

New launches will drive the growth

CMP: INR 1,282

Rating: Hold

Target Price: INR 1,406

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)	15,94,010
52w H/L (INR)	1,405/1,150
Avg Yearly Vol (in 000')	3,012

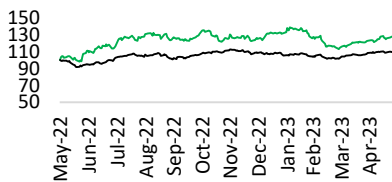
Shareholding Pattern %

(As on March, 2023)

Promoters	19.37
FII	39.24
DII	27.56
Others	13.83

Stock Performance (%)	1m	3m	12m
M&M	5.6	0.13	37.8
Nifty	3.8	5.9	14.4

M&M Vs Nifty



— Mahindra & Mahindra
— Nifty 50

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Mahindra & Mahindra (M&M) delivered a consistent performance in the fourth quarter of FY23, closely aligning with our projected expectations.

Standalone revenue stood at INR 225,714 Mn, against our estimate of INR 219,150 Mn registering a growth of 32% YoY/ 4% QoQ. The growth driven by successful mega launches in automotive, steady growth at farm equipment, strong operating performance at financial services and value unlocking through monetization/partnerships. EBITDA stood at INR 27,974 Mn, against our estimate of INR 29,250 Mn, Registering a growth of 44%YoY/ -0.6%QoQ. On the margins front, EBITDA margin expansion by 10bps YoY/ -6bps YoY to 12.4%, below our estimate of 13.3% due to higher other expenses. Standalone adjusted PAT saw a growth of 8.8%YoY/ (-12.6%QoQ) to INR 17,111 Mn against our estimate of INR 16,354 Mn. In the SUV revenue market share, Mahindra increased its hold further by 170 bps to 19.6%. The open bookings of SUVs at 292k (as on 1st May'23) reflects continued strong automotive demand.

Strong and sustained demand for its SUVs despite Macro challenges: M&M aims to strengthen its position in the ICE SUV market by diversifying its product portfolio and offering a range of exciting vehicles to cater to customer preferences. Additionally, the company plans to expand its presence in the 3.5-ton LCV segment with new pickup models, while also focusing on 2.5x international growth by FY26.

The Nascent farm equipment business is expected to experience significant and rapid growth: The company has set ambitious goals to expand its early-stage farm equipment business by tenfold in FY26. To achieve this, the company plans to make investments of INR 10-15 billion in the coming years, primarily focused on acquisitions and expanding production capacities. The company see international business go 1.6x. M&M is looking at bringing in many new technologies which they will get to see starting with Oja, IoT devices and so on. However, it is worth noting that the ramp-up in this segment may have a negative impact on the company's overall margins.

Outlook and valuation

The demand for both the Automotive and Tractors divisions continues to be strong, various industry-wide challenges are expected to impact volume growth for both divisions in the near future. However, there are positive expectations for growth in the agriculture and auto segments, driven by the company's significant presence in the tractor and auto markets, as well as a robust product pipeline. **However, we maintain our Hold rating on the stock with a SOTP-based target price of INR 1,406 per share.**

Exhibit 1: Financial Performance

INR in Mn (Standalone)	FY22	FY23	FY24E	FY25E
Revenue	5,77,869	8,49,603	9,98,301	11,02,017
EBITDA	70,275	1,04,424	1,28,736	1,46,787
EBITDA margin(%)	12.2%	12.3%	12.9%	13.3%
PAT	48,699	65,486	97,118	1,09,966
EPS (in INR)	40.7	54.7	81.1	91.8
PE(x)	31.5	23.5	15.8	14.0
EV/EBITDA (X)	17.9	11.6	9.0	7.5
ROE(%)	13.3%	16.1%	20.6%	20.0%

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

Exhibit 2: Quarterly results summary Q4FY23

INR Mn	Q4FY23	Q3FY23	Q4FY22	YoY %	QoQ %
Net Sales	2,10,101	2,16,537	1,71,240	22.7%	-3.0%
Cost of material consumed	1,60,768	1,64,471	1,30,755	23.0%	-2.3%
Staff Cost	9,224	9,342	7,461	23.6%	-1.3%
Other expenses	15,137	14,583	13,568	11.6%	3.8%
Total expenses	1,85,128	1,88,395	1,51,784	22.0%	-1.7%
EBITDA	24,973	28,142	19,455	28.4%	-11.3%
Depreciation	7,913	8,292	6,805	16.3%	-4.6%
EBIT	17,060	19,851	12,651	34.9%	-14.1%
Interest	641	686	558	14.9%	-6.4%
Other Income	13,134	6,700	2,387	450.2%	96.0%
Profit before exceptional items and tax	29,553	25,865	14,479	104.1%	14.3%
Extraordinary	(2,479)	(6,289)	1,248		
Profit/(loss) before tax	27,074	19,576	15,727	72.1%	38.3%
Tax	(6,394)	(4,296)	(2,808)	127.7%	48.9%
Reported PAT	20,680.0	15,280.6	11,672	77.2%	35.3%
EPS	17.28	12.76	10.8	60.0%	35.4%

Margins	Q4FY23	Q3FY23	Q4FY22	YoY %	QoQ %
Gross margins	23.5%	24.0%	23.6%	-2bps	-6bps
EBITDA	11.9%	13.0%	11.4%	5bps	-11bps
PAT	11.0%	10.0%	6.8%	42bps	11bps
Tax Rate	-21.6%	-16.6%	-19.4%	-22bps	-50bps
Tractor Segment	Q4FY23	Q3FY23	Q4FY22	YoY %	QoQ %
Total Tractors Volume	85,867	1,01,359	72,882	17.8%	-15.3%
Total Automotive Volume	1,89,227	1,76,094	1,55,902	21.4%	7.5%
Total Volume (Auto + Farm)	2,78,958	2,81,859	2,28,784	21.9%	-1.0%
Aveg Relizations (Auto)	5,04,565	5,42,190	6,12,419	-17.6%	-6.9%
Aveg Relizations (FES)	5,81,500	4,93,335	7,15,933	-18.8%	17.9%
Blended realisation	5,48,777	5,43,118	6,69,128	-18.0%	1.0%

Source: Arianth Research, Company Filings



~57k fresh bookings p.m.

~33k billings p.m.

Cancellations < 8% p.m.

Open Bookings as on 1st May 2023
Avg Monthly booking of Feb'23-Apr'23
Source: Arianth Research, Company Filings

Conference call key takeaways

Focused on driving growth, aiming for a consistent growth rate of 19% or occasionally 17%. However, committed to maintaining fiscal discipline and ensuring a ROE of at least 18%.

New Launch

- On the 2nd of June, the company is going to reveal the lightweight tractor platform of Swaraj. It is a new segment for Swaraj, Swaraj doesn't have a lightweight portfolio. The platform is going to be in 25 and 29 HP. The company will start by launching that in phases again.
- The growth in horticulture is a very evolving segment and will certainly get growth momentum for Swaraj. On 15th August for Mahindra will be launching OJA which was code named K2 up until now. It's a global launch and with that, they will start the launch in phases in India and also around the world.

Traction on Domestic & Export

- The company sees significant upsides for both global markets and is gaining in India as well. New product strategy in tractors both Swaraj 2 initiatives and the very big launch of the Mahindra OJA will help in increasing MS in the tractor segment. The farm machinery business is one where the company wants to scale up significantly.
- **Monsoon:** IMD forecast on a normal monsoon but in 50 years there was 17 years El Nino. Out of 17 years of El Nino there was below LPA rainfall in five years and the tractor industry had de-growth in only 2 years of those five years in which LPA was below normal.
- The automotive business, a strong growth in Q4FY23 volumes and for the FY23 50%, revenue MS at 19.6% in Q4 which is a 1.7 share point improvement and for the FY23 a 3.7 share point improvement in revenue MS.
- **Strong Booking:** The company has witnessed robust demand for the new THAR model, and the existing models are also experiencing a high rate of new bookings. Despite ramping up production to 33,000 units per month during Q4FY23, the open bookings have actually increased, indicating sustained demand and customer interest.
- The company is currently receiving 57k new bookings per month, while providing a supply of 33k units. Additionally, they experienced a semiconductor loss of 10k units in the last quarter, equivalent to around 3k units per month. This loss mainly affected the Scorpio and XUV700 models. If they had not encountered this setback, they would be nearing their capacity of approximately 39k units/ month.
- In the LCV segment, the company gained 5% in this year. Sold 14,700 electric 3w in Q4FY23 and retained market leadership in electric 3w with 67% MS.
- **Cancellation:** The cancellation is <8% lower than earlier.
- **Mahindra Last Mile Mobility**, a separate company valued at INR60000 Mn, will be spun off with a INR 6000 Mn infusion from IFC. M&M plan to invest in Zahirabad for new production lines and a battery assembly line, and have opened a trio manufacturing line in Haridwar. Strong growth in auto, with Q4 INR 37,800 Mn standalone for the FY23.
- **ICE:** Maintaining an exciting product portfolio on the ICE side is crucial as it will still account for at least 70% of the volume for the next six to seven years.
- **EV:** The company is strong focus on electric vehicles will create a new category of customers seeking exciting experiences, and while electric is a part of their decision-making process, products themselves will generate immense affinity and desire, particularly new portfolio of pickups that will strengthen position in the LCV 3.5-ton segment for the next three to five years.
- **International business:** The company is looking at starting to scale up international operations 2.5x by FY26.
- **MFSSL:** Mahindra Finance witnessed a significant surge in disbursements, reaching nearly INR 500,000 Mn, and its PAT doubled due to a combination of growth, increased focus on collections, and reduction of NPAs, resulting in a doubling of PAT over the time of the year.
- **Capex:** The CapEx amounted to INR35000 Mn, inclusive of investments in the EV company, Swaraj, and other ventures, while the capital deployed totaled around INR31000 Mn. Debt repayment remained a priority, with INR23000 Mn repaid during the year, and the closing balance stood at INR144100 Mn after dividend payout.
- **Investment:** Initial planned for an overall outlay of INR150,750 Mn over FY22 to FY24, excluding the BII investment of INR 19250 Mn. For ICE CapEx (excluding meal), the company is allocating an additional INR 16000 Mn for capacity expansion and regulatory changes. On the EV side, increasing the investment by INR 10,000 Mn due to market dynamics, resulting in a total net investment of INR 32000 Mn (excluding Bill). The Farm CapEx remains unchanged.

Exhibit 3: SOTP Valuation

Listed Subsidiary	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited	1,059	24,80,22,598	25.5	2,62,582	219
Mahindra & Mahindra Financial Services	222	64,43,99,987	52.2	1,42,960	119
Mahindra Holidays & Resorts	271	13,48,35,922	67.0	36,507	30
Mahindra Lifespace Developers	408	7,93,19,550	51.3	32,362	27
Mahindra EPC Irrigation	96	1,51,44,433	54.3	1,455	1
Swaraj Engines	1,602	63,31,141	34.8	10,141	8
Mahindra Logistics Ltd	505	4,18,12,257	58.1	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)				5,07,117	424
					424
Sub Valuations Post Discount (20%)		20%		-	339
					556
Core auto business EV/EBITDA	6.5x				850
Value/Share					1406
				CMP	1282
				Upside	9.7%

*CMP as on 26th Nov 2022

Exhibit 4: Steady margin led by better product Mix.

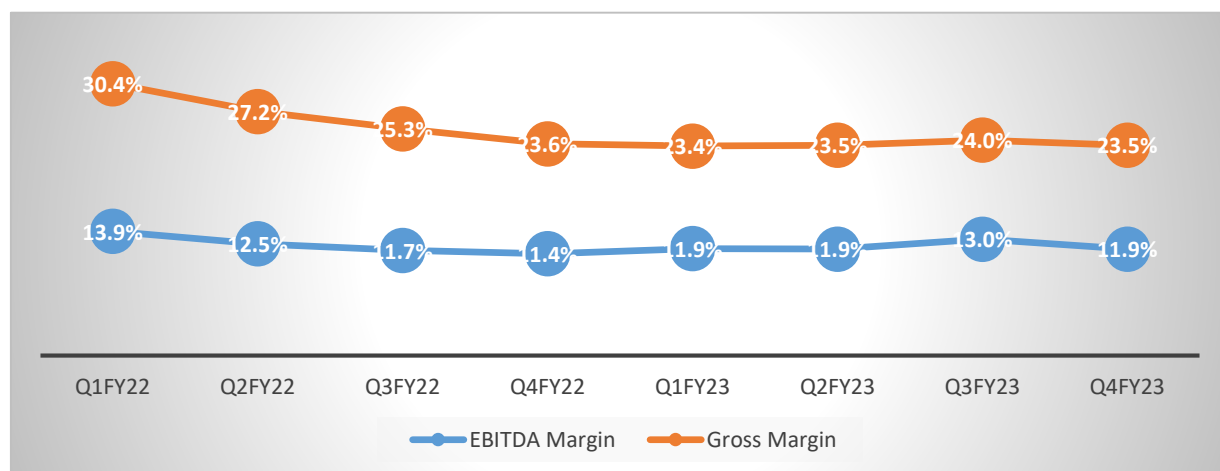
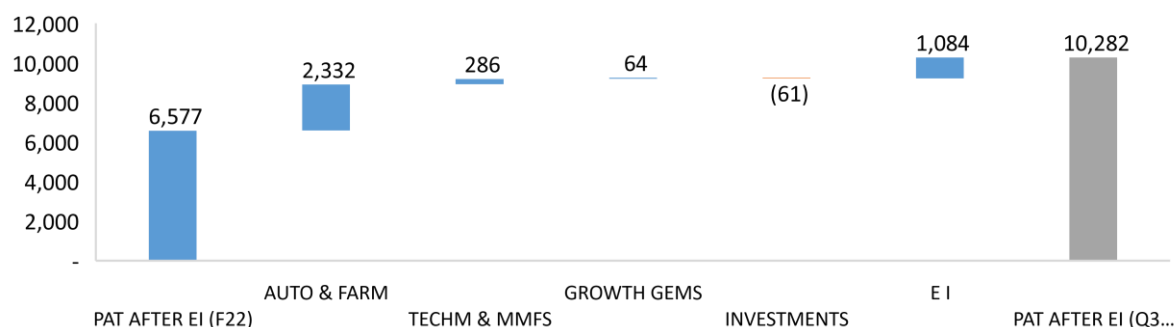


Exhibit 5: Capacity Expansion



Source: Company, Arianth Research

Standalone Financial

P&L (INR mn)	FY22	FY23	FY24E	FY25E	B/Sheet (INR mn)	FY22	FY23	FY24E	FY25E
Net sales	5,77,869	8,49,603	9,98,301	11,02,017	Equity capital	5,985	5,991	5,991	5,991
YoY (%)	29.5	47.0	17.5	10.4	Reserves	3,75,998	4,27,577	5,01,534	5,88,339
Raw material cost	4,25,604	6,45,582	7,47,727	8,18,799	Net worth	3,81,982	4,33,567	5,07,525	5,94,330
Employee Cost	33,296	36,499	41,974	48,270	Total Loans	64,978	46,437	44,438	42,440
Admin Expenses	48,695	63,098	79,864	88,161	Def Tax Liability	17,622	14,703	14,703	14,703
Total expenses	5,07,595	7,45,179	8,69,565	9,55,230	Assets held for sale	504			
EBIDTA	70,275	1,04,424	1,28,736	1,46,787	Total Liabilities	4,65,086	4,94,708	5,66,666	6,51,473
(%)	12.2%	12.3%	12.9%	13.3%	Gross Block	1,38,672	1,40,004	1,53,904	1,67,804
Depreciation	24,984	31,545	34,269	36,774	Less: Acc. depreciation	24,984	31,545	34,269	36,774
EBIT	45,291	72,879	94,467	1,10,014	Net block	1,13,688	1,08,459	1,19,635	1,31,030
Interest	2,262	2,728	2,545	2,389	Investments	3,05,040	3,28,475	3,48,289	3,77,920
Other income	20,538	25,452	29,981	31,755	Inventories	59,704	59,704	69,150	75,723
PBT	63,567	95,603	1,21,903	1,39,379	Debtors	30,386	40,417	41,597	45,919
(-) Tax	-12,781	-15,821	-24,784	-29,414	Cash	36,506	44,817	77,901	1,03,171
Tax/ PBT	(20.1)	(16.5)	(20.3)	(21.1)	Loans and advances	68,855	73,348	1,14,847	1,24,182
PAT	48,699	65,486	97,118	1,09,966	Other Current assets	26,399	34,997	35,487	35,984
YoY (%)	19.6	34.5	48.3	13.2	Current assets	2,21,849	2,53,283	3,38,983	3,84,978
PAT(%)	8.4%	7.7%	9.7%	10.0%	Current liabilities	1,62,228	2,12,000	2,12,000	2,12,000
Extraordinary	-2087 (14,295)	-	-	-	Current liabilities & Provisions	1,75,491	1,95,510	2,40,241	2,42,455
Reported Profit	48,699	65,486	97,118	1,09,966	Net current assets	46,358	57,773	98,743	1,42,523
					Total Assets	4,65,086	4,94,708	5,66,666	6,51,473

Cash Flow	FY22	FY23	FY24E	FY25E	Key Ratios	FY22	FY23	FY24E	FY25E
Net Profit	48,699	65,486	97,118	1,09,966	EPS	40.7	54.7	81.1	91.8
Depreciation	24,984	31,545	34,269	36,774	P/E (Standalone)	31.5	23.5	15.8	14.0
Deferred tax	-12,781	-15,821	-24,784	-29,414	EV/EBDITA (x)	17.9	11.6	9.0	7.5
Change in W/C	74	33,819	-49,441	-18,511	Book value	319	362	424	496
Operating cash flow	60,975	9	57,162	98,815	P/B (x)	4.0	3.5	3.0	2.6
Change in intangible	-631	30,692	19,447	29,260	Subsidiary Valuation	339	339	339	339
Capex	-4,924	-1,332	-13,900	-13,900	EPS (Core EPS)	34.2	53.0	68.4	78.4
Investments	-31,674	-23,435	-19,814	-29,631	P/E (Core)	27.6	17.8	13.8	12.0
Investing cash flow	-58,288	-71,547	3,627	-45,997	EV/EBITDA (Core)	21.9	14.3	11.2	9.4
Free Cash Flow	53,790	9	40,717	82,525	ROCE	11.3%	14.2%	18.8%	18.4%
Dividend	-23,161	-23,161	-23,161	-23,161	ROE	13.3%	16.1%	20.6%	20.0%
Equity	6,934	9,259	0	0	Days				
Debt	-11,646	-18,540	-1,999	-1,998	Inventory	46.1	33.8	33.8	33.8
Financing cash flow	-27,872	-32,442	-25,160	-25,159	Debtor	16.6	15.2	15.2	15.2
Net change in cash	-27,446	8,312	33,084	25,269	Creditor	74.6	64.7	64.5	70.4
Opening cash	63,952	36,506	44,817	77,901					
Closing cash	36,506	44,817	77,901	1					

Source: Company, Arianth Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880