

**New launches will drive the growth**

**CMP: INR 853**

**Rating: Buy**

**Target Price: INR 1,077**

**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)	10,45,525
52w H/L (INR)	979/725
Avg Yearly Vol (in 000')	3,896

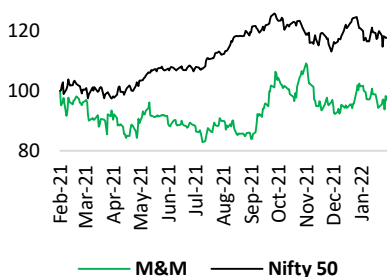
**Shareholding Pattern %**

(As on December, 2021)

Promoters	18.83
Public & Others	81.17

Stock Performance (%)	1m	3m	12m
M&M	(3.9)	(8.9)	(4.3)
Nifty	(2.3)	(3.1)	14.9

**M&M Vs Nifty**



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Mahindra & Mahindra Ltd (M&M) standalone net profit grew by 154.9% YoY/-42.2% QoQ to INR 13,531 Mn during Q3FY22 against INR 17,448 Mn in Q3FY21.

Net sales stood at INR 1,55,388mn (8.4% YoY / 14.5% QoQ) in Q3FY22 against INR 1,40,565 Mn in Q3FY21 led by strong ASP growth in Autos as well as Tractors. This was largely led by price hikes to partially offset the impact of input cost inflation.

EBITDA was at INR 18,058mn (-24.3% YoY / +8.8% QoQ) against INR 23,856 mn in Q3FY21. EBITDA margin of 11.9% (-21bps YoY / -51bps QoQ) against 17% in Q3FY21 due to rising commodity prices and shortage of semi-conductors.

The total volumes (auto + tractors) grew by 7.4% YoY/6.8% QoQ to 6.8 units. Total tractor volume de-grew by 8.6% YoY/+2.5% QoQ to 92,967 units. The Automotive Sector grew by 23.2% YoY/ 10.2% QoQ to 1,26,875 units. Strong growth in exports both in Auto and Farm businesses.

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

As semiconductor shortage and tractor slowdown we expect muted performance coming next 1-2 quarters. However, we expect strong demand for SUVs to continue in the coming 2-3 years and the premiumization trend would further pick up. MM has received robust bookings for Thar, XUV300, Bolero NEO, and XUV700 taking overall bookings to 155K+, while XUV700 alone has exceeded bookings of 100k+. 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. Its objective is to launch 13 new products with 8 new EVs in the SUV segment by 2027 accounting for 20% of EV volume. Thus, its product pipeline is becoming robust going forward, which has started restoring its magnificence and pricing power slowly. Better pricing and volume traction would enlarge its EBITDA margins from the current 12.5% to 14.2% in FY24E.

**Outlook and valuation**

M&M has reported a mixed set of numbers in Q3FY22 due to rising commodity prices and a shortage of semiconductors. M&M's automotive and tractor performance came on the better side. Total volumes were up by 7.4% YoY to 2,19,842 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 becoming future-ready for the emerging EV business.

**We value M&M at PE of 15x to its FY24E EPS (Core) of INR 46.9. We assign a Buy rating on the stock and value it with SOTP valuation for a target price of INR 1077.**

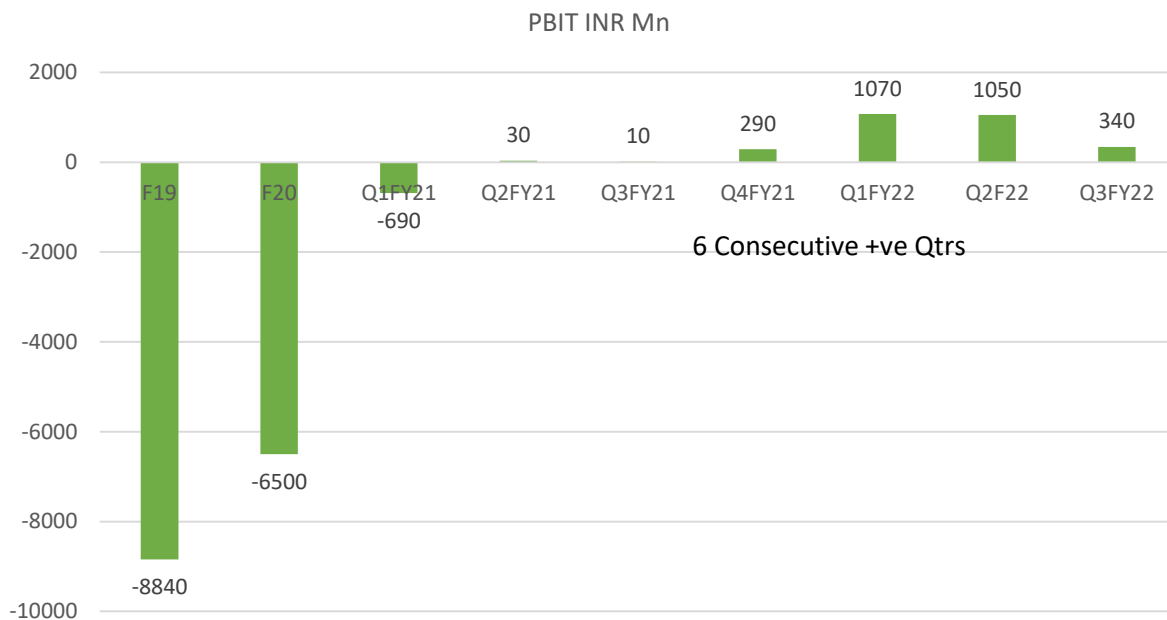
## Q3FY22 Conference Call Highlights

- Q3FY22 witnessed steady revenue growth, while margins continue to be under pressure due to high commodity prices.
- Auto 15% YoY, Tractor YTD 15% YoY and supply chain constraints has started to normalize.
- Farm sector: Revenues up 2% while market has come down. Market share has improved by 140bps. International subsidiaries are now positive for 6 consecutive quarters in a row. Market share stands at 39.4%. Launch of CODE & Yuvo Tech +. Highest ever quarterly Exports: 4.7K Tractors.
- Auto sector: The company is seeing easing of supply chains. Revenues up 16%, and volume loss of ~20k units due to shortage. Huge Booking Pipeline: 155k + (XUV 700 has 70,000 open bookings, with 100,000k overall bookings)
- Mahindra Finance: Focusing on stage 2 and stage 3 NPAs in the current quarter. TechM: Growth led by Commodity, manufacturing, Healthcare, Retail.
- Despite high raw material prices, it maintained a PBIT of 17.3% while the industry de-grew by 13.5% in Q3 FY22 in the Agriculture space. Government spending has come down in last two months.
- Monsoons was delayed in FY22 which led to a delay in Kharif. However, expects Rabi to be a bumper crop as the soil already has the moisture. Augurs well for the farm sector. Management. The company expects the industry would be lower than FY21 in terms of volumes.
- Open bookings: ~155,000+. XUV 700: 70k bookings and has a strong pipeline of bookings too. XUV 300 7.5k monthly bookings in Q3; Thar 4k + in Q3 and 31k open bookings; and a similar momentum for Borelo and Scorpio.
- Key areas to work on: Focus on margins, focus on cost optimization and focus on managing volumes (~20k units).
- For semiconductors: Creating new sources to create fungibility and reserve stock for critical ICs.
- Segmental: Auto/ Farm / Group cos grew 16%/2%/8% y/y, respectively.
- New Scorpio to be launched by Q1FY23. Also, not looking for a de-merger of the farm business as reported in the media articles. Only a small segment within the Farm segment.
- On the EV space, looking for a partner for Lithium-Ion cell manufacturing. Does not intend to lead the manufacturing.
- Semiconductors: The situation has improved dramatically. Mgmt. is avoiding giving an exact time frame; however, it is not too far.
- Margins: Seeing a strong upside in margins in the auto business. a) Operating leverage. b) Impact of pricing of new products and c) Very structured cost optimization program. Management. The company expects a margin upside of 3% in the near term.
- Capacity planning is a standard process in the organization. The waiting period as of today is unprecedented. Demand remains huge. The cancellations rate stands at ~10%. And XUV700 70k bookings include cancellation numbers.
- Farm sector: Expecting the industry to de-grow by 6% as FY21 was on a very high base. The company has raised prices every quarter in the last 6 quarters. Would be able to maintain margins in FY23 as commodity prices have started to come down. The commodity outlook is benign at the moment and expects the prices to be stable.
- Price pass through in 9M FY22: Tractor fully passed on material costs. Auto side: Has passed on 7.5%-8% of the ~17% increase. Raised prices by 2% in December and 2.5% in January.
- Electric: Scheduled for launch towards the end of Q3, Q4 FY23.
- CAFE Emission Norms: Will meet the café norms based on the combination of diesel, gasoline. Would increase the prices by Rs8,000-12,000.

Quarterly results summary (MM + MVML) Q3FY22					
INR Mn	Q3FY22	Q2FY22	Q3FY21	YoY %	QoQ %
Net Sales	152,388	133,054	140,565	8.4%	14.5%
Cost of material consumed	113,931	96,808	96,292	18.3%	17.7%
Staff Cost	8,790	7,965	8,841	-0.6%	10.4%
Other expenses	11,609	11,682	11,576	0.3%	-0.6%
Total expenses	134,330	116,455	116,709	15.1%	15.3%
<b>EBITDA</b>	<b>18,058</b>	<b>16,598</b>	<b>23,856</b>	-24.3%	8.8%
Depreciation	6,312	5,807	6,043	4.5%	8.7%
EBIT	11,746	10,792	17,814	-34.1%	8.8%
Interest	533	425	1,039	-48.8%	25.3%
Other Income	5,233	11,048	5,618	-6.9%	-52.6%
PBT	16,447	21,415	22,393	-26.6%	-23.2%
Tax	(2,916)	(4,548)	4,944	-159.0%	-35.9%
<b>PAT</b>	<b>13,531</b>	<b>25,963</b>	<b>17,448</b>	-22.5%	-47.9%
Extraordinary	-	(2,550)	(12,140)	-100.0%	-100.0%
<b>Reported PAT</b>	<b>13,531</b>	<b>23,413</b>	<b>5,309</b>	154.9%	-42.2%
EPS	11.3	12.0	0.3	4253.8%	-5.5%
Margins	Q3FY22	Q2FY22	Q3FY21	YoY %	QoQ %
Gross margins	25.2%	27.2%	31.5%	-63bps	-63bps
EBITDA	11.9%	12.5%	17.0%	-51bps	-51bps
PAT	8.9%	12.7%	12.4%	-35bps	-35bps
Tax Rate	-17.7%	-21.2%	22.1%	-398bps	-398bps
Tractor Segment	Q3FY22	Q2FY22	Q3FY21	YoY %	QoQ %
Total Tractors Volume	92,967	90,720	101,701	-8.6%	2.5%
Total Automotive Volume	126,875	115,151	102,967	23.2%	10.2%
Total Volume (Auto + Farm)	219,842	205,871	204,668	7.4%	6.8%
Aveg Relizations (Auto)	752,523	687,542	807,158	-6.8%	9.5%
Aveg Relizations (FES)	561,249	540,482	519,320	8.1%	3.8%
Blended realisation	696,331	649,602	690,314	0.9%	7.2%

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

**FES SUBS\* TURNAROUND : Highest Ever YTD PBIT**



\* FES Global Subsidiaries + Gromax

- Due to cyclical downturn, Q3 is always a subdued quarter

Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,413	25,15,48,691	25.9	3,55,325	299
Mahindra & Mahindra Financial Services		152	64,43,99,987	52.2	97,788	82
Mahindra Holidays & Resorts		213	13,48,35,922	67.6	28,659	24
Mahindra Lifespace Developers		298	7,93,19,550	51.5	23,649	20
Mahindra CIE Automotive Limited.		200	2,14,17,617	11.4	4,285	4
Ssangyong Motor Company*		-	-	0.0	-	-
CIE Automotive SA (CMP €25.24 x 84.87 Euro/INR)		2,142	95,90,706	7.4	20,544	17
Mahindra EPC Irrigation		102	1,51,44,433	54.4	1,541	1
Swaraj Engines		1,368	42,16,792	34.8	5,767	5
Mahindra Logistics Ltd		430	4,18,12,257	58.3	17,986	15
Listed Subsidiaries (INR mn)					5,55,543	467
Total Subsidiaries (INR Mn)					5,55,543	467
Sub Valuations Post Discount (20%)			20%		4,44,435	373
Core auto business @ 15x	Core FY24EPS	47				704
Value/Share						1077
					CMP	853
					Upside	26.2%

\*CMP as on 22<sup>nd</sup> February 2022

\*M&M stake till 22<sup>nd</sup> February 2022

Financial Performance

Exhibit 1: Revenue trend

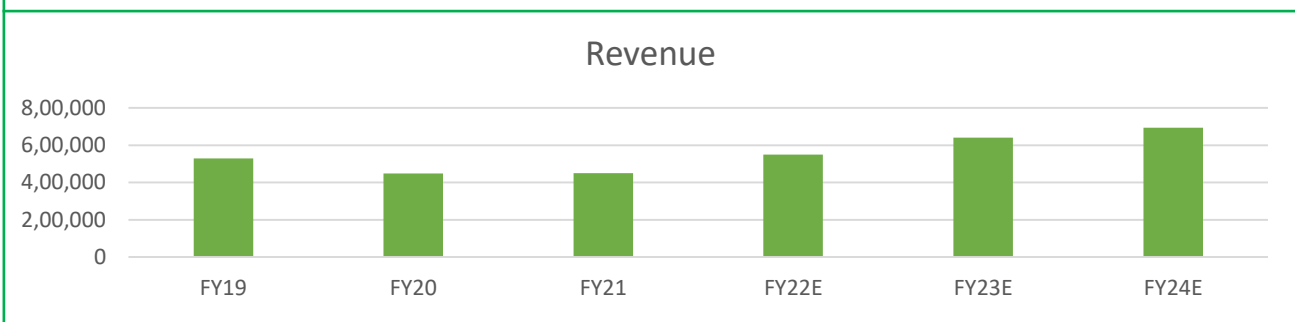


Exhibit 2: EBITDA Trend

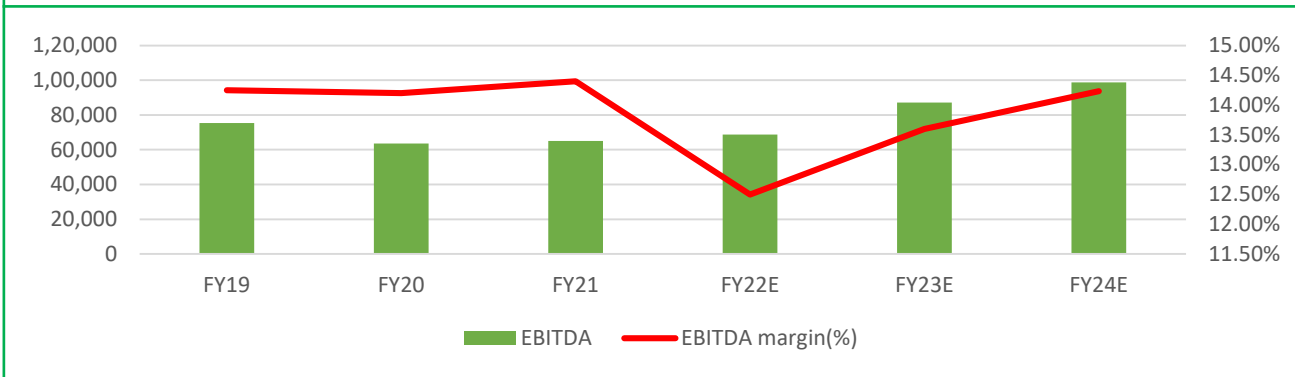


Exhibit 3: PAT trend

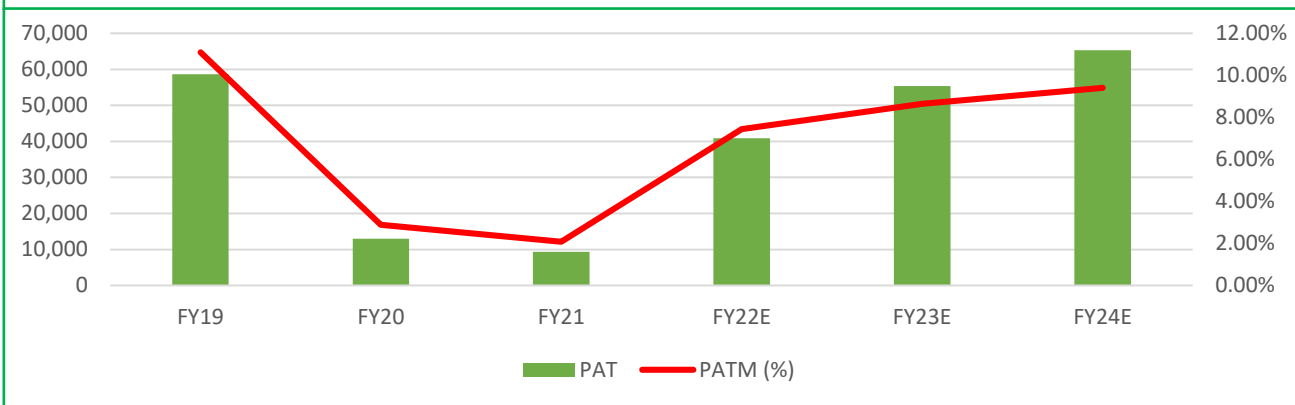


Exhibit 4: EPS Trend

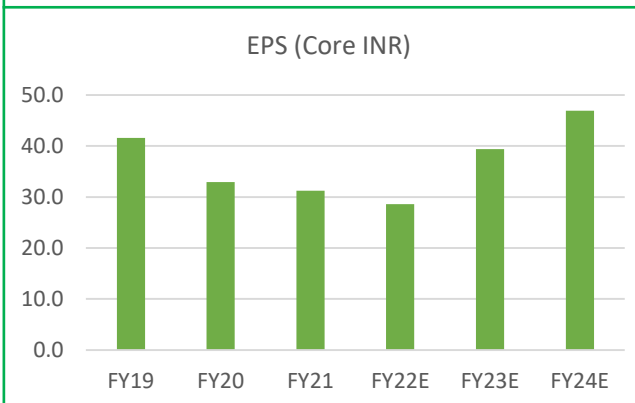
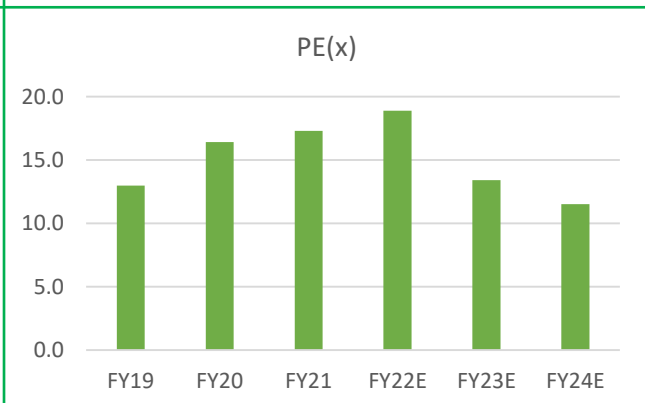


Exhibit 5: PE Trend



Source: Company, Arianth Research

<b>P&amp;L (INR mn)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>B/S/Sheet (INR mn)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Net sales	4,48,655	4,50,410	5,48,897	6,40,560	6,93,677	Equity capital	5,965	5,974	5,974	5,974	5,974
YoY (%)	(15.1)	0.4	21.9	16.7	8.3	Reserves	3,40,326	3,39,045	3,70,149	4,19,070	4,77,927
Raw material cost	2,98,668	3,16,130	3,95,755	4,64,406	4,95,979	Net worth	3,46,291	3,45,019	3,76,123	4,25,044	4,83,901
Employee Cost	32,237	27,449	32,876	37,808	43,479	Total Loans	31,530	25,859	23,859	21,859	19,860
Admin Expenses	54,245	41,770	51,596	51,245	55,494	Def Tax Liability	15,068	15,068	15,068	15,068	15,068
Total expenses	3,85,150	3,85,349	4,80,227	5,53,459	5,94,952	<b>Total Liabilities</b>	<b>3,92,889</b>	<b>3,85,947</b>	<b>4,15,050</b>	<b>4,61,971</b>	<b>5,18,829</b>
<b>EBIDTA</b>	<b>63,506</b>	<b>65,061</b>	<b>68,670</b>	<b>87,102</b>	<b>98,725</b>	Gross Block	3,07,168	2,79,675	2,90,675	3,07,675	3,27,675
(%)	14.2%	14.4%	12.5%	13.6%	14.2%	Less: Acc. depreciation	1,12,697	1,35,027	1,60,619	1,87,028	2,14,348
Depreciation	23,631	22,330	25,592	26,408	27,320	Net block	1,94,471	1,44,648	1,30,056	1,20,647	1,13,327
EBIT	39,875	42,731	43,077	60,693	71,405	Investments	1,62,668	1,60,355	1,62,415	1,64,694	1,72,567
Interest	1,245	3,709	5,469	5,715	6,258	Inventories	40,408	34,644	43,370	50,894	54,354
Other income	20,968	18,905	16,528	17,860	20,767	Debtors	29,012	25,914	30,077	35,099	38,010
<b>PBT</b>	<b>59,598</b>	<b>57,928</b>	<b>54,136</b>	<b>72,838</b>	<b>85,914</b>	Cash	42,365	62,554	73,784	95,217	1,44,384
(-) Tax	18,513	11,916	13,263	17,481	20,619	Loans and advances	26,042	57,484	79,890	1,05,867	1,08,241
Tax/ PBT	31.1	20.6	24.5	24.0	24.0	Other Current assets	13,694	18,633	18,633	18,819	19,083
<b>PAT</b>	<b>41,085</b>	<b>46,011</b>	<b>40,873</b>	<b>55,357</b>	<b>65,294</b>	Current assets	1,51,521	1,99,230	2,45,754	3,05,896	3,64,071
YoY (%)	(30.2)	12.0	(11.2)	35.4	18.0	Current liabilities	99,990	1,03,867	1,03,867	1,06,735	1,06,736
PAT(%)	9.2%	10.2%	7.4%	8.6%	9.4%	Provisions	15,781	14,419	19,307	22,532	24,400
Extraordinary	28112	36633	-3335	0	0	Net current assets	35,750	80,944	1,22,580	1,76,630	2,32,935
Reported Profit	12,974	9,379	40,873	55,357	65,294	<b>Total Assets</b>	<b>3,92,889</b>	<b>3,85,947</b>	<b>4,15,050</b>	<b>4,61,971</b>	<b>5,18,829</b>

<b>Cash Flow</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>Key Ratios</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Net Profit	12,974	9,379	37,538	55,357	65,294	EPS	34.4	38.5	34.2	46.3	54.6
Depreciation	23,631	22,330	25,592	26,408	27,320	P/E (Standalone)	24.8	22.2	24.9	18.4	15.6
Deferred tax	0	0	0	0	0	EV/EBDITA (x)	13.3	12.6	11.7	9.0	7.3
Change in W/C	-2,124	-25,005	-30,406	-32,618	-7,139	Book value	290	289	315	356	405
Operating cash flow	34,480	6,703	32,725	49,148	85,476	P/B (x)	2.9	3.0	2.7	2.4	2.1
Capex	-62,145	27,494	-11,000	-17,000	-20,000	Subsidiary Valuation	373	373	373	373	373
Investments	43,594	2,313	-2,060	-2,279	-7,873	EPS (Core EPS)	32.9	31.2	28.6	39.4	46.9
Investing cash flow	-18,551	29,807	-13,060	-19,279	-27,873	P/E (Core)	14.6	15.4	18.9	13.7	11.5
Free Cash Flow	-27,665	34,197	21,725	32,148	65,476	EV/EBITDA (Core)	8.5	7.9	8.3	6.3	4.9
Dividend	-4,819	-6,435	-6,435	-6,436	-6,437	ROCE	10.9%	12.8%	11.6%	13.9%	14.6%
Equity	-11,801	-4,215	0	0	0	ROE	11.8%	13.3%	11.3%	13.8%	14.4%
Debt	4,728	-5,671	-2,000	-2,000	-1,999	<b>Days</b>					
Financing cash flow	-11,892	-16,321	-8,435	-8,436	-8,436	Inventory	54	40	40	40	40
Net change in cash	4,036	20,189	11,230	21,432	49,167	Debtor	27	21	20	20	20
Opening cash	38,329	42,365	62,554	73,784	95,217	Creditor	71	69	69	69	69
Closing cash	42,365	62,554	73,784	95,217	1,44,384						

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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