

Mahindra & Mahindra Ltd (M&M)

- New Product Launches to drive Growth

Recommendation : Buy
CMP : Rs. 1045.10
Sector : Automobiles

NSE Code : M&M
BSE Code : 500520

Financial break up

Market Cap (Rs. Cr) : 129801
EPS (FY24) : 65.10
PE : 16.05
Face Value : Rs.5/-

Share Holding Pattern:

Promoters : 19.47
Others : 80.53

Background: M&M's Auto segment largely comprises of its LCV and UV sales. The CV industry is likely to see cyclical recovery whereas the UV segment is benefiting from change in customer preference. M&M lost share in both segments due to supply issues in FY21, but has lined up exciting launches to regain its lost share. Between FY21 and FY26, it has laid out a plan to launch 14 LCV products and 9 UV products to address increasing competition. It will be focusing on electrification as well. Its last few UV launches –XUV300 and New Thar have reconfirmed its capability to produce winning products.

LCV Segment - Market Leadership

Over the last five years, the industry weathered major challenges on account of events like demonetization, NBFC crisis, implementation of axle load norms, changes to insurance norms, and transition to BS-VI emission norms. A culmination of multiple factors mentioned above, particularly post the second of half FY19, dampened demand for CVs. The Covid 19 pandemic brought the entire economy to a grinding halt, affecting profitability and sustainability of transporters due to lack of freight demand. The industry is, however, now witnessing a gradual pick-up as consumption demand and industrial activity have started gaining pace. M&M being a market leader in the segment is likely to benefit from recovery in the LCV segment.

Thar & XUV 300

Brands like Thar, XUV 300, Scorpio, and Bolero are recording strong booking momentum. Just before lockdown, Thar was recording 5-6k bookings pm, with waiting period as high as 10 months. XUV 300 has been recording 6k+ bookings pm with 12+ weeks of waiting period. The petrol variant accounts for 48% of XUV 300 volumes, indicating strong demand from urban areas. Scorpio and Bolero, M&M's conventional brands are also showing momentum, together selling 10k+ units pm, with 6-8 weeks of waiting period.

Electric Vehicles

M&M has earmarked Rs30bn capex for EVs to create two BEV platforms, and to launch EV products and electrified powertrains on monocoque platforms. The management has indicated that while it understands the need to invest in the EV space, it will focus more on building partnerships rather than on attempting to build core BMS on its own.

Outlook & Valuation

We recommend a **Buy** on M&M for long term investors. Given the Government thrust on Electric Vehicles Sector, Strong Demand, Launch of new products, and High Rural Income are key positives for the stock. At the CMP of INR 1045.10, the stock trades at 16.05x EPS of FY24. The key risks to the business include Competition Risk, Steep increase in Raw Material Cost and Monsoon Risk are the key risks of the company.

Investment Arguments

Company Profile:

Mahindra & Mahindra Limited ("M&M") or ("Mahindra") is the Flagship company of the Mahindra Group, which consists of diverse business interests across the globe. At Mahindra, the company constantly pushes the boundaries of possibilities to create products and technology led services that enable our customers and stakeholders to Rise. By focussing on customer centricity, delivering accessible technology, innovation and enhancing people capabilities, the company continues to drive growth in the domestic market while pursuing global expansion.

M&M's Auto segment largely comprises of its LCV and UV sales. The CV industry is likely to see cyclical recovery whereas the UV segment is benefiting from change in customer preference. M&M lost share in both segments due to supply issues in FY21, but has lined up exciting launches to regain its lost share. Between FY21 and FY26, it has laid out a plan to launch 14 LCV products and 9 UV products to address increasing competition. It will be focusing on electrification as well. Its last few UV launches –XUV300 and New Thar have reconfirmed its capability to produce winning products. The New Thar is receiving overwhelming response with 5-6k bookings pm and waiting period as high as 10 months.

Demand Revival

The softening of demand in the last three years is a result of tapering of GDP growth and increasing cost of ownership due to addition of multiple safety features and implementation of stricter emission norms during the last few years, which was further aggravated by lockdowns and loss of income due to COVID-19 in F21. However the industry prospects are bright and the industry is likely to witness about 8% growth in volumes in the medium term.

LCV Segment – Market Leadership

Over the last five years, the industry weathered major challenges on account of events like demonetization, NBFC crisis, implementation of axle load norms, changes to insurance norms, and transition to BS-VI emission norms. A culmination of multiple factors mentioned above, particularly post the second of half FY19, dampened demand for CVs. Recently, the pandemic brought the entire economy to a grinding halt, affecting profitability and sustainability of transporters due to lack of freight demand. The industry is, however, now witnessing a gradual pick-up in quarterly sales, as consumption demand and industrial activity have started gaining pace. M&M being a market leader in the segment is likely to benefit from recovery in the LCV segment.

In its LCV portfolio, M&M intends to add 14 new products by 2026 to strengthen its #1 position in the industry. These include last mile mobility, SCV range, new urban pickup range, and conventional pickup range.

New Launches - Focus Area

The shift towards UVs is a global trend and is visible in key regions like USA, Europe and China. According to JATO, global SUV penetration increased from 22.4% in 2014 to 36.4 in 2018. US leads with 65% penetration (75% including pickups), followed by China at 50%+, and Europe with 40%+ penetration. In India, it reached 39% in FY21 and the company expects it to increase further, given the huge list of new launches in the coming years.

The company expects growth to be driven by improving macroeconomic situation, increasing disposable incomes, and relatively stable cost of vehicle ownership owing to steady fuel prices.

Other factors aiding demand would be: increased urbanization, Finance Commission payouts, and easy availability of finance. With global automakers flooding India with new models to capitalize on the growth opportunity, buyers would be spoilt for choice. The proportion of replacement demand would rise, as car owners opt for newer models due to higher affordability, competitively-priced launches, and easy availability of finance.

The pace of increase in UV penetration has accelerated significantly in the last couple of years owing to new products from players like KIA Motors, Hyundai, and Tata Motors. Historically as well, the industry has seen spurts in UV penetration in years when launch pipeline was strong.

Thar and XUV 300 - A Roaring success

Brands like Thar, XUV 300, Scorpio, and Bolero are recording strong booking momentum. Just before lockdown, Thar was recording 5-6k bookings pm, with waiting period as high as 10 months. XUV 300 has been recording 6k+ bookings pm with 12+ weeks of waiting period. The petrol variant accounts for 48% of XUV 300 volumes, indicating strong demand from urban areas. Scorpio and Bolero, M&M's conventional brands are also showing momentum, together selling 10k+ units pm, with 6-8 weeks of waiting period.

The management has shared some details about its products and platforms in the pipeline. For SUVs, it has indicated (a) two body-on-frame platforms, which will have the New Scorpio, the 5-door Thar and the all-new Bolero, and (b) two monocoque platforms, which will have the XUV 700, 620, V201 and 300, and (c) two dedicated Born EV (BEV) platforms for fully-electric SUVs. The monocoque platforms can also be electrified using electric powertrain technology. In total, M&M intends to launch 9 new SUV products by 2026.

Electric Vehicles

M&M has earmarked Rs30bn capex for EVs to create two BEV platforms, and to launch EV products and electrified powertrains on monocoque platforms. This Rs30bn was previously earmarked for a JV with Ford, which was later called off. The management has indicated that while it understands the need to invest in the EV space, it will focus more on building partnerships rather than on attempting to build core BMS on its own. It has also indicated that if it does not get the returns it has set out to, the capex could be rolled back as well.

The company believes the immediate segment that will see electrification is 3Ws, where M&M has launched electric Treo. The current market size of e-3Ws is 88,378 units (FY21), based on Society of Manufacturers of Electric Vehicles (SMEV) data. Sales declined 38% in FY21 due to incessant lockdowns and commuters' fear of public mobility. However, it is worth noting that the actual size of the market may be much higher, as majority of the e-3W segment is highly unorganised and run on lead acid batteries.

There are three product categories in the e-3W segment, namely e-auto (L5M), e-rickshaw and e-rickshaw with cart (L3/L5N). E-rickshaw with cart is the goods carrier while e-auto and e-rickshaw are passenger carriers. The e-3W segment is dominated by passenger carriers, with approximately 93% share, while the cargo carriers are limited to approximately 7%.

Demand for cargo e-3Ws is likely to be sustainable, as e-commerce is projected to grow, indicating increased need for last mile delivery. E-commerce and delivery companies have announced their plans to add EVs to their fleet.

Capex Plan

Investments increased from Rs15.14bn in FY20 to Rs28.21bn in FY21. This increase was majorly due to the debt repayment exercise to restructure the subsidiaries' debt-to-equity ratio and capital structure. MANA, APF had significant investments including debt repayments in FY20 and FY21, which will start to decrease in FY22.

In FY21, OCF from the Auto and Farm business was Rs100.22bn, of which Rs33.12bn went towards capex for the domestic AFS core business and Rs16.39bn towards investments into AFS subsidiaries (domestic and international). M&M received dividend of Rs5.25bn from group companies, into which it invested Rs19.35bn, a big chunk Rs16.41bn going into MMFSL. Going forward, the management expects the dividends received to fund the investments into group companies. Further, M&M repaid debt of Rs33.11bn for the restructuring purpose and raised borrowings of Rs37.86bn to deal with COVID.

For FY22-24, the management has given a directional number for capex and investments. Total capex of Rs120bn, with Rs60bn for core Auto, Rs30bn for tractors, and Rs30bn for EV.

Tractor Segment

Domestic tractor sales reached a new high on the back of consecutive good monsoons, leading to better reservoir levels. Along with good production, good prices and record government procurement helped to better yields for the farmers and the rural ecosystem. However, the company expects most of the drivers of FY22 growth to follow through in FY23 as well. Tractors is a cyclical industry, and as a trend in the last 15 years, each year of degrowth is followed by a few years of growth. The industry has grown by ~8.5% in the last 15 years. Monsoons remain the key driver for tractor demand.

High Farm Income

To supplement production, the government increased MSP of Kharif crops by an average 4.8% for FY21 and another 3.8% for FY22. For FY22, the highest absolute increase in MSP over the previous year has been recommended for sesamum (Rs452 per quintal) followed by tur and urad (Rs300 per quintal each). In case of groundnut and nigerseed, there has been an increase of Rs275 per quintal and Rs235 per quintal, respectively. The differential remuneration is aimed at encouraging crop diversification. For Rabi crops, the MSP hike was about 6% for FY21 and another 4% for FY22.

The government procurements have seen increases in FY22. Procurement improved in the year due to lifting of food grains by state governments under Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY), under which food grains are being distributed free of cost for three months to about 800mn beneficiaries across the country. The recent extension of PMGKAY is further expected to provide stimulus to procurement. The government's target for Kharif paddy procurement is also expected to remain high.

Paddy procurement for Kharif FY22 continued smoothly in the procuring states and UTs of Punjab, Haryana, Uttar Pradesh, Telangana, Uttarakhand, Tamil Nadu, Chandigarh, Jammu & Kashmir, Kerala, Gujarat, Andhra Pradesh, Chhattisgarh, Odisha, Madhya Pradesh, Maharashtra, Bihar, Jharkhand, Assam, Karnataka and West Bengal.

Farm Machinery

The management indicated strong double-digit growth for farm machinery (FM). Several regional players exist in commoditized products like cultivators. An OEM can compete in this space by focusing on cost control measures. In the more evolved product categories such as rotovators, penetration levels are high and there exists a good opportunity for M&M to grow market share. In pioneering products, which include rice transplanters and vegetable transplanters, the Indian markets are at a nascent stage. In FY21, only 2-3k units of such products were sold in India as against 100-150k units in China, which produces less paddy than India. This shows the growth potential of the entire category.

Digital Initiatives

M&M has started Krish-e, which is a 'farming as a service' initiative to push pioneering farm machinery. This includes initiatives like IoT-based digisense kits (7,500+ in FY21) and takenek plots (3,200+), where the company demonstrates productive farming practices to farmers, helping them to increase productivity by 15-20%. This enables the company to build a strong farmer community.

Power Backup Solutions

Under the Powerol brand, the company has been a leader in providing power back-up solutions to the telecom industry for more than a decade. To cater to changing customer needs, the Company continues to consolidate its presence in tele-infra management and in the energy management solutions space. In the retail genset business, the company offers a wide range of solutions from the lower kVA range, to mid and to higher kVA range.

The company also focuses on Gas Powered Gensets and presently offers 25 to 125 kVA. In addition to lowering emissions, these gensets offer a significantly lower operating cost. This segment will be a future growth area. With a focus on green energy solutions, the Company additionally offers Energy Storage Solutions powered with Lithium-ion batteries. These are for application in telecom towers and bank ATMs.

Two Wheeler Business

In line with the strategy for the two-wheeler business, your Company, through its subsidiary Classic Legends Private Limited (CLPL), had reintroduced the iconic brand 'JAWA motorcycles' to the Indian market in F19, with the launch of the new Jawa and Jawa Forty-Two. A new addition to that range - Jawa Perak, was launched in F20 and the sale of the same began in 2020-21.

Key Risks

Competition Risk:

M&M competes with several players in the domestic market with market leadership in LCV segment. However the increase in competitive intensity is a risk for the company. However the company has the capability to compete with domestic as well as global majors and defend its market share.

Monsoon Risk:

M&M is susceptible to monsoon risk . A weak monsoon will impact demand for tractors as fall in production will impact revenues of rural India which drives its growth.

Raw material Risk:

Raw material prices, especially steel prices, have witnessed a sharp upward trajectory in the recent past. Any steep increase in raw material cost is likely to witness margin pressure as the company may not be able to pass on the entire cost to the end customer.



Financials

P&L

P&L (Rs.Mn)	FY 21	FY 22	FY 23E	FY 24E
Total Revenues	4,50,410	5,74,459	7,05,729	8,44,640
Raw Material Cost	3,16,130	4,23,416	5,11,653	6,03,917
Employee Cost	28,588	33,060	38815	48144
Other Exp	40,631	47,562	63516	77707
EBITDA	65,061	70,423	91745	1,14,871
<i>EBITDA Margin(%)</i>	<i>14.4</i>	<i>12.3</i>	13	13.6
Other Income	12,213	20,759	22000	23000
Depreciation	22,330	24,511	28360	33853
Interest	3709	2230	2600	2800
PBT	51,235	64,441	82785	1,01,218
<i>PBT Margin(%)</i>	<i>11.4</i>	<i>11.2</i>	11.7	12
Tax	11,916	13,002	19454	23786
Adj PAT	39,319	51,439	63331	77432
<i>Adj PAT Margins (%)</i>	<i>8.7</i>	<i>9.0</i>	9	9.2
Exceptional items	-36633	-2087	0	0
Reported PAT	2,687	49,352	63331	77432

Balance Sheet

Balance Sheet (Rs. Mn)	FY 21	FY 22	FY 23E	FY 24E
Equity and Liabilities				
Equity Share Capital	5,974	5983	5983	5983
Reserves & Surplus	3,43,536	3,83,626	4,34,290	4,96,236
Total Networth	3,49,510	3,89,609	4,40,273	5,02,219
Total debt	89,753	76,482	73482	69482
Deferred tax liabilities	<i>14497.0</i>	<i>17008.0</i>	17008	17008
Current liabilities & Provisions	1,61,885	1,88,203	2,01,652	2,28,997
Total Liabilities	6,15,644	6,71,302	7,32,415	8,17,706
Assets				
Fixed assets	1,81,368	1,95,668	2,29,308	2,60,455
Non current investments	1,72,918	1,72,078	1,77,078	1,87,078
Other non current assets	53,226	44,380	44380	44380
Current Assets	2,08,133	2,59,177	2,81,650	3,25,794
Cash and bank(i)	<i>8675.0</i>	<i>7172.0</i>	10736	26577
Bank deposits other than(i)	55277	29333	29333	29333
Inventories	47,830	58,829	67286	76110
Sundry Debtors	22,028	30,351	34803	46282
Loan, Advances & others	2845	18455	18455	18455
Other current assets	1,26,755	1,44,370	1,50,370	1,58,370
Total Assets	6,15,644	6,71,302	7,32,415	8,17,706

Cash Flow Statement

Cash Flow Statement (Rs. Mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	53,907	64,441	82,785	1,01,218
Depreciation	23,699	24,511	28,360	33,853
Interest	3,963	2,230	2,600	2,800
Chng in working capital	35,866	4,967	2,540	9,043
Tax paid	-11,381	-5,981	-19,454	-23,786
Other operating activities	-10,119	-19,232	0	0
Cash flow from operations (a)	95,936	70,937	96,830	1,23,127
Capital expenditure	-33,113	-31,859	-62,000	-65,000
Chng in investments	-68,211	-37,699	-11,000	-18,000
Other investing activities	-44,036	25,970	0	0
Cash flow from investing (b)	-1,45,359	-43,589	-73,000	-83,000
Free cash flow (a+b)	-49,424	27,348	23,830	40,127
Inc/dec in borrowings	42,115	-13,168	-5,000	-6,000
Dividend paid (incl. tax)	-2,936	-10,891	-12,666	-15,486
Other financing activities	0	0	0	0
Cash flow from financing (c)	35,142	-28,852	-20,266	-24,286
Net chng in cash (a+b+c)	-14,282	-1,504	3,564	15,841
Closing cash & cash equivalents	8,675	7,172	10,736	26,577

Key Financial ratio's

Key Ratios	FY 21	FY 22	FY 23E	FY 24E
Adj. EPS	33.0	43.2	53.2	65.1
CEPS	21.0	62.1	77.1	93.5
BVPS	293.7	327.4	370.0	422.1
DPS	2.5	9.2	10.6	13.0
EBITDA	12.2	8.2	30.3	25.2
PAT	17.6	30.8	23.1	22.3
P/BV	3.4	3.0	2.7	2.4
EV/Sales	2.4	1.9	1.5	1.2
EV/EBITDA	16.6	15.2	11.6	9.0
Inventory days	55.2	50.7	48.0	46.0
Receivable Days	21.1	16.6	18.0	20.0
Payables day	100.6	101.4	103.0	105.0
Net Debt/Equity (x)	0.20	0.15	0.12	0.10
ROE	11.2	13.2	14.4	15.4
Dividend payout	7.5	21.2	20.0	20.0
Dividend yield	0.2	0.9	1.1	1.3

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