

### Q1FY22 result review and earnings revision

## Automobiles

Target price: Rs1,049

### Earnings revision\*

(%)	FY22E	FY23E
Sales	↑ 3.3	↑ 1.7
EBITDA	↑ 1.3	↓ 1.2
EPS	↑ 2.1	↓ 0.5

\* M&M + MVML

### Target price revision

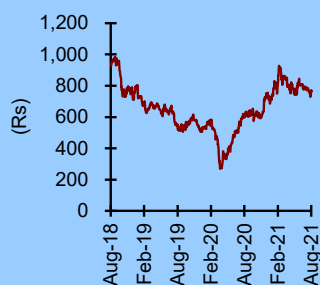
Rs1,049 from Rs1,040

### 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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# Mahindra & Mahindra

**BUY**

Maintained

**Rs758**

## All eyes on growth recovery

Mahindra & Mahindra's (M&M) Q1FY22 result was above consensus estimates as EBITDA margin came in at 13.9% (down only 83bps QoQ). Margins drop was led by automotive segment (EBIT margin: 1.7%, down 327bps), while FES held ground (EBIT margin: 20.3%, down 168bps). Management's focus towards improving global subsidiary's performance is bearing fruit with four consecutive quarters of positive EBIT (highest ever in FES subs at ~Rs1bn). Management remains focused on both tractor business (volume and market share gains) and domestic farm implements business (M&M has ~10% market share/TAM: ~Rs 50bn). Valuations remain attractive. On the automotive side, XUV700 launch coupled with existing products (e.g. *Thar*) is likely to aid market share gains in H2FY22/FY23. Valuations remain inexpensive. Maintain BUY.

- **Key highlights of the quarter:** Revenue in Q1FY21 declined 12% QoQ to ~Rs118bn due to ~23% fall in automotive revenue, while FES sales grew ~7%. EBITDA margin contracted 83bps to 13.9% even as gross margin fell marginal 48bps QoQ (commodity rise, regulatory costs) and dropped to 30.4% (down 481bps YoY). Superior fixed cost reduction supported margins (other exp. down 121bps QoQ). Adj. PAT was down ~7%. M&M took impairment charge of ~Rs785mn.
- **Key concall takeaways:** Management indicated: a) Supply-side issues on semiconductor for ECUs are likely to improve Q3 onwards; b) tractor implements and farm machinery segment has a market size of Rs50bn (organized) where MM has 10% market share; c) FES revenues grew 7% QoQ and reached market share of 41.8% (highest in 8 quarters); d) FES global subsidiaries too reported positive PBIT at ~Rs1.1bn; e) capex plan for FY22-24 is pegged at Rs120bn with auto at Rs90bn and balance FES at Rs30bn; e) profitability impacted due to higher provisions (~Rs25.2bn) in MMFSL impacted by higher GNPA (15.5%); f) demand for EV-3W in commercial segment is strong with good traction from e-commerce industry (i.e. Amazon); and g) XUV700 will be launched in Aug'21 and deliveries will begin Q3 onwards; *Thar* and *XUV300* continue to witness strong orderbook of 39k+ and 10k+ bookings, respectively; Bolero Neo bookings stand at 5k in 3 weeks.
- **Maintain BUY:** 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 competitive position in the LCV segment. We expect H2 to witness pickup across PVs/tractors as supply-chain woes moderate while demand remains firm. We revise our EPS estimates by 2.1%/-0.5% for FY22E/23E, respectively, maintain our target multiple to 8.5x FY23E EBITDA (Rs710/share) and value subsidiaries at Rs339/share to arrive at SoTP-based target price of Rs1,049/share (earlier: Rs1,040). We maintain our **BUY** rating on the stock.

Market Cap	Rs943bn/US\$12.7bn	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)	928/575	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)	26.5	23.0	19.2	16.0
Daily Volume (US\$/'000)	50,970	CEPS (Rs)	26.0	27.5	65.2	76.0
Absolute Return 3m (%)	2.6	EV/E (x)	14.6	13.2	11.0	9.3
Absolute Return 12m (%)	25.8	Dividend Yield (%)	1.2	1.2	1.3	1.4
Sensex Return 3m (%)	11.6	RoCE (%)	13.6	13.4	14.3	15.7
Sensex Return 12m (%)	44.3	RoE (%)	10.2	11.7	13.2	14.2

\*(M&M + MVML)

**Table 1: M&M + MVML Q1FY22 result summary**

(Rs mn, year ending March 31)

M&M + MVML	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Net operating income</b>	<b>1,17,628</b>	<b>55,894</b>	110	<b>1,33,382</b>	(12)
Raw material costs	81,922	36,240	126	92,255	(11)
Employee costs	8,855	7,704	15	7,964	11
Other expenses	10,534	6,219	69	13,559	(22)
<b>Total operating expenses</b>	<b>1,01,311</b>	<b>50,163</b>	<b>102.0</b>	<b>1,13,777</b>	<b>(11)</b>
<b>Reported EBITDA</b>	<b>16,317</b>	<b>5,732</b>	<b>184.7</b>	<b>19,605</b>	<b>(17)</b>
<b>Reported EBITDA margin</b>	<b>13.9</b>	<b>10.3</b>	<b>362 bps</b>	<b>14.7</b>	<b>-83 bps</b>
Depreciation and Amortization	5,586	5,813	(4)	5,899	(5)
Other income	2,052	1,338	53	1,178	74
Finance costs	714	768	(7)	971	(26)
<b>PBT</b>	<b>12,069</b>	<b>488</b>	2,371	<b>13,913</b>	(13)
Exceptional Items	(785)	288	-	(8,399)	NC
Tax	2,728	99	2,658	3,888	(30)
<b>Reported PAT</b>	<b>8,556</b>	<b>678</b>	1,162	<b>1,625</b>	426
<b>Adjusted PAT</b>	<b>9,341</b>	<b>389</b>	2,298	<b>10,024</b>	(7)

Source: Company data, I-Sec research

**Table 2: M&M + MVML Q1FY22 segmental earnings breakdown**

(Rs mn, year ending March 31)

M&M + MVML	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenue</b>					
Automotive	60,502	20,395	196.7	78,581	-23.0
FES	53,186	33,408	59.2	49,755	6.9
Others (Net of inter-segment)	4,557	2,206	106.5	5,904	-22.8
<b>Total</b>	<b>1,18,245</b>	<b>56,009</b>	<b>111.1</b>	<b>1,34,240</b>	<b>-11.9</b>
<b>Share of Revenue</b>					
Automotive	51%	36%	1475 bps	59%	-737 bps
FES	45%	60%	-1467 bps	37%	792 bps
Others	4%	4%	-9 bps	4%	-54 bps
<b>EBIT</b>					
Automotive	1,025	835	22.8	3,900	-73.7
FES	10,811	5,893	83.5	10,950	-1.3
Others	139	44	217.5	(192)	-172.1
<b>EBIT Margin (%)</b>					
Automotive	1.7%	4.1%	-240 bps	5.0%	-327 bps
FES	20.3%	18%	269 bps	22.0%	-168 bps
Others	3.0%	2%	106 bps	-3.3%	630 bps

Source: Company data, I-Sec research

**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
<b>Total Auto</b>	<b>5,41,738</b>	<b>6,09,032</b>	<b>4,71,141</b>	<b>3,52,353</b>	<b>4,60,128</b>	<b>5,32,226</b>
% YoY	9.1	12.4	-22.6	-25.2	30.6	15.7
<b>Tractors</b>	<b>3,17,533</b>	<b>3,30,436</b>	<b>3,01,915</b>	<b>3,54,498</b>	<b>3,69,851</b>	<b>3,81,805</b>
% YoY	20.7	4.1	-8.6	17.4	4.3	3.2

Source: Company data, I-Sec research

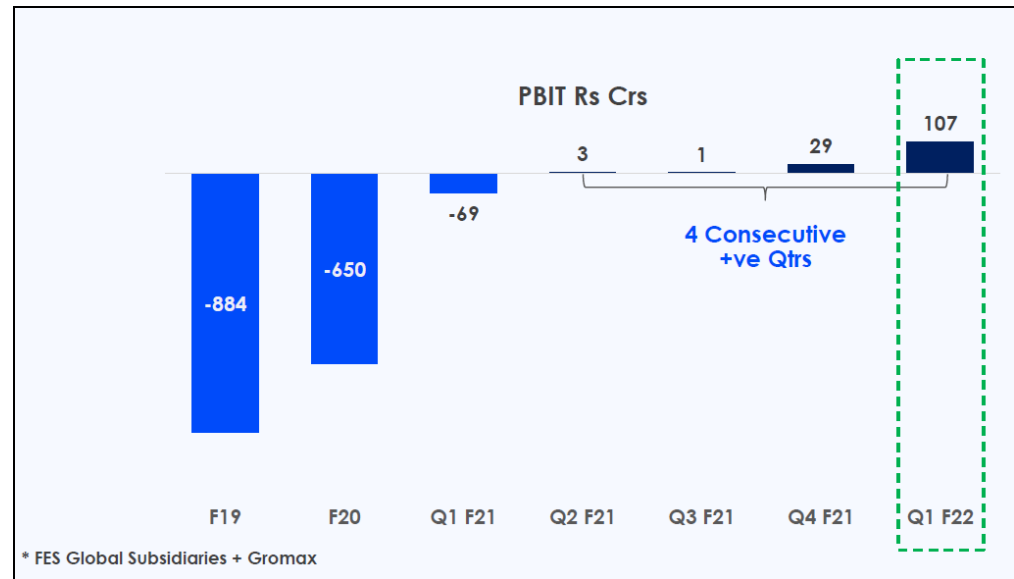
**Table 4: Earnings revision (M&M + MVML)**

(Rs mn, year ending March 31)

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	5,33,930	5,51,427	3.3	6,14,541	6,24,804	1.7
EBITDA	81,775	82,841	1.3	97,621	96,481	(1.2)
PAT	48,216	49,208	2.1	59,081	58,761	(0.5)
EPS (Rs)	38.8	39.6	2.1	47.5	47.3	(0.5)

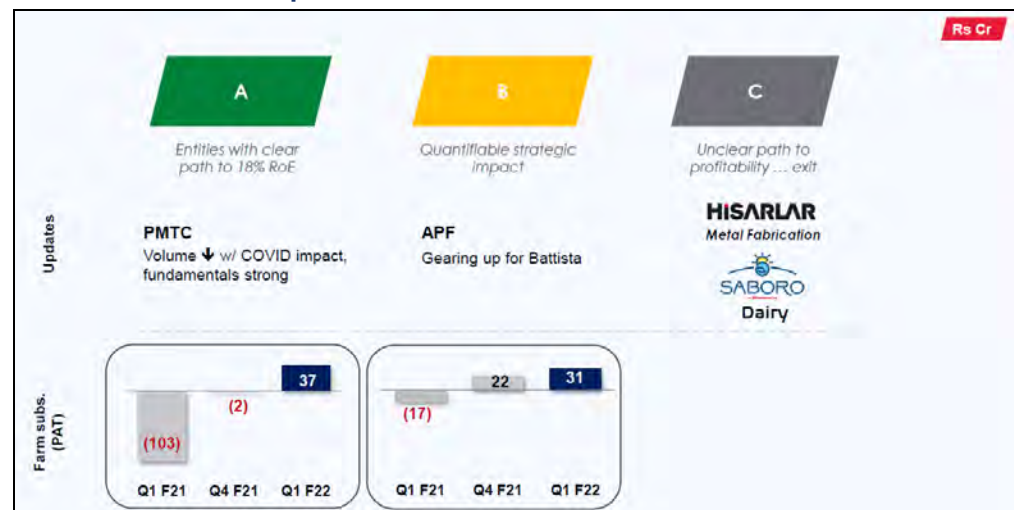
Source: Company data, I-Sec research

Chart 1: FES subsidiary turnaround gathers pace



Source: Company presentation

Chart 2: Focus on capital allocation continues











Source: Company presentation

Chart 3: Flurry of new launches by 2026



Source: Company presentation

Chart 4: Path to 18% RoE target

		F20	F21	F26 TARGET
	Automotive	+	-	++
	Farm	★	★	★
	Tech Mahindra	++	++	+++
	Financial Services	+	+	++
	Hospitality	+	-	++
	Real Estate	-	-	++
	Logistics	+	+	+++
	Unlisted Growth Gems	-	+	++
	Digital platforms	-	+	+++

Source: Company presentation

## 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 competitive position in the LCV segment. We expect H2 to witness pickup across PVs/tractors as supply-chain woes moderate while demand remains firm. We revise our EPS estimates by 2.1%/-0.5% for FY22E/23E, respectively, maintain our target multiple to 8.5x FY23E EBITDA (Rs710/share) and value subsidiaries at Rs339/share to arrive at SoTP-based target price of Rs1,049/share (earlier: Rs1,040). We maintain our **BUY** rating on the stock.

Table 5: 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)	
<b>Value of equity (M&amp;M+MVML)</b>			<b>8,82,793</b>	<b>8,82,793</b>	<b>710</b>	
<b>Listed Strategic Investments/Subsidiaries</b>	<b>CMP/ I-Sec</b>	<b>TP</b>	<b>Total Shares</b>	<b>Market Value</b>		
Mahindra Life Spaces (Listed)	752	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
M&M Holidays & Resorts (Listed)	316	134	42,202	67.3%	23	At CMP
Tech Mahindra (Listed)	1080	966	10,43,064	26.0%	218	At CMP
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
<b>Equity Value of subsidiaries/investments</b>			<b>4,21,563</b>		<b>339</b>	<b>20% holding company discount</b>
<b>Total value (Post 20% group discount)</b>			<b>13,04,356</b>		<b>1,049</b>	

Source: Bloomberg, Company data and I-Sec research



## Financial summary (M&M+ MVML)

**Table 6: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Income (Sales)</b>	<b>4,48,655</b>	<b>4,45,744</b>	<b>5,51,427</b>	<b>6,24,804</b>
<b>Operating Expenses</b>	<b>3,85,150</b>	<b>3,75,979</b>	<b>4,68,587</b>	<b>5,28,323</b>
<b>EBITDA</b>	<b>63,506</b>	<b>69,766</b>	<b>82,841</b>	<b>96,481</b>
% 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
<b>Recurring PBT</b>	<b>54,021</b>	<b>54,158</b>	<b>64,747</b>	<b>77,317</b>
Add: Extraordinaries	28,112	31,745	-	-
Less: Taxes	18,513	13,183	15,539	18,556
<b>Net Income (Reported)</b>	<b>7,397</b>	<b>9,229</b>	<b>49,208</b>	<b>58,761</b>
<b>Recurring Net Income</b>	<b>35,509</b>	<b>40,974</b>	<b>49,208</b>	<b>58,761</b>

Source: Company data, I-Sec research

**Table 7: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
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
<b>Net Current Assets</b>	<b>28,195</b>	<b>2,481</b>	<b>3,918</b>	<b>17,118</b>
<b>Investments</b>	<b>1,75,329</b>	<b>2,22,862</b>	<b>2,47,862</b>	<b>2,72,862</b>
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
<b>Net Fixed Assets</b>	<b>1,69,094</b>	<b>1,80,425</b>	<b>1,86,696</b>	<b>1,89,607</b>
of which				
intangibles				
Capital Work-in-Progress	48,582	61,255	61,255	61,255
<b>Goodwill</b>				
<b>Total Assets</b>	<b>4,09,936</b>	<b>4,58,904</b>	<b>4,91,612</b>	<b>5,32,724</b>
<b>Liabilities</b>				
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.	-	-	-	-
<b>Net Worth</b>	<b>3,46,291</b>	<b>3,53,212</b>	<b>3,90,920</b>	<b>4,37,032</b>
<b>Total Liabilities</b>	<b>4,09,936</b>	<b>4,58,904</b>	<b>4,91,612</b>	<b>5,32,724</b>

Source: Company data, I-Sec research

**Table 10: 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
<b>Reported Net profit</b>	<b>1,618</b>	<b>5,309</b>	<b>1,625</b>	<b>8,556</b>

Source: Company data, I-Sec research

**Table 8: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>51,340</b>	<b>50,968</b>	<b>65,511</b>	<b>76,559</b>
Working Capital Changes	(10,480)	46,991	(5,270)	(14,844)
Capital Commitments	(47,755)	(34,955)	(35,000)	(35,000)
<b>Free Cashflow</b>	<b>(6,895)</b>	<b>63,003</b>	<b>25,241</b>	<b>26,716</b>
<b>Cashflow from Investing Activities</b>	<b>25,921</b>	<b>(11,015)</b>	<b>3,769</b>	<b>5,834</b>
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)
<b>Extraordinary Items</b>	<b>(28,112)</b>	<b>(31,745)</b>	-	-
<b>Chg. in Cash &amp; Bank balances</b>	<b>4,051</b>	<b>20,200</b>	<b>(2,490)</b>	<b>(99)</b>

Source: Company data, I-Sec research

**Table 9: Key ratios**
*(Year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
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
<b>Growth Ratios (%)</b>				
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	26.5	23.0	19.2	16.0
P/CEPS	29.1	27.6	11.6	10.0
P/BV	2.6	2.6	2.3	2.1
EV / EBITDA	14.6	13.2	11.0	9.3
EV / Operating Income	2.1	2.1	1.6	1.4
<b>Operating Ratios (%)</b>				
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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