

BUY

TP: Rs 1,496 | ▲ 20%

MAHINDRA & MAHINDRA | Automobiles

29 November 2022

Performance to strengthen

- 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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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%

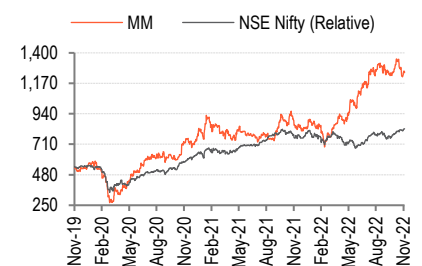
Source: NSE | Price as of 28 Nov 2022

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



Earnings call takeaways

Revenue

- MM's automotive segment spearheaded both revenue and margin growth in Q2FY23. Tractor volumes grew ~10% during the festive season, but management did not alter its growth outlook for FY23 (5%+). Capacity utilisation for tractors is 85-90%.
- Management indicated that manufacturing of its electric SUV 'XUV 400' will begin by Q3FY23-end and bookings will start in Jan'23 (deliveries by month-end). New bookings for 'XUV 700' are healthy (8-9k/month) and the rate of cancellation is less than 5% despite a long waiting period of 18-20 months.
- Demand for 'Scorpio Classic' is higher than the capacity planned. 'Scorpio-N' alongside bookings of each product segment in the category is strong and close to optimum capacity utilisation (without considering exports).
- A few versions of 'Thar' will be rolled out in Q1FY24, with demand expected in the range of 5-6k units per month (excluding the five-door variant).

Margins

- MM hiked prices in the tractor segment by 2%/1% in Jul/Nov'22. The automotive segment saw a 1.5-2% hike in September.
- Per its earlier three-year roadmap, management had guided for margin gains of 300bps in the medium term. MM has added 240bps to EBITDA margins over the past two years, and we believe its target looks achievable.
- Management is not unduly worried about slightly lower margins on account of launches. This apart, some commodity prices have started softening and the positive effects will be reflected more clearly over Q3-Q4.

Capacity addition

- The company plans to expand monthly capacity by 39k/49k from Q4FY23/Q4FY24, which excludes capacity expansion for EVs.

Other key points

- Management indicated a preference for growth over ROE targets. MM will continue to maintain ~18% ROE but will be more inclined to aggressively drive growth.
- Extraordinary income of ~Rs 2.5bn during Q2 is mostly attributable to fair value gains on account of the 17.4% stake purchase in Swaraj Engines and balance stake purchase in Sampo Rosenlew that makes it a 100% subsidiary.

Fig 1 – Quarterly performance (Standalone)

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Volume	273,193	190,600	43.3	271,971	0.4	545,164	377,377	44.5
Avg. Realisation per Vehicle	762,804	698,078	9.3	721,130	5.8	742,014	664,273	11.7
Net Revenues	208,393	133,054	56.6	196,126	6.3	404,519	250,682	61.4
Other Operating Income	-	-	-	-	-	-	-	-
Total Income (A)	208,393	133,054	56.6	196,126	6.3	404,519	250,682	61.4
Operating Expenses:								
Raw materials consumed	159,490	96,808	64.7	150,240	6.2	309,729	178,730	73.3
Employee Expenses	9,129	7,965	14.6	8,362	9.2	17,491	16,821	4.0
Other Expenses	14,811	11,682	26.8	14,114	4.9	28,925	22,216	30.2
Total Expenditure (B)	183,429	116,455	57.5	172,716	6.2	356,145	217,767	63.5
EBITDA (A-B)	24,964	16,598	50.4	23,410	6.6	48,374	32,915	47.0
Other Income	13,259	11,048	20.0	2,386	455.7	15,645	13,100	19.4
Depreciation	7,756	5,807	33.6	6,806	14.0	14,562	11,393	27.8
EBIT	30,467	21,840	39.5	18,990	60.4	49,456	34,623	42.8
Finance Costs	637	425	49.8	698	-8.8	1,335	1,139	17.2
PBT before exceptional items	29,830	21,415	39.3	18,292	63.1	48,122	33,484	43.7
Exceptional items	-	-	NA	-	NA	-	-	NA
PBT after exceptional items	29,830	21,415	39.3	18,292	63.1	48,122	33,484	43.7
Tax expense	6,452	4,548	41.9	3,581	80.2	10,033	7,276	37.9
Reported PAT	23,378	16,867	38.6	14,711	58.9	38,089	26,208	45.3
Adjusted PAT	23,378	16,867	38.6	14,711	58.9	38,089	26,208	45.3
Adj EPS (Rs)	16.8	11.5	38.6	11.5	58.9	28.3	18.4	45.3
Key ratios (%)			(bps)		(bps)			(bps)
Gross Margin	23.5	27.2	(377)	23.4	7	23.4	28.7	(527)
EBITDA Margin	12.0	12.5	(50)	11.9	4	12.0	13.1	(117)
EBIT Margin	14.6	16.4	(179)	9.7	494	12.2	13.8	(159)
PBT Margin	14.3	16.1	(178)	9.3	499	11.9	13.4	(146)
Tax Rate	21.6	21.2	39	19.6	205	20.8	21.7	(88)
Adj PAT Margin	11.2	12.7	(146)	7.5	372	9.4	10.5	(104)

Source: Company, BOBCAPS Research

Valuation methodology

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.

To arrive at our target price, we use a sum-of-the-parts (SOTP) method 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) – this yields a TP of Rs 1,496 which offers 20% upside. Considering the robust growth outlook, we assume coverage with a BUY rating. New launches in the high-end segment and in EVs as well as export revival represent key rerating triggers.

Fig 2 – Key assumptions

Parameter	FY23E	FY24E	FY25E
Volume (no. of units)	1,057,770	1,178,449	1,285,340
Revenues (Rs)	788,519	905,589	1,003,590
EBITDA (Rs)	97,706	124,746	139,376
EBITDA margin (%)	12.4	13.8	13.9
Adj. PAT (Rs)	65,312	86,045	94,239
Core EPS (Rs)	52.6	69.3	75.9

Source: Company, BOBCAPS Research

Fig 3 – Valuation summary

Business	Fair Value (Rs/sh)	Remarks
Core business	1,215	18x FY24E core EPS
Value of subsidiaries	282	30% holding company discount
Total	1,496	

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- delays in model launches and/or capacity expansion,
- slower-than-expected growth in the farm equipment segment, and
- commodity inflation resurfacing.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	446,299	574,460	788,519	905,589	1,003,590
EBITDA	68,335	68,963	97,706	124,746	139,376
Depreciation	23,699	24,511	29,074	30,878	34,674
EBIT	57,870	66,671	89,996	117,905	129,812
Net interest inc./(exp.)	(3,963)	(2,230)	(2,680)	(2,948)	(3,317)
Other inc./(exp.)	11,995	20,759	21,364	24,036	25,110
Exceptional items	(30,873)	(2,087)	0	0	0
EBT	23,035	62,355	87,316	114,957	126,495
Income taxes	13,193	13,002	22,004	28,912	32,256
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	(21,031)	47,266	65,312	86,045	94,239
Adjustments	30,873	2,087	0	0	0
Adjusted net profit	9,842	49,352	65,312	86,045	94,239

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	113,986	137,389	154,786	162,463	171,965
Other current liabilities	44,712	46,298	79,252	86,650	85,262
Provisions	15,077	13,663	1,212	1,333	1,467
Debt funds	77,863	67,336	61,933	57,239	53,162
Other liabilities	0	0	0	0	0
Equity capital	5,974	5,983	5,974	5,974	5,974
Reserves & surplus	343,536	383,627	453,457	530,187	615,110
Shareholders' fund	349,510	389,609	459,431	536,161	621,084
Total liab. and equities	601,148	654,295	756,615	843,845	932,940
Cash and cash eq.	63,952	36,505	34,937	45,664	41,132
Accounts receivables	22,028	30,351	51,254	45,279	60,215
Inventories	47,830	58,829	70,967	81,503	90,323
Other current assets	82,641	98,852	110,393	140,366	160,574
Investments	217,826	251,098	302,679	343,485	385,927
Net fixed assets	152,455	180,453	191,379	190,500	195,826
CWIP	28,912	15,215	12,015	14,056	15,950
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(14,497)	(17,008)	(17,008)	(17,008)	(17,008)
Other assets	0	0	0	0	0
Total assets	601,148	654,295	756,615	843,845	932,940

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	44,960	38,916	63,662	70,598	64,771
Capital expenditures	(35,974)	(38,811)	(36,800)	(32,041)	(41,894)
Change in investments	(42,497)	(33,272)	(51,580)	(40,806)	(42,442)
Other investing cash flows	11,995	20,759	21,364	24,036	25,110
Cash flow from investing	(66,476)	(51,324)	(67,016)	(48,811)	(59,226)
Equities issued/Others	25,149	1,153	(1,153)	0	0
Debt raised/repaid	46,333	(10,528)	(5,403)	(4,694)	(4,077)
Interest expenses	(3,963)	(2,230)	(2,680)	(2,948)	(3,317)
Dividends paid	(2,922)	(9,315)	(9,315)	(9,315)	(9,315)
Other financing cash flows	1,452	3,508	14,977	0	0
Cash flow from financing	66,049	(17,412)	(3,574)	(16,957)	(16,709)
Chg in cash & cash eq.	44,533	(29,820)	(6,928)	4,830	(11,165)
Closing cash & cash eq.	63,952	36,505	34,937	45,664	41,132

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	7.9	39.7	52.6	69.3	75.9
Adjusted EPS	7.9	39.7	52.6	69.3	75.9
Dividend per share	2.4	7.5	7.5	7.5	7.5
Book value per share	281.4	313.7	369.9	431.7	500.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.4	2.6	1.9	1.7	1.5
EV/EBITDA	22.0	21.4	15.4	12.4	10.9
Adjusted P/E	157.8	31.5	23.8	18.1	16.5
P/BV	4.4	4.0	3.4	2.9	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	(91.3)	75.8	74.8	74.9	74.5
Interest burden (PBT/EBIT)	39.8	93.5	97.0	97.5	97.4
EBIT margin (EBIT/Revenue)	13.0	11.6	11.4	13.0	12.9
Asset turnover (Rev./Avg TA)	109.9	129.9	161.2	162.5	158.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.1
Adjusted ROAE	(6.0)	12.8	15.4	17.3	16.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(0.5)	28.7	37.3	14.8	10.8
EBITDA	7.6	0.9	41.7	27.7	11.7
Adjusted EPS	(72.3)	401.5	32.3	31.7	9.5
Profitability & Return ratios (%)					
EBITDA margin	15.3	12.0	12.4	13.8	13.9
EBIT margin	13.0	11.6	11.4	13.0	12.9
Adjusted profit margin	2.2	8.6	8.3	9.5	9.4
Adjusted ROAE	2.8	13.4	15.4	17.3	16.3
ROCE	5.8	11.8	13.8	15.9	15.3
Working capital days (days)					
Receivables	21	17	19	19	19
Inventory	53	34	30	31	31
Payables	112	108	90	86	81
Ratios (x)					
Gross asset turnover	0.7	0.6	0.5	0.5	0.5
Current ratio	1.2	1.1	1.1	1.2	1.4
Net interest coverage ratio	(14.6)	(29.9)	(33.6)	(40.0)	(39.1)
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

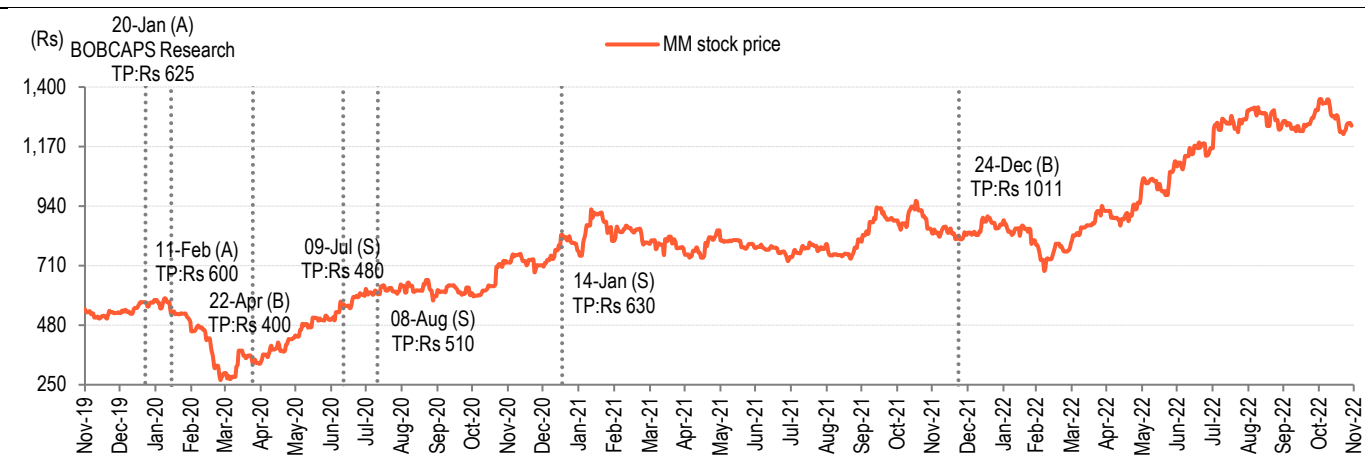
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): MAHINDRA & MAHINDRA (MM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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