

RESEARCH
MAHINDRA & MAHINDRA | TARGET: Rs 1,496 | +20% | BUY

Performance to strengthen

SUMMARY
MAHINDRA & MAHINDRA

- Q2 net sales of Rs 208bn (+6% QoQ) driven entirely by realisation gains with NRPV at Rs 763k (+6% QoQ)
- Raw material cost flat QoQ at 76.5% of sales. Gross margin sequentially flat at 23.5% (27% in Q2FY22)
- We assume coverage with BUY and an SOTP-based TP of Rs 1,496, valuing core operations at 18x FY24E EPS

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Daily macro indicators

Indicator	25-Nov	28-Nov	Chg (%)
US 10Y yield (%)	3.68	3.68	0bps
India 10Y yield (%)	7.30	7.27	(3bps)
USD/INR	81.68	81.67	0.0
Brent Crude (US\$/bbl)	83.6	83.2	(0.5)
Dow	34,347	33,849	(1.4)
Hang Seng	17,574	17,298	(1.6)
Sensex	62,294	62,505	0.3
India FII (US\$ mn)	24-Nov	25-Nov	Chg (\$ mn)
FII-D	58.4	45.0	(13.4)
FII-E	517.9	87.6	(430.3)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY
 TP: Rs 1,496 | ▲ 20%

MAHINDRA & MAHINDRA | Automobiles

29 November 2022

Performance to strengthen

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Steady performance; set to strengthen: MM's Q2FY23 net sales stood at Rs 208.4bn (+6% QoQ, +57% YoY) as net blended realisation per vehicle (NRPV) rose to Rs 763k (+6% QoQ, +9% YoY). Blended volumes (automotive plus farm equipment) were flat sequentially. Flat raw material cost-to-sales kept gross margin intact QoQ at 23.5% while EBITDA margin was muted at 12% (flat QoQ). EBITDA grew just 7% QoQ (50% YoY) to Rs 25bn, whereas reported PAT increased 60% QoQ (and 39% YoY) to Rs 23.4bn on higher other income due to dividend inflows normally received in Q2.

Automotive segment strong; tractor earnings gain momentum: The automotive segment continued to dominate revenue (70% contribution) with a 17% QoQ rise in volumes to 179k vehicles. Following seasonality in tractor sales during Q1FY23, segment volumes fell 21% QoQ (+5% YoY) in Q2. EBIT contribution was, however, equally distributed between the tractor and automotive segments at 48% each.

Strong order book prompts capacity expansion: New bookings for the 'XUV 700' remain robust at 8-9k/month with low cancellations (<5%) despite the long waiting period of 18-20 months. Demand for 'Scorpio Classic' is higher than the capacity planned, and the 'Thar' SUV (to be rolled out in Q1FY24) is expected to garner demand in the range of 5-6k units per month (excluding the five-door variant). This has prompted capacity expansion to raise monthly production by 39k/49k from Q4FY23/Q4FY24 (excludes capacity expansion for electric vehicles).

BUY, TP Rs 1,496: We estimate a 21% revenue CAGR for MM over FY22-FY25. Margin headwinds are likely to recede with better raw material availability, moderating costs, price hikes and optimal utilisation. Our EBITDA/PAT CAGR estimates thus stand at 26%/24% over FY22-FY25, with EBITDA margin assumptions of 13-14% in FY24/FY25. We assume coverage with BUY for an SOTP-based TP of Rs 1,496, valuing the core business at 18x FY24E EPS (at par with its long-term average) and assigning a 30% holding company discount to subsidiaries (Rs 282/sh). New launches in the high-end segment and in EVs as well as export revival represent key rerating triggers.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 1,251
Market cap	US\$ 19.2bn
Free float	81%
3M ADV	US\$ 46.8mn
52wk high/low	Rs 1,367/Rs 671
Promoter/FPI/DII	19%/37%/29%

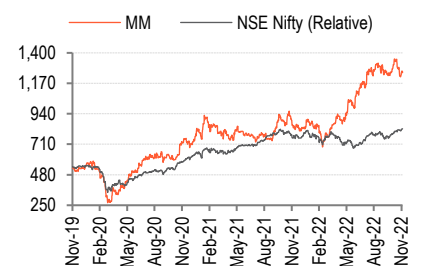
Source: NSE | Price as of 28 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	574,460	788,519	905,589
EBITDA (Rs mn)	68,963	97,706	124,746
Adj. net profit (Rs mn)	49,352	65,312	86,045
Adj. EPS (Rs)	39.7	52.6	69.3
Consensus EPS (Rs)	39.7	56.8	72.1
Adj. ROAE (%)	13.4	15.4	17.3
Adj. P/E (x)	31.5	23.8	18.1
EV/EBITDA (x)	21.4	15.4	12.4
Adj. EPS growth (%)	401.5	32.3	31.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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