

New launches will drive the growth

CMP: INR 1,034

Rating: Buy

Target Price: INR 1,274

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)	5,965
Mkt Cap (INR mn)	1,203,410
52w H/L (INR)	1,043/671
Avg Yearly Vol (in 000')	3,548

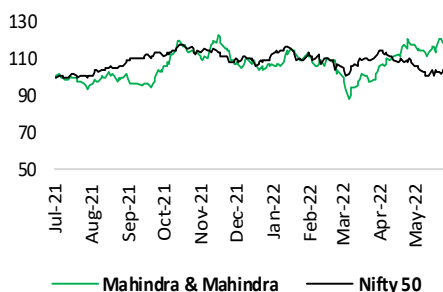
Shareholding Pattern %

(As on March, 2022)

Promoters	19.47
FII	42.59
DII	23.49
Others	14.45

Stock Performance (%)	1m	3m	12m
M&M	12.1	35.7	28.0
Nifty	-3.0	0.5	6.4

M&M Vs Nifty



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M&M has reported decent performance in Q4FY22; Revenue, EBITDA, and margin above our estimates. Standalone revenue stood at INR1,71,240 Mn, above our estimate of INR 167,627 Mn registering a growth of 28% YoY/12% QoQ. Despite significant challenges due to various factors like Covid, Commodity prices, semiconductor shortages, and the Ukraine conflict, the company has delivered decent results in Q4FY22. EBITDA stood at INR 19,455 Mn, above our estimate of INR 18,474 Mn, Registering a growth of 7.8% QoQ while de-growth 0.5% M&M reported highest revenue for Auto and Farm segment in FY22. M&M became No.1 in SUV Revenue Market Share in Q4 and H2 FY22 Overall 170k+ open bookings. XUV700 leading the way with 78k plus open bookings, While FES gained 180bps market share in FY22. With 170k+ bookings, the demand for the automotive product portfolio remains strong. FES delivered the second highest full year PBIT despite market slowdown and steep commodity inflation. Given the recent fiscal and monetary measures by the Government of India and RBI, the company foresees the cost pressures in the economy to ease out. On the margins front, EBITDA margin contraction by 33bps YoY/-5bpsQoQ to 11.4%, against our estimate of 11% backed by positive net income of price hike. Standalone PAT saw a decline 4.5% QoQ to INR 12,919 Mn below our estimate of INR 14,511 Mn. Farm Subsidiaries recorded 7 th consecutive quarter of Positive PBIT. One-time exceptional item' of INR. 124.79 crores for the quarter ended 31st March 2022 represents impairment provision for long-term investments, gain on sale of certain investments, and sale of certain freehold land. EPS stood at INR 10.8 in Q4FY22 against INR 11.3 in Q3FY22 (INR 2.1 in Q4FY21).

New Launches will drive the growth and retrieve pricing to Aid Margins:

We believe tractor industry would continue to deliver single digit growth momentum in 1HFY23 despite supply side issue, which it witnessed in Apr'22. However, we expect strong demand for SUVs to continue over the next 2-3 years and premiumisation trend would further pick up. MM has received strong bookings for Thar, XUV300, Bolero NEO and XUV700 taking overall bookings to 170K+, while XUV 700 alone has surpassed bookings of 78k+ with monthly bookings of 9.5k+. Moreover, it plans to launch 15 new products each in tractor and Farm machinery space and 17 new products in LCVs with few CNG options by 2026.

Outlook and valuation

M&M has reported a strong set of numbers in Q4FY22 backed by strong bookings for Thar, XUV300, Bolero NEO and XUV700 taking overall bookings to 170K+, while XUV 700 alone has surpassed bookings of 78k+ with monthly bookings of 9.5k+.

Going ahead, In view of the robust products pipeline, sizable presence in tractor segment and revival in agriculture, **we value M&M at PE of 16x to its FY24E EPS (Core) of INR 57.1, which yield a revised target price of INR 1,274 (earlier target price; INR 1,077 per share). Accordingly, we maintain a BUY rating on the stock.**

Analyst Meet – Key Takeaways

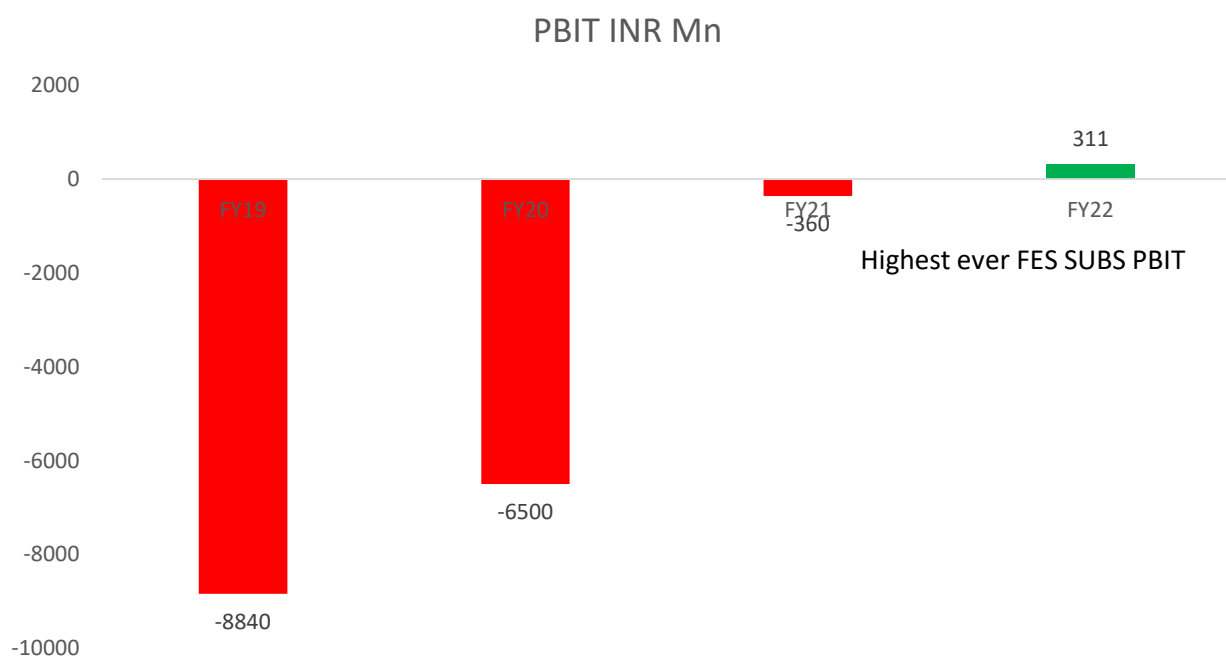
- **Guidance:** Born Electric vision will launch in August FY22. ROE guidance of 18% for the AFS business, revenue growth guidance 15-20%+ CAGR vs 20% growth in FY22 and 10%-15% EPS growth guidance by FY25.
- **Market share:** M&M has gained market share of ~180bps YoY to 40%+ in FES segment in FY22.
- The company's market share in electric 3W stood at 73%+ (market leader) while in LCV <3.5T, its market share stood at 42.7% in FY22. The management indicated that its FES subsidiaries reported a positive EBIT of INR 3.1bn in FY22.
- **Mahindra & Mahindra Financial Services Limited (MMFSL):** The MMFSL Performance indicated that ~106% provisions were reversed with net reversal of INR 1440mn in FY22. Disbursements were up 54% YoY during 4QFY22. The company met its 70-80% provision reversal target in 4QFY22.
- Management indicated that exports to South Asia grew significantly for both Auto and Farm segment. M&M achieved highest ever sales for South Africa, Brazil and Australia. It also launched XUV300 in South Africa.
- M&M expects strong volume from its new launch - Scorpio N (Launch planned in Jun'22).
- M&M received strong bookings for Thar, XUV300, Bolero NEO, Scorpio and XUV700. The total open bookings stand at 170k+. All four consecutive blockbuster launches helped the company to regain the lost market share partially in the core SUV space.
- **XUV700** received strong response with 78k+bookings and monthly bookings of ~9.5k+ with just 10-15% cancellations. The waiting period for XUV700 currently stands at 18-24 months.
- **Capex:** The company plans to spend a capex of INR 119000mn for auto segment (incl. EV) and INR 34000mn for the FES segment for next 2 years. Further it plans to invest ~INR 15000mn towards auto & farm segment and ~INR 27000mn towards group companies in total of 170000 mn capex for FY22-24.
- **Dividend:** The Board of Directors has recommended Final Dividend for FY22 of INR. 11.55 per share.

Quarterly results summary (MM + MVML) Q4FY22

INR Mn	Q4FY22	Q3FY22	Q4FY21	YoY %	QoQ %
Net Sales	171,240	152,428	133,559	28.2%	12.3%
Cost of material consumed	130,755	113,931	92,255	41.7%	14.8%
Staff Cost	7,461	8,786	7,977	-6.5%	-15.1%
Other expenses	13,568	11,663	13,776	-1.5%	16.3%
Total expenses	151,784	134,380	114,007	33.1%	13.0%
EBITDA	19,455	18,048	19,552	-0.5%	7.8%
Depreciation	6,805	6,313	5,900	15.3%	7.8%
EBIT	12,651	11,735	13,652	-7.3%	7.8%
Interest	558	533	957	-41.6%	4.8%
Other Income	2,387	5,248	1,177	102.8%	-54.5%
PBT	14,479	16,451	13,873	4.4%	-12.0%
Tax	(2,808)	(2,916)	(3,894)	-27.9%	-3.7%
PAT	11,672	13,535	17,767	-34.3%	-13.8%
Extraordinary	1,248	-	(7,527)	-116.6%	#DIV/0!
Reported PAT	12,919	13,535	10,241	26.2%	-4.5%
EPS	10.8	11.3	1.4	694.1%	-4.6%
Margins	Q4FY22	Q3FY22	Q4FY21	YoY %	QoQ %
Gross margins	23.6%	25.3%	30.9%	-73bps	-16bps
EBITDA	11.4%	11.8%	14.6%	-33bps	-5bps
PAT	6.8%	8.9%	7.5%	-7bps	-21bps
Tax Rate	-19.4%	-17.7%	-28.1%	87bps	-17bps

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

FES SUBS* TURNAROUND :



* FES Global Subsidiaries + Gromax

Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,180	251,548,691	25.9	296,827	248
Mahindra & Mahindra Financial Services		178	644,399,987	52.2	114,897	96
Mahindra Holidays & Resorts		221	134,835,922	67.6	29,799	25
Mahindra Lifespace Developers		373	79,319,550	51.3	29,570	25
Mahindra CIE Automotive Limited.		195	21,417,617	11.4	4,173	3
CIE Automotive SA (CMP €23.58 x 83.45 Euro/INR)		1,968	9,590,706	7.4	18,872	16
Mahindra EPC Irrigation		102	15,144,433	54.4	1,543	1
Swaraj Engines		1,588	4,216,792	34.8	6,698	6
Mahindra Logistics Ltd		459	41,812,257	58.2	19,209	16
<i>Listed Subsidiaries (INR mn)</i>					521,588	436
Total Subsidiaries (INR Mn)					521,588	436
Sub Valuations Post Discount (20%)			20%		417,270	349
Core auto business @ 16x	Core FY24EPS	57				925
Value/Share						1274
					CMP	1034
					Upside	23.1%

*CMP as on 31st May 2022

*M&M stake March 2022

Financial Performance

Exhibit 1: Revenue trend

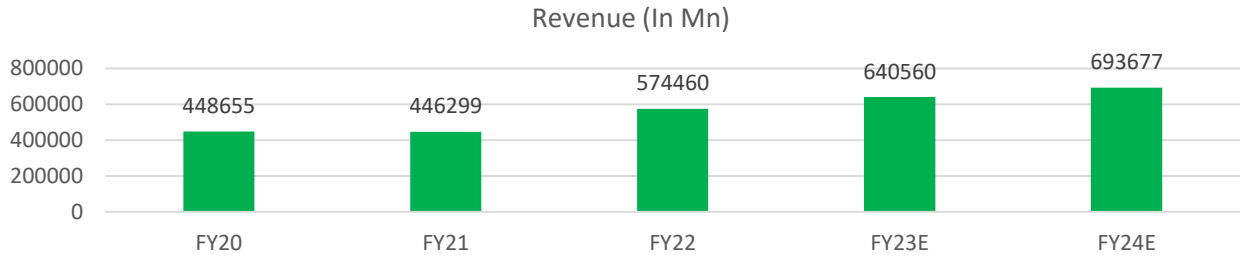


Exhibit 2: EBITDA Trend

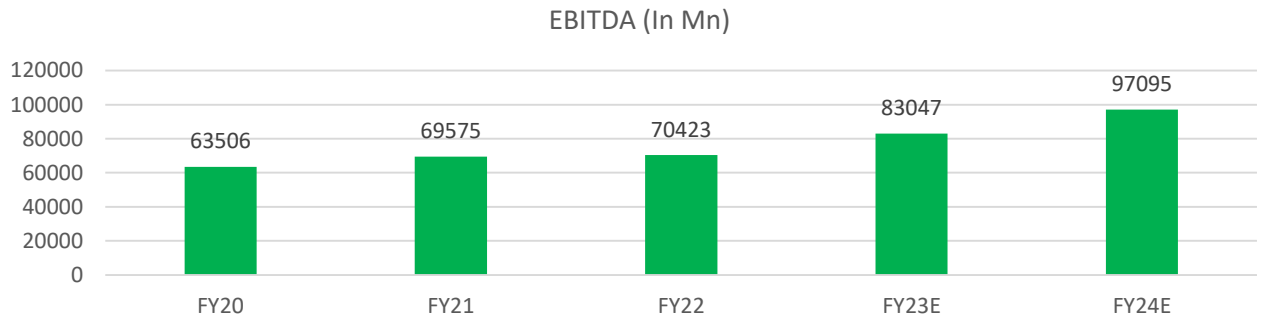


Exhibit 3: PAT trend

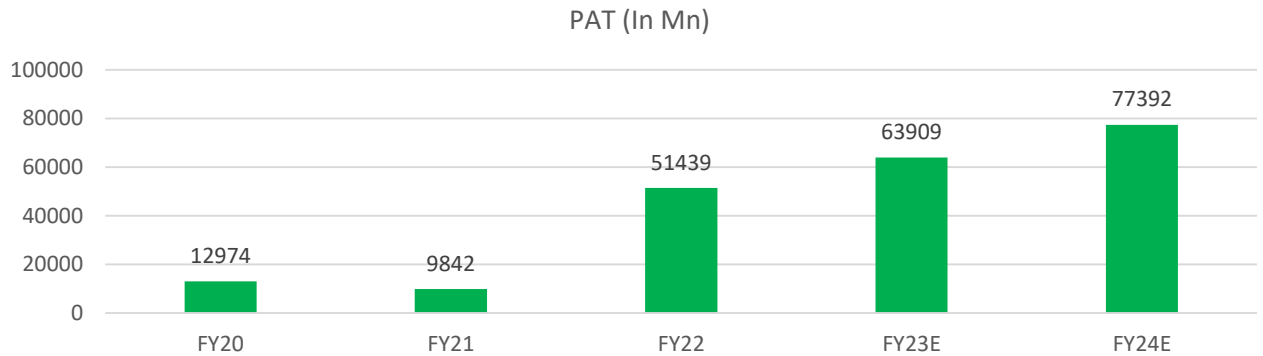


Exhibit 4: EPS Trend

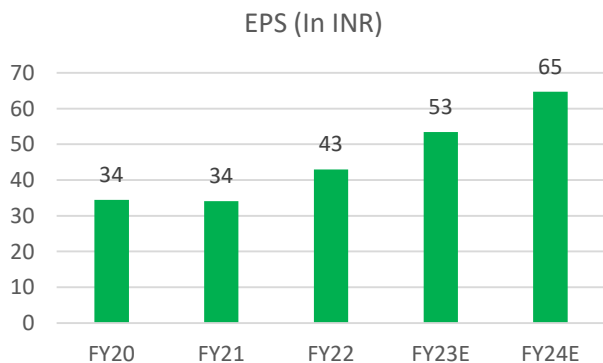
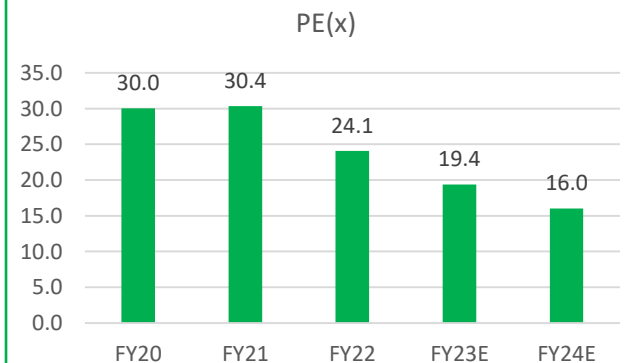


Exhibit 5: PE Trend



Source: Company, Arianth Research

P&L (INR mn)	FY21	FY22	FY23E	FY24E
Net sales	446,299	574,460	640,560	693,677
YoY (%)	(0.5)	28.7	11.5	8.3
Raw material cost	301,766	423,416	468,250	497,366
Employee Cost	31,280	31,600	38,019	43,721
Admin Expenses	43,679	49,021	51,245	55,494
Total expenses	376,724	504,037	557,513	596,582
EBIDTA	69,575	70,423	83,047	97,095
(%)	15.6%	12.3%	13.0%	14.0%
Depreciation	23,699	24,511	22,452	19,464
EBIT	45,876	45,912	60,595	77,631
Interest	3,963	2,230	2,236	2,167
Other income	11,995	20,759	25,090	27,597
PBT	53,907	64,441	83,448	103,061
(-) Tax	(13,193)	(13,002)	19,540	25,669
Tax/ PBT	(24.5)	(20.2)	23.4	24.9
PAT	40,714	51,439	63,909	77,392
YoY (%)	(0.9)	26.3	24.2	21.1
PAT(%)	9.1%	9.0%	10.0%	11.2%
Extraordinary	30873	2087	0	0
Reported Profit	9,842	51,439	63,909	77,392

Cash Flow	FY21	FY22	FY23E	FY24E
Net Profit	9,842	49,352	63,909	77,392
Depreciation	23,699	24,511	22,452	19,464
Deferred tax	(13,193)	(13,002)	19,540	25,669
Change in W/C	(18,470)	(21,347)	(11,324)	(7,548)
Operating cash flow	1,878	39,514	94,576	114,978
Change in intangible	(43,703)	(379)	5,728	18,662
Capex	173,420	(1,703)	(17,000)	(20,000)
Investments	(110,697)	(38,142)	(19,715)	(19,501)
Investing cash flow	(14,799)	(43,754)	(72,714)	(63,004)
Free Cash Flow	175,298	35,581	75,340	92,811
Dividend	(12,510)	(16,513)	(16,513)	(16,513)
Equity	5,887	7,260	0	0
Debt	45,093	(11,724)	(2,000)	(1,999)
Financing cash flow	38,471	(20,977)	(18,513)	(18,512)
Net change in cash	21,587	(27,447)	1,114	31,295
Opening cash	42,365	63,952	36,505	37,619
Closing cash	63,952	36,505	37,619	68,914

B/Sheet (INR mn)	FY21	FY22	FY23E	FY24E
Equity capital	5,974	5,983	5,983	5,983
Reserves	343,536	383,627	431,023	491,901
Net worth	349,510	389,610	437,006	497,884
Total Loans	76,623	64,900	62,900	60,901
Def Tax Liability	14,497	17,008	17,008	17,008
Assets held for sale		504		
Total Liabilities	440,630	472,021	516,913	575,793
	133,748	135,451	152,451	172,451
Gross Block				
Less: Acc. depreciation	23,699	24,511	46,963	66,427
	110,049	110,940	105,488	106,024
Net block				
Investments	273,365	311,507	331,222	350,723
Inventories	47,830	58,829	58,976	62,643
Debtors	22,028	30,351	29,203	31,625
Cash	63,952	36,505	37,619	68,914
Loans and advances	71,730	92,217	105,867	108,241
Other Current assets	18,877	24,627	24,873	25,221
Current assets	224,418	242,528	256,538	296,644
Current liabilities	132,964	161,100	161,100	161,100
Current liabilities & Provisions	167,202	192,955	176,335	177,598
Net current assets	57,216	49,574	80,204	119,046
Total Assets	440,630	472,021	516,913	575,793

Key Ratios	FY21	FY22	FY23E	FY24E
EPS	34.1	43.0	53.4	64.7
P/E (Standalone)	30.4	24.1	19.4	16.0
EV/EBDITA (x)	14.0	13.6	11.2	9.1
Book value	293	326	365	416
P/B (x)	3.5	3.2	2.8	2.5
Subsidiary Valuation	346	346	346	346
EPS (Core EPS)	28.8	34.7	45.7	57.1
P/E (Core)	23.9	19.8	15.1	12.1
EV/EBITDA (Core)	11.7	11.7	9.8	7.8
ROCE	10.7%	11.8%	13.4%	14.6%
ROE	11.7%	13.9%	15.5%	16.6%
Days				
Inventory	53.4	46.0	46.0	46.0
Debtor	20.9	16.6	16.6	16.6
Creditor	73.0	74.8	81.2	81.3

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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