 in case of FES as rubber prices did not come down in Q4</p>	<p>On tractor margins, management indicated that all the material cost changes through the commodity cycle have been passed on. However, margin on the material cost increase has not been passed on yet. A</p>	<p>The introduction of EVs will alter the margin structure for MM. We anticipate a greater focus on safeguarding margins amid commodity cost inflation</p>

Parameter	Q4FY23	Q3FY23	Our view
	<p>Margins will not be comparable once EVs are introduced as these have a different margin structure</p> <p>In terms of overall margins, management expects commodity prices to be a bigger determinant than operating leverage</p>	<p>bulk of the steel easing is already reflected in Q3FY23 and there are no tailwinds going into Q4</p>	
Capex	<p>Traditional business (ICE) capex, excluding MM's EV division MEAL, is guided at Rs 16bn in FY24 towards capacity addition and regulatory changes. EV capex is guided at Rs 10bn</p>	<p>NA</p>	<p>New capacity addition will help bolster volume growth in the automotive segment, though utilisation could be below targets in the short term due to supply chain issues</p>
Other key points	<p>MM continues to strengthen its position in ICE SUVs and expects these to contribute 70% of total volumes for 6-7 years</p> <p>ROE stood at 19.9% in FY23 against management's 18% target, and MM guides for sustained 18% levels ahead as the focus is on driving growth</p> <p>In terms of urban vs. rural demand for utility vehicles, out of 35k units sold per month, <i>Bolero</i> and <i>Neo</i> form 9k (largely rural and semiurban demand); <i>Scorpio Classic</i> 4k+ (largely urban and semiurban); half of <i>XUV300</i> demand is semiurban; and 30-40% of <i>Thar</i> sales are to the semiurban and rural markets.</p>	<p>Per management, <i>Scorpio</i> sales fell from 130k to 119k due to a ~10% cancellation rate as MM shifted priority towards producing high-end products; momentum is expected to return towards the end of Feb'23</p> <p>With respect to real driving emission (RDE) norms, management indicated that it is broadly keeping to its targeted price hike of Rs 9k-15k per vehicle, though this may rise to Rs 20k-22k for some models</p> <p>Management does not foresee any penalty with regards to CAFE fuel efficiency norms</p>	<p>We believe MM will maintain a balance between growth and earnings with new launches in the high-end automotive segment, guarding margins, and with the FES segment aiding topline growth</p>

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Volume	278,355	227,964	22.1	280,944	(0.9)	1,102,437	816,582	35.0
Avg. Realisation per Vehicle	810,884	720,448	12.6	770,749	5.2	770,656	707,669	8.9
Net Revenues	225,714	172,378	30.9	216,537	4.2	849,600	577,869	47.0
Total Income (A)	225,714	172,378	30.9	216,537	4.2	849,600	577,869	47.0
Operating Expenses:								
Raw materials consumed	169,219	131,541	28.6	164,471	2.9	645,582	425,604	51.7
Employee Expenses	9,490	7,542	25.8	9,342	1.6	36,499	33,296	9.6
Other Expenses	19,031	13,933	36.6	14,583	30.5	63,098	48,695	29.6
Total Expenditure (B)	197,740	153,016	29.2	188,395	5.0	745,179	507,595	46.8
EBITDA (A-B)	27,974	19,362	44.5	28,142	(0.6)	104,421	70,275	48.6
Other Income	3,339	2,298	45.3	6,700	(50.2)	25,452	20,538	23.9
Depreciation	8,385	6,932	21.0	8,292	1.1	31,545	24,984	26.3
EBIT	22,927	14,728	55.7	26,551	(13.6)	98,328	65,828	49.4
Finance Costs	698	562	24.2	686	1.8	2,728	2,262	20.6
PBT before excep items	22,229	14,166	56.9	25,865	(14.1)	95,601	63,567	50.4
Exceptional items	(5,118)	1,248	NA	(6,289)	NA	(14,295)	(2,087)	NA
PBT after excep items	17,111	15,414	11.0	19,576	(12.6)	81,305	61,480	32.2
Tax expense	1,621	2,729	(40.6)	4,296	(62.3)	15,821	12,781	23.8
Reported PAT	15,490	12,686	22.1	15,281	1.4	65,484	47,266	38.5
Adjusted PAT	20,608	11,438	80.2	21,569	(4.5)	65,484	47,266	38.5
Adj EPS (Rs)	16.8	11.5	46.0	11.5	46.1	53.1	39.5	34.4
Key ratios (%)			(bps)		(bps)			(bps)
Gross Margin (%)	25.0	23.7	134	24.0	98	24.0	26.3	(234)
EBITDA Margin (%)	12.4	11.2	116	13.0	(60)	12.3	12.2	13
EBIT Margin (%)	10.2	8.5	161	12.3	(210)	11.6	11.4	18
PBT Margin (%)	9.8	8.2	163	11.9	(210)	11.3	11.0	25
Tax Rate (%)	9.5	17.7	(823)	21.9	(1,247)	19.5	20.8	(133)
Adj PAT Margin (%)	9.1	6.6	249	10.0	(83)	9.4	8.8	60

Source: Company, BOBCAPS Research

Valuation methodology

New capacity and high-end launches are likely to boost MM's revenue even as moderating cost, a prudent product mix and improving realisations should support margin gains and mitigate supply chain issues. We raise our FY24/FY25 EPS estimates by 6%/7% to factor in the same and now pencil in a revenue/EBITDA/PAT CAGR of 22%/25%/28% over FY22-FY25. Our EBITDA margin trajectory remains at 13-14% for FY24-FY25. Stability in the export business will lend further upside.

We roll valuations over to FY25E and now value MM's core business at 17x P/E from 18x earlier to factor in business uncertainties, especially in overseas markets. This yields a core value of Rs 1,382/sh to which we add Rs 282/sh for subsidiaries (at 30% holding company discount), amounting to a new SOTP-based TP of Rs 1,665 (vs. Rs 1,496). Maintain BUY.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	937,850	1,039,378	905,589	1,003,590	3.6	3.6
EBITDA	130,440	145,782	124,746	139,376	4.6	4.6
Adj PAT	87,775	97,379	86,045	94,239	2.0	3.3
EPS (Rs)	73.3	81.3	69.3	75.9	5.8	7.1

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E
Volume (no of units)	1,102,437	1,208,355	1,320,283
Revenues (Rs mn)	8,49,600	9,37,850	10,39,378
EBITDA (Rs mn)	101,155	1,30,440	1,45,782
EBITDA margin (%)	11.9	13.9	14.0
Adj. PAT (Rs mn)	62,217	87,775	97,379
EPS (Rs)	51.9	73.3	81.3

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	Value (Rs/sh)	Valuation basis
Core Business	1,382	17x FY25E EPS
Subsidiaries	283	30% holding company discount
Total	1,665	

Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Mahindra & Mahindra	MM IN	BUY	1,665	73.3	81.3	18.7	17.6
Maruti Suzuki	MSIL IN	HOLD	9,858	332.6	402.4	15.7	16.7
Tata Motors	TTMT IN	NOT RATED	-	34.8	44.3	24.6	25.3

Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- commodity inflation sustaining for longer than expected,
- delays in model launches,
- slower-than-expected growth in the farm equipment segment, and
- accelerated launches by competition in the high-end automotive segment.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.2	146	184	BUY
Bajaj Auto	BJAUT IN	16.2	4,592	4,188	HOLD
Eicher Motors	EIM IN	12.2	3,678	3,761	HOLD
Escorts	ESCORTS IN	3.4	2,105	1,749	SELL
Hero MotoCorp	HMCL IN	6.8	2,779	2,712	HOLD
Mahindra & Mahindra	MM IN	20.2	1,328	1,665	BUY
Maruti Suzuki	MSIL IN	34.5	9,383	9,858	HOLD
TVS Motor	TVSL IN	7.4	1,283	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,764	3,218	BUY

Source: BOBCAPS Research, NSE | Price as of 30 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	4,46,299	5,74,460	8,49,603	9,37,850	10,39,378
EBITDA	68,335	68,963	1,04,424	1,30,440	1,45,782
Depreciation	23,699	24,511	31,545	30,878	34,674
EBIT	57,870	66,671	98,331	1,20,269	1,33,200
Net interest inc./(exp.)	(3,963)	(2,230)	(2,728)	(3,001)	(3,361)
Other inc./(exp.)	11,995	20,759	25,452	20,707	22,092
Exceptional items	(30,873)	(2,087)	(14,295)	0	0
EBT	23,035	62,355	81,308	1,17,268	1,29,839
Income taxes	13,193	13,002	15,821	29,493	32,460
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	(21,031)	47,266	51,191	87,775	97,379
Adjustments	30,873	2,087	14,295	0	0
Adjusted net profit	9,842	49,352	65,486	87,775	97,379

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	1,13,986	1,37,389	1,63,066	1,68,250	1,78,097
Other current liabilities	44,712	46,298	90,006	70,744	67,463
Provisions	15,077	13,663	18,139	19,953	21,948
Debt funds	77,863	67,336	50,255	57,239	53,162
Other liabilities	0	0	0	0	0
Equity capital	5,974	5,983	5,991	5,991	5,991
Reserves & surplus	3,43,536	3,83,627	4,27,577	4,95,584	5,73,194
Shareholders' fund	3,49,510	3,89,609	4,33,567	5,01,574	5,79,185
Total liab. and equities	6,01,148	6,54,295	7,55,033	8,17,760	8,99,855
Cash and cash eq.	63,952	36,505	44,818	27,478	13,918
Accounts receivables	22,028	30,351	40,417	46,892	62,363
Inventories	47,830	58,829	88,814	84,406	93,544
Other current assets	82,641	98,852	1,02,821	1,45,367	1,66,301
Investments	2,17,826	2,51,098	2,70,871	3,11,826	3,54,719
Net fixed assets	1,52,455	1,80,453	1,91,379	1,90,500	1,95,826
CWIP	28,912	15,215	18,679	14,056	15,950
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(14,497)	(17,008)	(2,765)	(2,765)	(2,765)
Other assets	0	0	0	0	0
Total assets	6,01,148	6,54,295	7,55,033	8,17,760	8,99,855

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	44,960	38,916	98,692	38,069	69,621
Capital expenditures	(35,974)	(38,811)	(45,934)	(25,377)	(41,894)
Change in investments	(42,497)	(33,272)	(19,773)	(40,955)	(42,893)
Other investing cash flows	11,995	20,759	25,452	20,707	22,092
Cash flow from investing	(66,476)	(51,324)	(40,255)	(45,625)	(62,695)
Equities issued/Others	25,149	1,153	(1,136)	0	0
Debt raised/repaid	46,333	(10,528)	(17,080)	6,984	(4,077)
Interest expenses	(3,963)	(2,230)	(2,728)	(3,001)	(3,361)
Dividends paid	(2,922)	(9,315)	(19,769)	(19,769)	(19,769)
Other financing cash flows	1,452	3,508	734	0	0
Cash flow from financing	66,049	(17,412)	(39,979)	(15,785)	(27,207)
Chg in cash & cash eq.	44,533	(29,820)	18,458	(23,341)	(20,281)
Closing cash & cash eq.	63,952	36,505	44,818	27,478	13,918

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	7.9	39.7	54.7	73.3	81.3
Adjusted EPS	7.9	39.7	54.7	73.3	81.3
Dividend per share	2.4	7.5	16.5	16.5	16.5
Book value per share	281.4	313.7	361.9	418.6	483.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.6	2.7	1.9	1.7	1.6
EV/EBITDA	23.5	22.8	15.4	12.5	11.2
Adjusted P/E	167.7	33.4	24.3	18.1	16.3
P/BV	4.7	4.2	3.7	3.2	2.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	(91.3)	75.8	63.0	74.9	75.0
Interest burden (PBT/EBIT)	39.8	93.5	82.7	97.5	97.5
EBIT margin (EBIT/Revenue)	13.0	11.6	11.6	12.8	12.8
Asset turnover (Rev./Avg TA)	109.9	129.9	180.6	179.9	174.5
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.1	1.1	1.1
Adjusted ROAE	(6.0)	12.8	12.4	18.8	18.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(0.5)	28.7	47.9	10.4	10.8
EBITDA	7.6	0.9	51.4	24.9	11.8
Adjusted EPS	(72.3)	401.5	37.6	34.0	10.9
Profitability & Return ratios (%)					
EBITDA margin	15.3	12.0	12.3	13.9	14.0
EBIT margin	13.0	11.6	11.6	12.8	12.8
Adjusted profit margin	2.2	8.6	7.7	9.4	9.4
Adjusted ROAE	2.8	13.4	15.9	18.8	18.0
ROCE	5.8	11.8	16.6	16.7	16.2
Working capital days (days)					
Receivables	21	17	15	17	19
Inventory	53	34	32	34	31
Payables	112	108	85	86	81
Ratios (x)					
Gross asset turnover	0.7	0.6	0.5	0.4	0.4
Current ratio	1.2	1.1	1.0	1.2	1.3
Net interest coverage ratio	(14.6)	(29.9)	(36.0)	(40.1)	(39.6)
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MAHINDRA & MAHINDRA (MM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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