

New launches will drive the growth

CMP: INR 758

Rating: Accumulate

Target Price: INR 863

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)	10,51,554
52w H/L (INR)	952/568
Avg Yearly Vol (in 000')	5331

Shareholding Pattern %

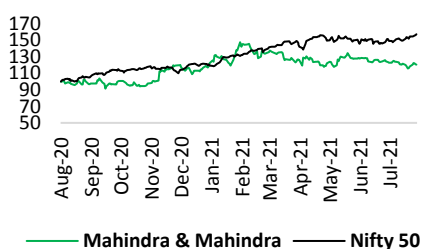
(As on June, 2021)

Promoters	19.46
Public & Others	80.54

Stock Performance (%)

	3m	6m	12m
M&M	1.4	-12.3	24.3
Nifty	10.2	8.8	44.9

M&M Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

- M&M + MVML has reported a mixed set of numbers in Q1FY22. While good performance in the Net profit. Net profit grew by 1966.9% YoY/426.5% QoQ to INR 14,012 Mn during Q1FY22 against stood at INR 678 in Q1 FY21 led by 41.8% growth in Farm Equipment Sector (FES). The tractor industry witnessed strong demand growth by 39% during the quarter.
- Net sales stood at INR 1,17,628 mn (110.4% YoY / -11.8% QoQ) in Q1 FY22 against Bloomberg estimate of INR 1,23,600 mn.
- EBITDA was at INR 16,317 mn (184.7% YoY / -16.8% QoQ) against Bloomberg estimate of INR 16,930 mn. EBITDA margin of 13.9% (36bps YoY / -8bps QoQ) against Bloomberg estimate of 13.7%.
- The total volumes (auto + tractors) grew by 93.9% YoY/-8.6% QoQ to 1,84,842 units. Total tractor volume grew by 52.2% YoY/-6.4% QoQ to 99,929 units. The Automotive Sector continued its strong booking pipeline and market share better than Q4 FY21. New launches on track with Bolero Neo and Supro Profit Truck launches.

Important Highlights

- M&M has set separately INR 30bn as capex for EV product developments/collaborations and an additionally INR 35bn for investment in non-core group companies over FY22-24;the management highlighted that no allocation has been made so far.
- M&M has to manage notable redesign attempts for its international farm subsidiaries and has been able to reverse most of them to profitability in 1QFY22.
- Management is highlighted that demand started rebound mid June onwards. It has guided for a low- to mid-single-digit growth for the tractor industry in FY22 on a high base of FY21.
- The company expects the commodity price surge to continue in 2Q as well and expected to stabilize 3QFY22 onwards. The farm equipment (FES) & automotive segments, the company has taken many price hikes to offset the input costs. While it has been able to pass on the costs, margins will be under pressure.
- The company is seeing good traction from e-commerce in the e-3W Cargo segment. It is now increasing its network for Treo Zor. The Passenger segment is presently highly subdued due to COVID. It is introducing a long-term strategy to drive growth.

Outlook and valuation

M&M has reported a mixed set of numbers in Q1FY22 and beat consensus estimates on the profit front. M&M's automotive and tractor performance came on the better side. Total volumes were up by 93.9% YoY to 1,84,842 units. Going ahead, the Company's strategy revolves around tighter capital allocation, focusing domestic farm machinery scale-up and Auto businesses through new launches and become future-ready for the emerging EV business.

We maintain our Accumulate rating with a SoTP-based target price of INR 863 valuing the core business at 12.5x FY23E earnings (Bloomberg Estimate).

INR in Mn	FY19	FY20	FY21	FY22E*	FY23E*
Revenue	5,28,482	4,48,655	4,45,744	5,39,328	6,07,122
EBITDA	75,301	63,506	69,766	77,666	89,235
EBITDA margin(%)	14.20%	14.20%	15.70%	14.40%	14.70%
PAT	54,239	35,509	40,974	78,992	88,302
PATM (%)	10.30%	7.90%	9.20%	14.6%	14.5%
EPS (in INR)	45.5	29.8	34.3	37.6	44.8
PE(x)	16.7	25.4	22.1	20.2	16.9

Source: Company, Arihant Research

*Bloomberg Estimates

Q1 FY22 Conference Call Highlights

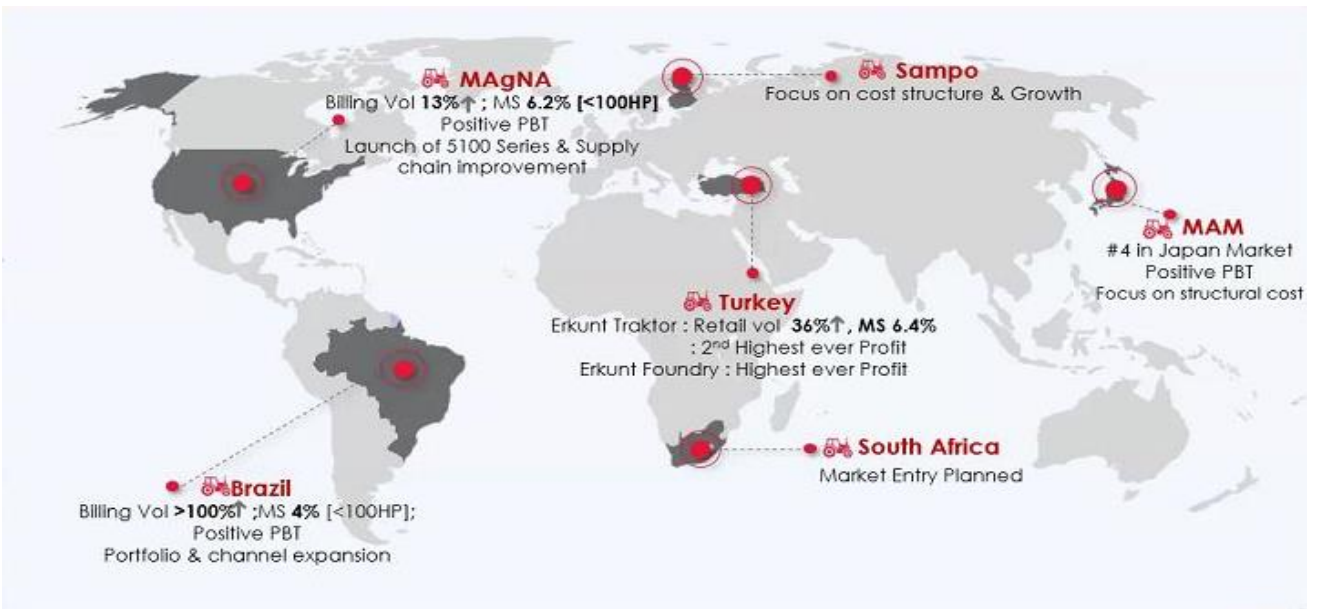
- **Semi-conductor:** With no end in sight to the automotive industry's woes as regards the continuing shortage of semiconductors, it is likely production at M&M will continue to be impacted in the near future. The management stated that commodity inflation and semiconductor supply issues continue to be of concern. Its tractor and three-wheeler production, however, remained unaffected.
- **Margin:** Margins will be under pressure as commodity prices are rising, and the company is doing the best that the company can by taking price increases and cost management.
- **Price Hike:** M&M hiked vehicle prices due to rising input costs. During the 16 months between March 2020 to June 2021, there has been a substantial price rise in base metals HR steel (by 77%) and copper (by 86%) and of precious metals platinum (by 47%) and rhodium (by 86%). M&M is working to offset the commodity price rise by cost management and price increases.
- **Thar:** M&M recently has a 10-month waiting period for the new Thar, which was launched on 2nd October FY20 and this is one of M&M's recent success stories. The company currently has over 39,000 bookings for the Thar, accounting for around 44% of the total 90,000 bookings for five UVs. The company hiked Thar prices in July by around INR 32,000-INR 92,000, depending on the variant and translating to a 2-7% hike.
- The XUV300, another popular SUV from the Mahindra portfolio, has over 10,000 bookings with a two-month waiting period. Launched in January 2019, the compact SUV is seeing sustained demand. In February 2021, M&M introduced a petrol-AMT option. While the company had been offering the automated manual transmission on the diesel trims of the model till then, the 1.2-litre, turbocharged petrol motor gets the same convenience in the W6, W8 and W8 (O) variants of the SUV.
- For the moment, the **Scorpio** currently has over 6,000 bookings with a 45-day waiting period. And the sturdy Bolero has over 4,000 bookings. On July 13, the company expanded the Bolero portfolio with the launch of the Bolero Neo at an introductory price of Rs 848,000 (ex-showroom, all India). In barely three weeks since launch, the Bolero Neo has garnered over 5,500 bookings.
- **The Bolero** Pick-up, thanks to the boom in e-commerce and demand for last-mile deliveries across the country, has seen over 30,000 bookings in the Q1 FY22.
- **NCLT:** M&M received the approval of the NCLT for the merger of Mahindra Vehicle Manufacture Ltd. with the company.
- **Product Demand:** The demand for key automotive products also remains strong. With upcoming launch of the company's most anticipated product XUV700, the company plans to ride on the festive season with strong volume growth aided by a rebound in the Indian economy.
- **Tractors:** Mahindra's tractor unit continues to deliver robust performance both in terms of market share and financial metrics. Farm machine would be in the region of 5000 cr organized in that M&M has 10% during FY21.
- **On the semi-conductor issue,** the worse news is that this will have an impact on the supplies during the upcoming festive season. The festival period is going to be difficult for waiting periods for everyone. It will be very strong from the demand side and pretty uncertain from the supply point of view.
- **Production:** In FY2021, M&M produced a total of 165,881 vehicles (-14%) and sold a total of 157,215 units (-16%) in the domestic market and exported 6,732 units. In Q1 FY2022 (April-June 2021), the company produced a total of 49,118 units and sold 43,202 units in India, along with export of 2,496 units.
- **Guidance:** M&M has revised its growth targets for the farm segment, and now expects tractors to clock more than a low single digit growth for the year FY22, given that the segment had a high base last year. For the auto segment, it is keeping a wait and watch approach and stopped short of giving any growth targets.

Quarterly results summary (MM + MVML) Q1 FY22

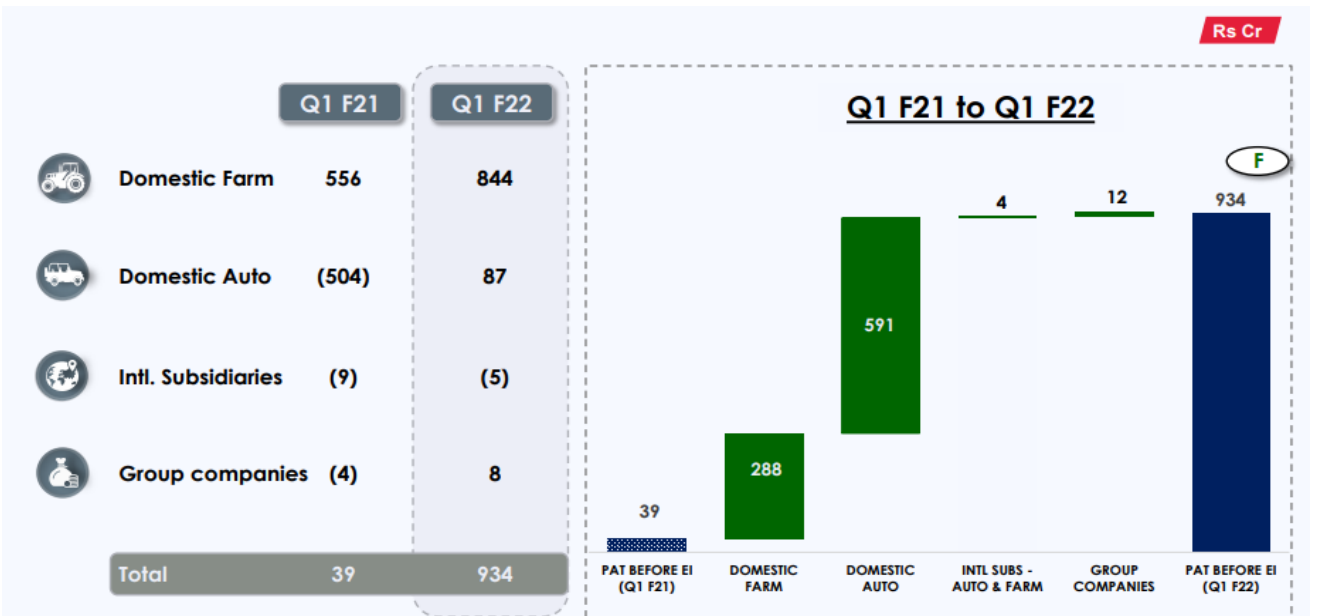
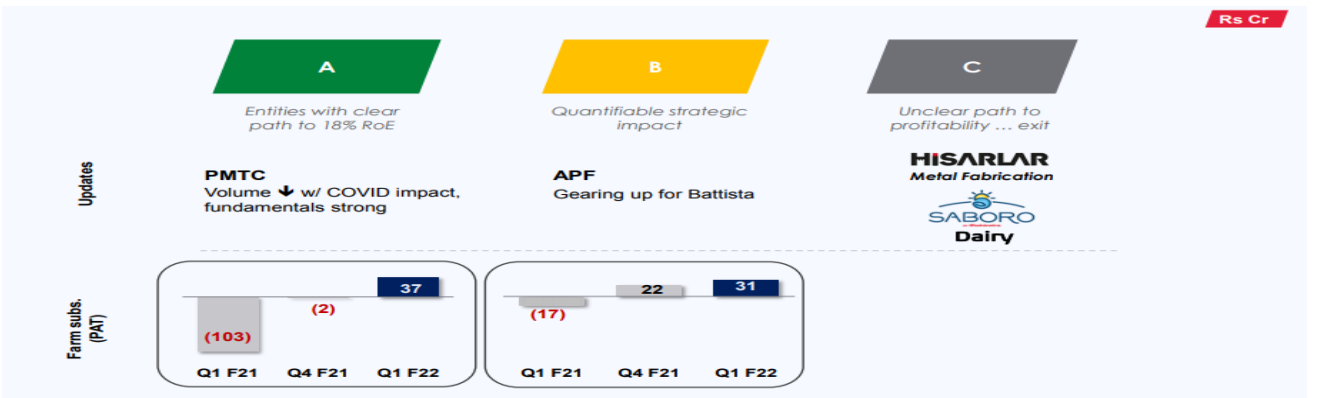
INR Mn	Q1FY22	Q4FY21	Q1FY21	YoY %	QoQ %
Net Sales	1,17,628	1,33,382	55,894	110.4%	-11.8%
Cost of material consumed	81,922	92,254	36,240	126.1%	-11.2%
Staff Cost	8,855	7,964	7,704	14.9%	11.2%
Other expenses	10,534	13,559	6,219	69.4%	-22.3%
Total expenses	1,01,311	1,13,776	50,163	102.0%	-11.0%
EBITDA	16,317	19,605	5,732	184.7%	-16.8%
Depreciation	5,586	5,899	5,813	-3.9%	-5.3%
EBIT	10,731	13,707	(81)	-13364.0%	-21.7%
Interest	714	971	768	-7.0%	-26.5%
Other Income	2,052	1,178	1,338	53.4%	74.2%
PBT	12,069	13,914	488	2371.0%	-13.3%
Tax	(2,728)	3,888	99	-2858.1%	-170.2%
PAT	14,796	10,025	389	3698.8%	47.6%
Extraordinary	(785)	(8,399)	288	-372.1%	-90.7%
Reported PAT	14,012	1,626	678	1966.9%	761.6%
EPS	7.2	1.4	0.6	1156.1%	426.5%
Margins	Q1FY22	Q4FY21	Q1FY21	YoY %	QoQ %
Gross margins	30.4%	30.8%	35.2%	-48bps	-5bps
EBITDA	13.9%	14.7%	10.3%	36bps	-8bps
PAT	7.9%	7.5%	0.7%	72bps	4bps
Tax Rate	-22.6%	27.9%	20.2%	-429bps	-505bps
Tractor Segment	Q1FY22	Q4FY21	Q1FY21	YoY %	QoQ %
Total Tractors Volume	99,929	93,894	65,657	52.2%	6.4%
Total Automotive Volume	84,913	1,08,329	29,651	186.4%	-21.6%
Total Volume (Auto + Farm)	1,84,842	2,02,223	95,308	93.9%	-8.6%
Aveg Relizations (Auto)	95,528	74,870	6,87,818	-86.1%	27.6%
Aveg Relizations (FES)	5,28,539	5,62,500	5,08,832	3.9%	-6.0%
Blended realisation	3,58,620	3,27,782	5,87,655	-39.0%	9.4%

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

Operational turnaround in international tractor division businesses



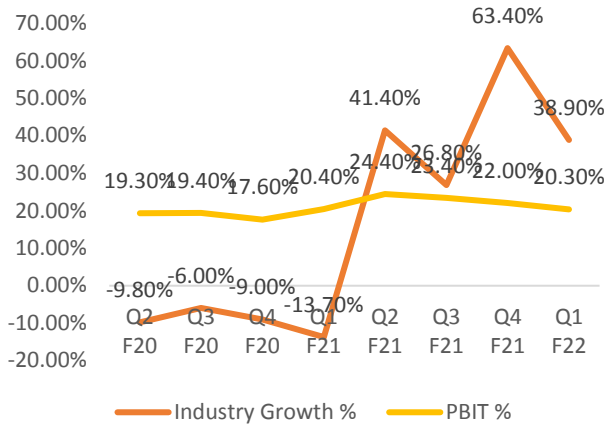
Capital Allocation Update



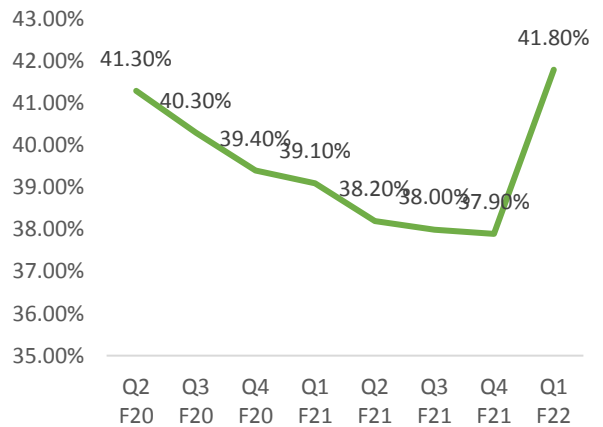
Source: Company, Aриhant Capital Markets

FES – Performance

Stability in Volatility



Continued Domestic Leadership



23 new products planned in SUV, EV and LCV by 2026

CORE SUV

- **Thar** ... Total bookings 66K+
- **XUV 300** ... Monthly booking 4-6K
- **Bolero Neo** ... 5K bookings in 3 weeks
- **XUV700** ... Coming soon

EV

- **30,000+ e-3W sold**
50%+ market share in its category⁻¹⁾
- **300 million EV kms** since 2008
- **Battista** ... EV Hyper car

LCV

- **Market share leadership** ... >50% in pick up segment (2 - 3.5T)
- **Supro Profit Truck** ... Launched
Strengthen offering in 0 - 2T 4W segment
- **Compact Pickup** ... coming soon

Source: Company, Arianth Capital Markets

Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (Rs Mn)	Value/share
Tech Mahindra Limited		1,265	2515,48,691	26.0	3,18,108	267
Mahindra & Mahindra Financial Services		156	3162,07,660	51.2	49,234	41
Mahindra Holidays & Resorts		312	898,90,615	67.3	28,005	24
Mahindra Lifespace Developers		753	264,39,850	51.5	19,904	17
Mahindra CIE Automotive Limited.		269	214,17,617	11.4	5,754	5
Ssangyong Motor Company*		-	-	0.0	-	-
CIE Automotive SA (CMP €25.30 x 87.29 Euro/INR)		2,168	95,90,706	7.4	20,792	17
Mahindra EPC Irrigation		139	151,44,433	54.6	2,098	2
Swaraj Engines		1,777	40,39,206	34.8	7,179	6
Listed Subsidiaries (INR mn)					4,51,074	379
Total Subsidiaries (INR Mn)					4,51,074	379
Sub Valuations Post Discount (20%)			20%		3,60,859	303
Core auto business @ 12.5x	Core FY23EPS	45				560
Value/Share						863
					CMP	758
					Upside	13.8%

Financial Performance

Exhibit 1: Revenue trend

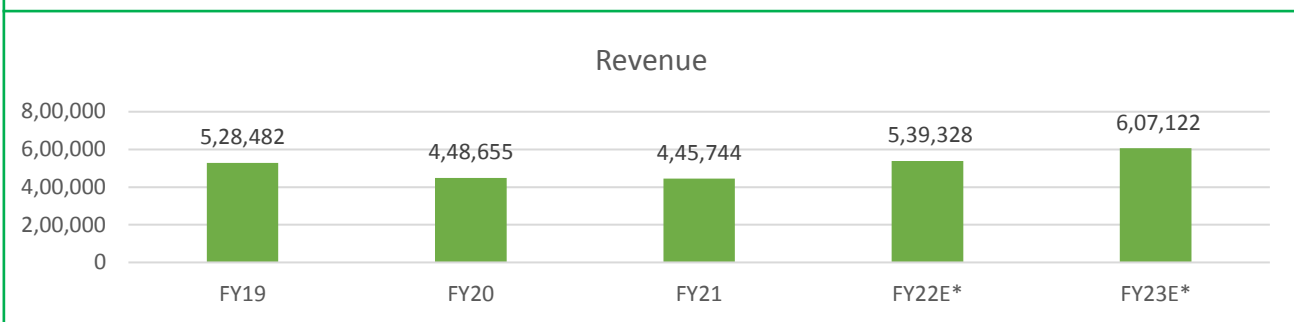


Exhibit 2: EBITDA Trend

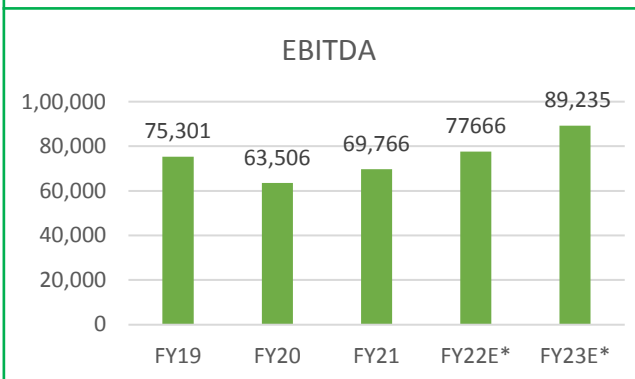


Exhibit 3: PAT trend

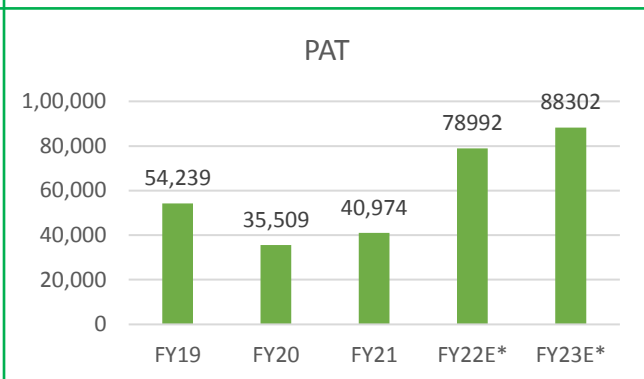


Exhibit 4: EBITDA Margin Trend

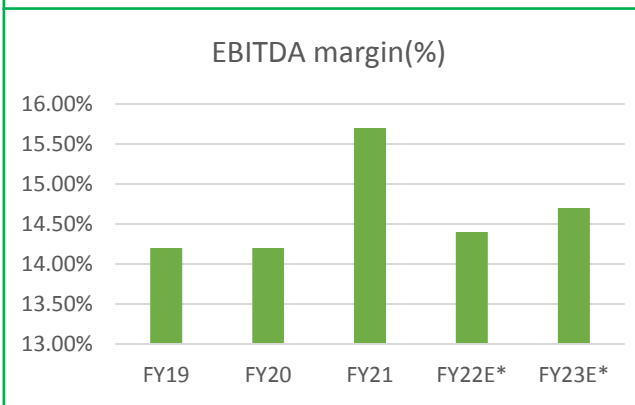


Exhibit 5: PAT Margin trend

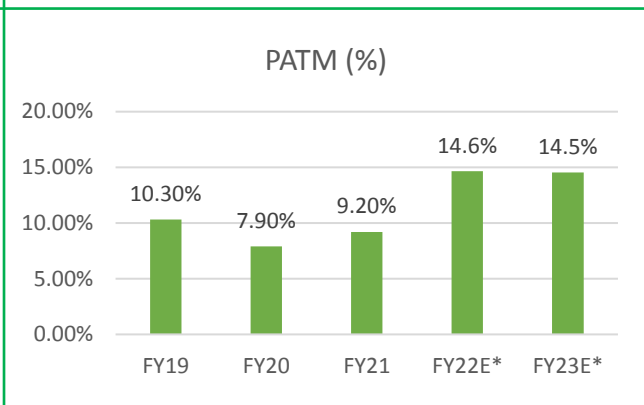


Exhibit 6: EPS Trend

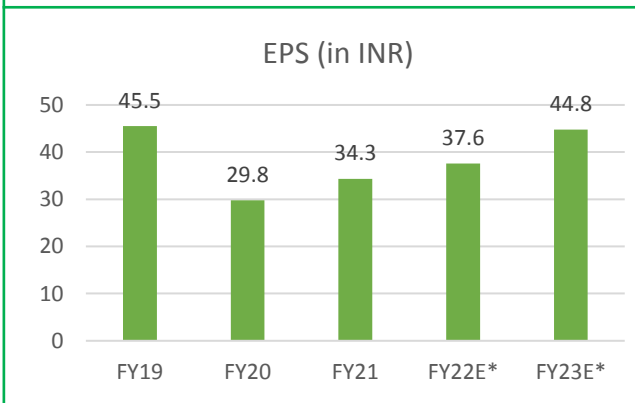
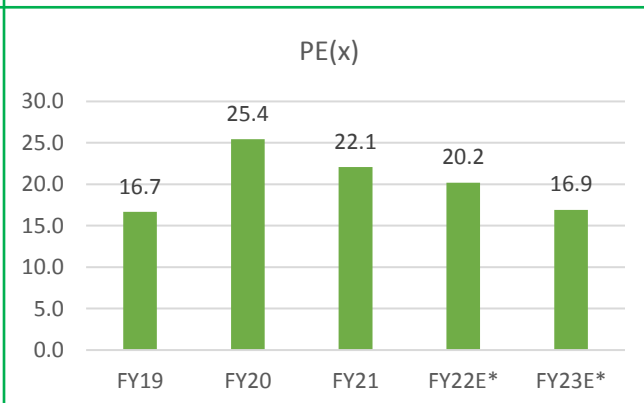


Exhibit 7: PE Trend



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

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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