

**CMP: INR 1,365**

**Rating: Hold**

**Target Price: INR 1,475**

**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)	16,97,206
52w H/L (INR)	1392/671
Avg Yearly Vol (in 000')	3,373

**Shareholding Pattern %**

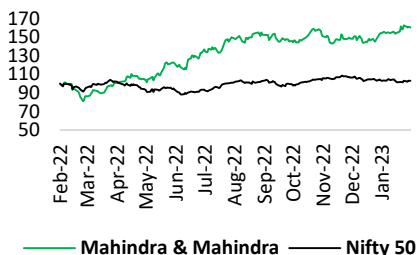
(As on Dec, 2022)

Promoters	19.35
FII	39.16
DII	27.58
Others	13.87

**Stock Performance (%)** 1m 3m 12m

M&M	3.84	5.18	60.07
Nifty	-0.32	-0.95	1.42

**M&M Vs Nifty**



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**M&M has reported revenue largely in line with our estimate in Q3FY23:** Standalone revenue stood at INR 216,537 Mn, against our estimate of INR 217,218 Mn registering a growth of 3.1% QoQ/ 41.1% YoY. This was driven by traction in both the segments, autos, and tractor. Farm Equipment Sector (FES) achieved the highest Q3 volume and E-3Ws: Achieved the highest ever quarterly billing of 11,801 units.

**EBITDA improved led by better product mix:** EBITDA stood at INR 28,142 Mn, against our estimate of INR 26,536 Mn, registering a growth of 12.7%QoQ/56.1%YoY. Improvement in margins is supported by easing RM costs and a higher share of SUVs in the mix. On the margins front, the EBITDA margin 11 bps QoQ/13bps YoY to 13%, against our estimate of 12.7%. (In Q2FY23 11.9%).

**PAT below estimate led by Exceptional items' loss:** Standalone adjusted PAT saw a growth of 14.4% YoY/-26.1% QoQ to INR 15,280.6 Mn against our estimate of INR 19,031 Mn. Exceptional items' loss of INR. 6289 Mn for the Q3FY23 represents impairment provision for a certain long-term investment, impairment of certain assets of trucks and buses business, net off gain on sale of certain freehold land.

**Recovery on the export markets:** The region South Africa where the two markets Sri Lanka and Bangladesh badly impacted. The company is seeing Bangladesh coming back a little quicker than Sri Lanka, they underwrite not able to see when Sri Lanka will really review that when the company has a strong presence in dollar products both tractor and Auto in Sri Lanka and Bangladesh both very big markets.

**Outlook and valuation**

M&M has reported a decent set of numbers in Q3FY23 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%-13.5% for the FY23E-FY25E. The XUV400 saw bookings of more than 15,000 within 13 days. **However, we maintain our Hold rating on the stock with a SOTP-based target price of INR 1,475 per share ( Earlier price target of INR 1,391).**

**Exhibit 1: Financial Performance**

INR in Mn (Standalone)	FY22	FY23E	FY24E	FY25E
Revenue	5,74,460	8,30,582	9,74,292	11,10,029
EBITDA	70,423	1,06,088	1,27,851	1,49,526
EBITDA margin(%)	12.3%	12.8%	13.1%	13.5%
PAT	51,439	69,958	96,006	1,10,587
EPS (in INR)	43.0	66.1	80.2	92.4
PE(x)	31.8	20.7	17.0	14.8
ROE(%)	13.9%	19.0%	19.9%	19.4%

Source: Arihant Research, Company Filings

## Exhibit 2: Quarterly results summary (MM + MVML) Q3FY23

## Quarterly results summary (MM + MVML) Q3FY23

INR Mn	Q3FY23	Q2FY23	Q3FY22	YoY %	QoQ %
Net Sales	216,537	210,101	153,491	41.1%	3.1%
Cost of material consumed	164,471	160,768	114,629	43.5%	2.3%
Staff Cost	9,342	9,224	8,831	5.8%	1.3%
Other expenses	14,583	15,137	12,003	21.5%	-3.7%
Total expenses	188,395	185,128	135,463	39.1%	1.8%
<b>EBITDA</b>	<b>28,142</b>	<b>24,973</b>	<b>18,027</b>	56.1%	12.7%
Depreciation	8,292	7,913	6,447	28.6%	4.8%
EBIT	19,851	17,060	11,580	71.4%	16.4%
Interest	686	641	540	26.9%	6.9%
Other Income	6,700	13,134	5,173	29.5%	-49.0%
Profit before exceptional items and tax	25,865	29,553	16,213	59.5%	-12.5%
Extraordinary	(6,289)	(2,479)	-	-	-
<b>Profit/(loss) before tax</b>	<b>19,576</b>	<b>27,074</b>	<b>16,213</b>	<b>20.7%</b>	<b>-27.7%</b>
Tax	(4,296)	(6,394)	(2,859)	50.3%	-32.8%
<b>Reported PAT</b>	<b>15,280.6</b>	<b>20,680.0</b>	<b>13,353.8</b>	<b>14.4%</b>	<b>-26.1%</b>
EPS	12.76	17.28	11.2	14.2%	-26.2%
Margins	Q3FY23	Q2FY23	Q3FY22	YoY %	QoQ %
Gross margins	24.0%	23.5%	25.3%	-13bps	6bps
EBITDA	13.0%	11.9%	11.7%	13bps	11bps
PAT	10.0%	11.0%	8.7%	13bps	-11bps
Tax Rate	-16.6%	-21.6%	-17.6%	10bps	50bps

Source: Arianth Research, Company Filings

Open Bookings: ~266k



Source: Arianth Research, Company Filings

## Conference call key takeaways

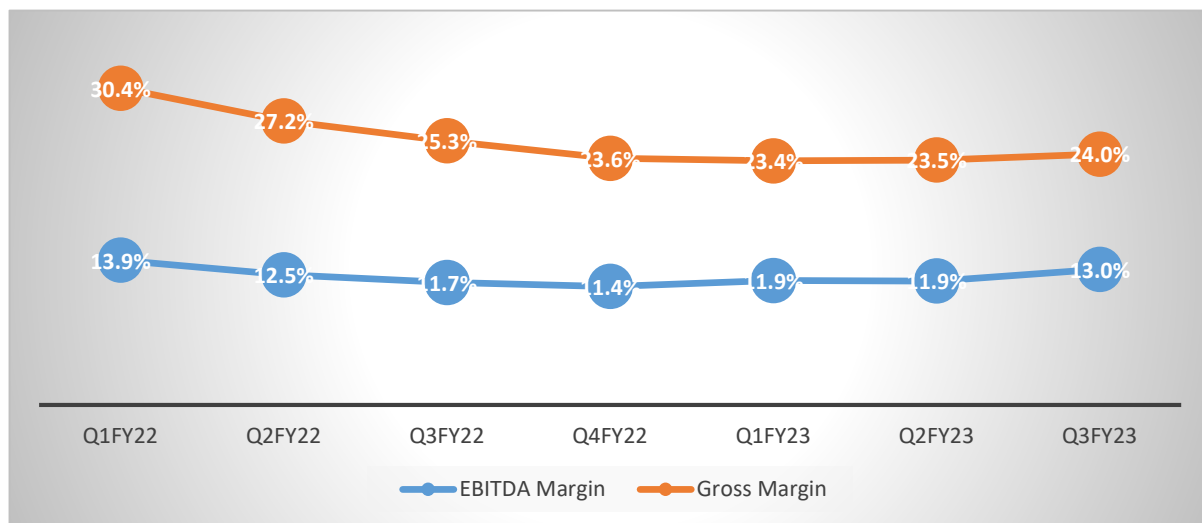
- **Strong booking for XUV400:** The XUV400 saw bookings of more than 15,000 within 13 days. The company is at this point of time with response of 15K bookings. The company received strong bookings for Scorpio-N (incl. Classic) with 16.5k bookings/month and ~119k open bookings. The company also received strong bookings for Thar, XUV300, Bolero NEO and XUV700. The total open bookings as on 1st Feb'23 stands at 266k. All five consecutive blockbuster launches helped the company to regain the lost market share partially in the core SUV space. XUV700 received strong response with 77k bookings and monthly bookings of ~9.9k. The newly launched XUV400 was the fastest electric SUV in India with 15k bookings in 13 days. Waiting period have been reduced to ~1-1.5 months while cancellations stood at ~5-8% during the quarter.
- **Outlook** The company has very strong product portfolio and created a new platform in the ICV segment. The company is seeing a very good traction in retail over the last few quarters and building on this for future. Overall, the highest ever revenue, highest ever PBIT, sequential improvement and farm margins, the 320 bps margin improvement in Auto in over the previous year. Strong improvement in tractor market share, auto SUV leadership continues and a very strong momentum on three wheelers electric.
- **Mahindra Finance**, very healthy disbursement growth and here GNPA is coming down to 5.9%. Mahindra finance is now at 16% ROE. Asset quality today Stage 3 is <6%, 5.9% net NPAs 2.5%. The company wants to be able to demonstrate that in any economic downturn Stage 3 will not go >8%
- **Tech Mahindra**, from a revenue perspective, a 20% growth deal signings have been fairly steady at around INR 700 million. There has been more room for growth for improvement in the company and they would be more involved in Tech Mahindra Going forward like they have started the process in M&M financial. New CEO hiring process is going on .
- **Order book:** Going forward, the management expect increased in client who buy directly rather than book order due to high waiting period.
- **Cancellation:** Product to product between 5%-7% as per the large wholesales and in some product 7% to 8%.
- The company has done about 130 cubes where high traffic locations. The company set up 800 square foot to 1200 square foot location one maximum two vehicle parking couple of test drive vehicles high on digital for customer engagement. Rural is concerned the company has opened about a 220 touch points across the country and target to touch 350 by the end of the year.
- **RD & CAFÉ:** There are some models should group to 20k- 22k. So that's the range. CAFE, the company done a lot on ICE portfolio to be optimized. The company does not see any penalty at this point of time coming out of CAFE with the launch of the XUV400. Which will bridge if any gap that may be needed.
- **EV update:** The company has signed a MOU with Telangana government for expanding its plant for manufacturing electric 3W and 4W.
- **FES Margins:** The company expects farm machinery going 10x by 27 and the management want to do that aggressively. The company will accept low margins on farm machinery for the next five years. And as it grows at the margin, it will have some impact on tractor margins. The company will look at breaking it out soon as it becomes material enough. So that they can start separating tractor margins versus farm machinery margins as overall FES margins.

**Exhibit 3: SOTP Valuation**

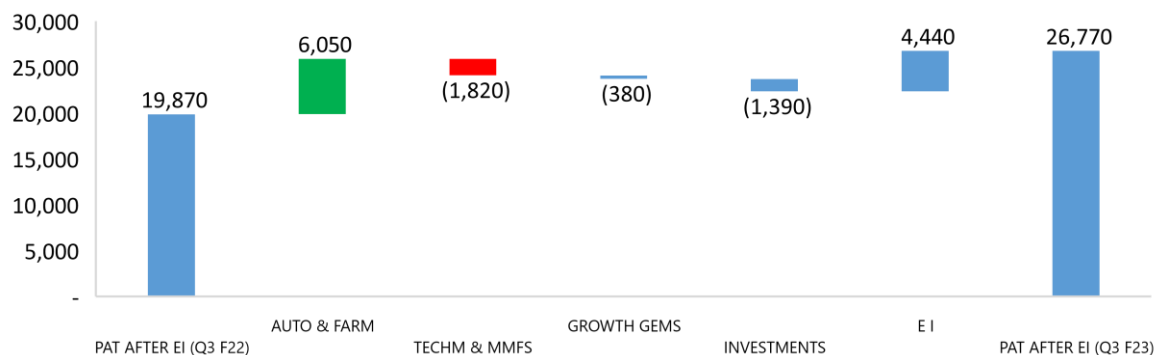
Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,017	25,15,48,691	25.9	2,55,913	214
Mahindra & Mahindra Financial Services		265	64,43,99,987	52.2	1,70,766	143
Mahindra Holidays & Resorts		273	13,48,35,922	67.6	36,810	31
Mahindra Lifespace Developers		400	7,93,19,550	51.3	31,728	27
Mahindra CIE Automotive Limited.		398	37,93,17,379	9.3	13,965	12
CIE Automotive SA (CMP €27.48 x 88.28 Euro/INR)		2,426	95,90,706	7.4	23,266	19
Mahindra EPC Irrigation		101	1,51,44,433	54.4	1,536	1
Swaraj Engines		1,578	42,16,792	34.8	6,655	6
Mahindra Logistics Ltd		407	4,18,12,257	58.2	17,034	14
<b>EV Business (Invested INR 1925 Cr for 4.76% stake including @30% Holdco discount)</b>			<b>2,69,613</b>	<b>4.76</b>		<b>217</b>
Listed Subsidiaries (INR mn)					5,57,673	466
Total Subsidiaries (INR Mn)					5,57,673	466
<b>Sub Valuations Post Discount (20%)</b>			<b>30%</b>		<b>3,90,371</b>	<b>326</b>
<b>Core auto business EV/EBITDA</b>	<b>FY25E</b>	<b>7.0x</b>				<b>543</b>
<b>Value/Share</b>						<b>932</b>
					CMP	1365
					Upside	8.0%

\*CMP as on 10th Feb 2023

**Exhibit 4: Margin expansion led by better product Mix.**



**Exhibit 5: Capacity Expansion**



Source: Company, Arianth Research

**Standalone Financial**

<b>P&amp;L (INR mn)</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net sales	5,74,460	8,30,582	9,74,292	11,10,029
YoY (%)	28.7	44.6	17.3	13.9
Raw material cost	4,23,416	6,18,369	7,25,847	8,26,972
Employee Cost	31,600	38,019	43,721	50,280
Admin Expenses	49,021	68,108	76,872	83,252
Total expenses	5,04,037	7,24,495	8,46,440	9,60,503
<b>EBIDTA</b>	<b>70,423</b>	<b>1,06,088</b>	<b>1,27,851</b>	<b>1,49,526</b>
(%)	12.3%	12.8%	13.1%	13.5%
Depreciation	24,511	33,679	36,230	46,107
EBIT	45,912	72,409	91,621	1,03,418
Interest	2,230	2,236	2,476	2,396
Other income	20,759	31,114	33,693	40,347
<b>PBT</b>	<b>64,441</b>	<b>1,01,287</b>	<b>1,22,839</b>	<b>1,41,369</b>
(-) Tax	-13,002	22,152	26,833	30,782
Tax/ PBT	(20.2)	21.9	21.8	21.8
<b>PAT</b>	<b>51,439</b>	<b>79,135</b>	<b>96,006</b>	<b>1,10,587</b>
YoY (%)	26.3	53.8	21.3	15.2
PAT(%)	9.0%	9.5%	9.9%	10.0%
Extraordinary	2087	(9,177)	-	-
Reported Profit	51,439	69,958	96,006	1,10,587

<b>Cash Flow</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Profit	49,352	69,958	96,006	1,10,587
Depreciation	24,511	33,679	36,230	46,107
Deferred tax	-13,002	22,152	26,833	30,782
Change in W/C	-21,347	-55,525	-31,917	-32,338
Operating cash flow	39,514	70,263	1,27,152	1,55,138
Change in intangible	-379	5,728	18,662	28,199
Capex	-1,703	-15,500	-19,900	-19,900
Investments	-38,142	-19,715	-19,501	-29,047
Investing cash flow	-43,756	-73,824	-63,758	-77,333
Free Cash Flow	35,581	52,527	1,04,776	1,32,842
Dividend	-16,513	-16,513	-16,513	-16,513
Equity	7,262	-	-	-
Debt	-11,724	-2,000	-1,999	-1,998
Financing cash flow	-20,975	-18,513	-18,512	-18,511
Net change in cash	-27,447	-24,310	42,406	56,899
Opening cash	63,952	36,505	12,195	54,601
Closing cash	36,505	12,195	54,601	1,11,500

Source: Company, Arianth Research

<b>B/Sheet (INR mn)</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Equity capital	5,985	5,985	5,985	5,985
Reserves	3,83,627	4,37,072	5,16,565	6,10,639
Net worth	3,89,611	4,43,056	5,22,549	6,16,624
Total Loans	64,900	62,900	60,901	58,903
Def Tax Liability	17,008	17,008	17,008	17,008
Assets held for sale	504			
<b>Total Liabilities</b>	<b>4,72,023</b>	<b>5,22,964</b>	<b>6,00,458</b>	<b>6,92,534</b>
Gross Block	1,35,451	1,50,951	1,70,851	1,90,751
Less: Acc. depreciation	24,511	58,189	94,419	1,40,527
Net block	1,10,940	92,762	76,432	50,224
Investments	3,11,507	3,31,222	3,50,723	3,79,770
Inventories	58,829	77,883	91,420	1,04,157
Debtors	30,351	37,866	44,418	50,606
Cash	36,505	12,195	54,601	1,11,500
Loans and advances	92,217	1,27,017	1,41,915	1,58,203
Other Current assets	24,627	24,873	25,221	25,574
Current assets	2,42,528	2,79,835	3,57,575	4,50,041
Current liabilities	1,61,100	1,61,100	1,61,100	1,61,100
Current liabilities & Provisions	1,92,953	1,80,854	1,84,272	1,87,500
Net current assets	49,575	98,981	1,73,303	2,62,540
<b>Total Assets</b>	<b>4,72,023</b>	<b>5,22,964</b>	<b>6,00,458</b>	<b>6,92,534</b>

<b>Key Ratios</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	43.0	66.1	80.2	92.4
P/E (Standalone)	31.8	20.7	17.0	14.8
EV/EBDITA (x)	19.2	12.8	10.1	8.0
Book value	326	370	437	515
P/B (x)	4.2	3.7	3.1	2.7
Subsidiary Valuation	326	326	326	326
EPS (Core EPS)	34.7	56.5	69.0	79.6
P/E (Core)	29.9	18.4	15.1	13.1
EV/EBITDA (Core)	17.7	11.8	9.3	7.4
ROCE	11.8%	16.4%	17.5%	17.5%
ROE	13.9%	19.0%	19.9%	19.4%
<b>Days</b>				
Inventory	46.0	46.0	46.0	46.0
Debtor	16.6	16.6	16.6	16.6
Creditor	74.8	75.1	82.0	86.8

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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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