

Company update

Automobiles

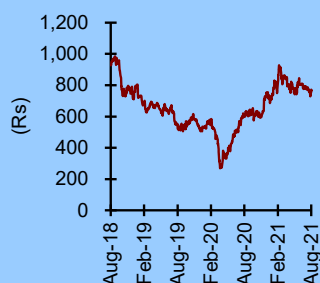
Target price: Rs1,049

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	19.4	19.4	19.4
Institutional investors	66.2	66.3	66.2
MFs and other	10.8	10.4	9.9
FIs/Banks	0.2	0.2	0.3
Insurance Co	17.2	10.4	10.4
FII	38.0	45.3	45.6
Others	14.4	14.3	14.4

Source: NSE

Price chart



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INDIA

Mahindra & Mahindra

BUY

Maintained

Rs779

XUV700 could ring a Creta like bell for M&M

Mahindra & Mahindra's (M&M) launched its much-awaited mid-size SUV *XUV700* which has several segment-first features on interiors, exteriors (e.g. ADAS, smart door handles) with class-leading power (155-200hp) and an attractive price (ex-showroom: Rs1.2mn-1.5mn). The product is also the first to be branded under the exclusive SUV-only M&M logo (Refer: Chart 1). Our first impression of the product remains favourable and with consumers increasingly preferring the SUV body type (Q1FY22 volume contribution: ~46% for domestic PV market (ex-Vans)), we believe, *XUV700* (aided by *Thar*) could set M&M on the path of profitable market share gains in the segment. Investor confidence in M&M's right to win back PV market share is also likely to be boosted by this launch. Valuations remain inexpensive. Maintain BUY.

Key highlights of the product:

- **Plenty of power in the variants:** *XUV700* is being offered in two series- base version (MX) and advanced version (AdrenoX (AX)). Both versions will be available in petrol and diesel powertrains with peak specs of 200hp/380Nm in turbo-petrol version, while the top end diesel version can clock 185hp/450Nm. These would be segment leading in mid-SUV category. Both powertrains would also be available in 6-speed manual and automatic gearbox options along with another segment-first feature of all-wheel-drive (AWD).
- **High emphasis on safety with technology:** *XUV700* is coming loaded with segment first ADAS features which includes forward collision warning, autonomous emergency braking, lane departure/lane keep assist, driver drowsiness detection, traffic sign detection etc. All these features supplement the segment high 7 airbags.
- **Strong design with feature loaded interiors:** *XUV700*, from a road presence basis, would definitely standpoint with its proportions and a bold front fascia. Consumers in India definitely prefer better road presence in SUVs (key reason why hatch crossovers have failed to grab volumes in SUV segment). Dual 10.25-inch screen (infotainment, instrument cluster) is amongst the largest in the industry with built in Amazon *Alexa* virtual assistant. Refer to Table 1 for more features.
- **Pricing could be the big draw:** *XUV700* launch prices have been kept extremely appealing vis-à-vis rivals considering the features and technology being offered (Refer to Table 2). We believe these prices could be introductory in nature and might witness increases going ahead; however, overall package seems strong enough to give segment leaders (e.g. *Creta*, *Seltos*) a run for their money.
- **Maintain BUY:** We expect M&M to witness pickup across PVs/tractors as supply-chain woes moderate and demand accelerates. We maintain our **BUY** rating on the stock with an unchanged SoTP-based target price of Rs1,049/share.

Market Cap	Rs968bn/US\$13.0bn	Year to Mar *	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	MAHM.BO / MM IN	Revenue (Rs mn)	4,48,655	4,45,744	5,51,427	6,24,804
Shares Outstanding (mn)	1,243.2	Net Profit (Rs mn)	7,397	9,229	49,208	58,761
52-week Range (Rs)	952/566	Dil. EPS (Rs)	28.6	33.0	39.6	47.3
Free Float (%)	80.4	% Chg YoY	(38.0)	16.9	22.1	21.4
FII (%)	39.0	P/E (x)	27.3	23.6	19.7	16.5
Daily Volume (US\$/'000)	47,070	CEPS (Rs)	26.0	27.5	65.2	76.0
Absolute Return 3m (%)	2.5	EV/E (x)	15.0	13.6	11.3	9.5
Absolute Return 12m (%)	23.3	Dividend Yield (%)	1.1	1.1	1.2	1.4
Sensex Return 3m (%)	14.6	RoCE (%)	13.6	13.4	14.3	15.7
Sensex Return 12m (%)	46.2	RoE (%)	10.2	11.7	13.2	14.2

Please refer to important disclosures at the end of this report

Chart 1: XUV700 looks promising from both the exterior and interiors

Source: Company website, I-Sec research, google.com

Table 1: Snapshot of key features offered in variants

MX Series	AdrenoX AX3	AdrenoX AX5	AdrenoX AX7
<ul style="list-style-type: none"> 20.32 cm (8") Infotainment 17.78 cm (7") Cluster Android Auto Smart Door handles LED Taillamp Steering mounted Switches Power Adjust ORVM with Turn Indicator Day Night IRVM R17 Steel Wheels 	Offered over MX <ul style="list-style-type: none"> Dual HD 26.03 cm (10.25") Infotainment and 26.03 cm (10.25") Digital Cluster Amazon Alexa Built-In Wireless Android Auto and Apple Car Play AdrenoX Connect with 60+ Connected features 6 Speakers and Sound Staging LED DRL and Front fog Lamps R17 Steel Wheels with covers 	Offered over AX3 <ul style="list-style-type: none"> Skyroof R17 Diamond Cut Alloy Wheels Curtain Airbags LED Clear-view Headlamps Sequential turn indicators Cornering lamps 	Offered over AX5 <ul style="list-style-type: none"> Advanced Driver Assistance System Driver Drowsiness Alert Smart Clean Zone Dual Zone Climate Control R18 Diamond Cut Alloy Leatherette Seat Leather Steering & Gear lever 6-Way Power seat with Memory Side Airbags

Source: Company data, I-Sec research

Table 2: Relative pricing snapshot of XUV700 with peers in mid-SUVs

Prices (Rs mn)	XUV700	Creta	Seltos	Harrier	Kushaq
Mid-level petrol	12.0	12.4	12.2	14.4	12.8
Top-end petrol	15.0	16.8	17.4	17.1	17.6
Mid- Diesel	12.5	13.3	13.0	14.4	12.8

Source: Company website, I-Sec research, google.com * all prices are ex-showroom, all models are manual transmission

Table 3: Volumes snapshot

Units	FY18	FY19	FY20	FY21	FY22E	FY23E
Utility Vehicles/Cars	2,48,859	2,66,596	1,98,307	1,63,150	2,30,671	2,58,417
% YoY	5.4	7.1	-25.6	-17.7	41.4	12.0
Commercial Vehicles	2,35,241	2,71,042	2,13,038	1,68,645	2,01,123	2,39,970
% YoY	13.9	15.2	-21.4	-20.8	19.3	19.3
Three Wheelers(3W)	57,638	71,394	59,796	20,557	28,335	33,838
% YoY	7.3	23.9	-16.2	-65.6	37.8	19.4
Total Auto	5,41,738	6,09,032	4,71,141	3,52,353	4,60,128	5,32,226
% YoY	9.1	12.4	-22.6	-25.2	30.6	15.7
Tractors	3,17,533	3,30,436	3,01,915	3,54,498	3,69,851	3,81,805
% YoY	20.7	4.1	-8.6	17.4	4.3	3.2

Source: Company data, I-Sec research

Valuation

Focused capital allocation strategy (RoE>18%) and continued success in core-SUV segment (via new launches- *XUV700*, *Thar*) are key focus points for investors. Enhanced focus towards electrification of commercial segments is also likely to improve M&M's competitive position in LCV segment. We expect H2 to witness pickup across PVs/tractors as supply-chain woes moderate while demand remains firm. We maintain our target multiple to 8.5x FY23E EBITDA (Rs710/share) and value subsidiaries at Rs339/share to arrive at an unchanged SoTP-based target price of Rs1,049/share. We maintain our **BUY** rating on the stock.

Key downside risk: Sharp slowdown in tractor sales

Key upside risk: Faster than expected pick-up of new launches (e.g. *XUV700*)

Table 4: Valuation by SoTP methodology

(Rs mn)

Business	(FY23E) (Rs mn)	EV/E (x)	Current market value (Rs mn)	Stake (%)	Rs/ Share	Remarks
M&M + MVML EBITDA	96,481	8.5	8,20,085		660	Upgrade target multiple on the back superior auto growth outlook
Value of outstanding debt/net cash			(62,708)		(50)	
Value of equity (M&M+MVML)			8,82,793	8,82,793	710	
Listed Strategic Investments/Subsidiaries	CMP/ I-Sec	TP	Total Shares	Market Value		
Mahindra Life Spaces (Listed)	748	51	38,578	51.4%	16	At CMP
M&M Finance (Listed)	135	1,236	1,66,795	52.2%	70	As per I-Sec target price
Mahindra CIE/CIE Spa (Listed)			32,594		26	As per I-Sec target price, CMP
M&M Holidays & Resorts (Listed)	309	134	42,202	67.3%	23	At CMP
Tech Mahindra (Listed)	1080	966	10,43,064	26.0%	218	As per I-Sec target price
Mahindra Logistics (Listed)	599	71	42,817	58.5%	20	As per I-Sec target price
Other subsidiaries and JVs			1,44,447		56	At 0.5x book Value
Equity Value of subsidiaries/investments			4,21,563		339	20% holding company discount
Total value (Post 20% group discount)			13,04,356		1,049	

Source: Bloomberg, Company data and I-Sec research

Financial summary (M&M+ MVML)

Table 5: Profit and loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	4,48,655	4,45,744	5,51,427	6,24,804
Operating Expenses	3,85,150	3,75,979	4,68,587	5,28,323
EBITDA	63,506	69,766	82,841	96,481
% margins	14.2	15.7	15.0	15.4
Depreciation & Amortisation	23,631	23,624	28,729	32,089
Gross Interest	1,245	3,957	3,134	2,909
Other Income	15,391	11,973	13,769	15,834
Recurring PBT	54,021	54,158	64,747	77,317
Add: Extraordinaries	28,112	31,745	-	-
Less: Taxes	18,513	13,183	15,539	18,556
Net Income (Reported)	7,397	9,229	49,208	58,761
Recurring Net Income	35,509	40,974	49,208	58,761

Source: Company data, I-Sec research

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	1,36,439	1,61,787	1,76,643	2,00,319
of which cash & cash eqv.	42,365	62,556	60,066	59,966
Total Current Liabilities & Provisions	1,08,244	1,59,306	1,72,724	1,83,201
Net Current Assets	28,195	2,481	3,918	17,118
Investments	1,75,329	2,22,862	2,47,862	2,72,862
of which				
Strategic/Group	1,53,433	1,77,977	1,92,977	2,07,977
Other Marketable	21,897	44,885	54,885	64,885
Net Fixed Assets	1,69,094	1,80,425	1,86,696	1,89,607
of which				
intangibles				
Capital Work-in-Progress	48,582	61,255	61,255	61,255
Goodwill				
Total Assets	4,09,936	4,58,904	4,91,612	5,32,724
Liabilities				
Borrowings	31,530	72,143	67,143	62,143
Deferred Tax Liability	15,068	14,497	14,497	14,497
Equity Share Capital	5,965	5,974	5,974	5,974
Face Value per share (Rs)	5	5	5	5
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	3,46,291	3,53,212	3,90,920	4,37,032
Total Liabilities	4,09,936	4,58,904	4,91,612	5,32,724

Source: Company data, I-Sec research

Table 9: Quarterly trend
(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	1,15,903	1,40,565	1,33,382	1,17,628
% growth (YoY)	107.4	21.3	-5.1	-11.8
EBITDA	20,573	23,856	19,605	16,317
Core Margin (%)	17.8	17.0	14.7	13.9
Other income	3,839	5,618	1,178	2,052
Add: Extra ordinaries	-11,495	-12,140	-8,399	-785
Reported Net profit	1,618	5,309	1,625	8,556

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	51,340	50,968	65,511	76,559
Working Capital Changes	(10,480)	46,991	(5,270)	(14,844)
Capital Commitments	(47,755)	(34,955)	(35,000)	(35,000)
Free Cashflow	(6,895)	63,003	25,241	26,716
Cashflow from Investing Activities	25,921	(11,015)	3,769	5,834
Issue of Share Capital	7	9	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	4,728	40,613	(5,000)	(5,000)
Dividend paid	(10,623)	(10,454)	(11,500)	(12,650)
Extraordinary Items	(28,112)	(31,745)	-	-
Chg. in Cash & Bank balances	4,051	20,200	(2,490)	(99)

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	28.6	33.0	39.6	47.3
Diluted Recurring EPS	28.6	33.0	39.6	47.3
Recurring Cash EPS	26.0	27.5	65.2	76.0
Dividend per share (DPS)	8.9	8.8	9.6	10.6
Book Value per share (BV)	290.3	295.6	327.2	365.8
Growth Ratios (%)				
Operating Income	(15.1)	(0.6)	23.7	13.3
EBITDA	(15.7)	9.9	18.7	16.5
Recurring Net Income	(34.5)	15.4	20.1	19.4
Diluted Recurring EPS	(38.0)	16.9	22.1	21.4
Diluted Recurring CEPS	(58.1)	5.7	137.2	16.6
P/E	27.3	23.6	19.7	16.5
P/CEPS	29.9	28.3	11.9	10.2
P/BV	2.7	2.6	2.4	2.1
EV / EBITDA	15.0	13.6	11.3	9.5
EV / Operating Income	2.1	2.1	1.7	1.5
Operating Ratios (%)				
Raw Material/Sales	66.6	67.7	69.5	69.2
Other Income / PBT	28.5	22.1	21.3	20.5
Effective Tax Rate	34.3	24.3	24.0	24.0
NWC / Total Assets	(8.8)	(22.9)	(22.6)	(20.2)
Inventory Turnover (days)	10.2	10.1	10.7	10.0
Receivables (days)	27.3	20.9	16.4	17.7
Payables (days)	107.3	107.4	102.8	94.5
D/E Ratio	13.5	24.5	20.9	17.5

Return/Profitability Ratios (%)

Recurring Net Income Margins	7.9	9.2	8.9	9.4
RoCE	13.6	13.4	14.3	15.7
RoNW	10.2	11.7	13.2	14.2
Dividend Payout Ratio	143.6	113.3	23.4	21.5
Dividend Yield	1.2	1.2	1.3	1.4
EBITDA Margins	14.2	15.7	15.0	15.4

Source: Company data, I-Sec research

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