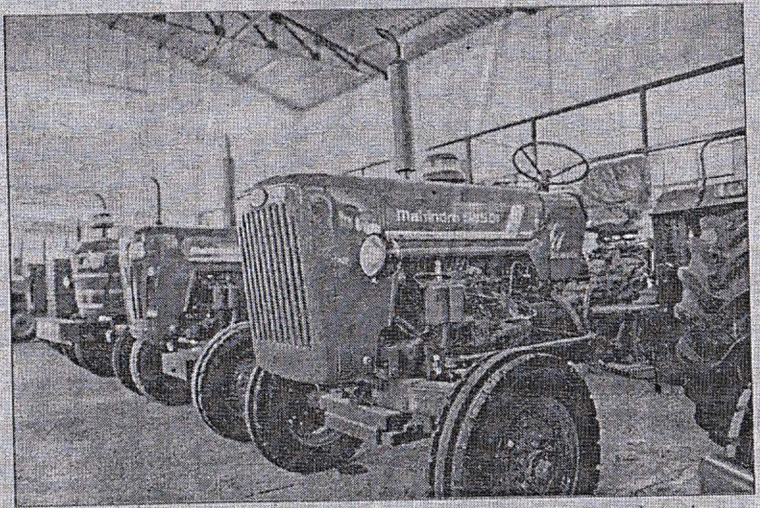
MAHINDRA & MAHINDRA RATING: **BUY**

Strong UV demand drives growth

Tractor volumes to grow at a CAGR of 5% over FY2022-25 estimates



AUTOMAKER MAHINDRA AND MAHINDRA (M&M) has posted its highest-ever consolidated quarterly revenue and profit in Q2 FY2023. The company posted a profit after tax of ₹2,773 crore, up 44% y-o-y from ₹1,992 crore in Q2FY2022 on the back of key partnerships and robust volume push in both auto and farm equipment segments.

M&M + MVML (Mahindra Vehicle Manufacturers) reported Q3FY23 Ebitda of ₹25 bn (+50% y-o-y), which was 7% above our estimates due to better-than-expected gross margins. With the UV segment sustaining strong momentum, with successful launches and RM tailwinds, we believe the company is well-positioned to deliver strong EPS CAGR over the coming years. Consolidated RoEs of the business has crossed 20% in 1HFY23, led by the strong UV segment performance and turnaround of subsidiaries. Retain BUY.

M&M's standalone reported Q2FY23 Ebitda of ₹25 bn (+50% y-o-y; +7% q-o-q) was 7% above our estimates, led by better-than-expected gross margins. Net revenues increased 6% q-o-q, mainly due to a 6% q-o-q increase in ASPs (average selling prices) due to a higher automotive mix and 2-5% q-o-q rise in automotive and tractor ASPs in Q2FY23. Ebitda margin came in at 12% (+10 bps q-o-q), 70 bps above our estimates, primarily owing to better-than-expected gross margins. The Tractor division's revenues increased 13% y-o-y led by (i) a 5% y-o-y increase in volumes and (ii) 7% q-o-q increase in ASPs due to price hikes.

We have fine-tuned our FY2023-25 estimates Ebitda estimates, led by higher volume assumptions for the automotive segment, offset by lower Ebitda margin assumptions due to (i) a weaker product mix, and (ii) lower margin assumptions for the automotive segment. Given the strong order book due to successful new launches, we expect the automotive segment to deliver strong performance over the coming quarter. We expect mid-single-digit growth in tractor segment volumes, given normal monsoons and healthy reservoir levels. Consolidated RoEs have crossed 20% in 1HFY23, which is encouraging.

M&M has guided for 5%+ growth in the domestic tractor industry's volumes y-o-y in FY2023 estimates. We expect the company's tractor segment's volumes would increase at a CAGR of 5% over FY2022-25 estimates.

Company will expand its UV segment's capacity to 49k units by Q4FY24E from 29k units annually

UV segment's capacity expansion plans, March fiscal year-ends, 2022-24E

(Figures in units)	Exit capacity			
Per month capacity	Q4 FY22	Q4 FY23	Q4 FY24	H1 FY25
Thar family	4,000	6,000	6,000	+
EUV300 & XUV400	5,000	7,500	9,500*	+
XUV700	6,000	6,000	10,000*	=
Bolero family	9,500	9,500	9,500	=
Scorpio-N	—	6,000	10,000	=
Scorpio Classic (incl IO PU)	5,500	5,500	5,500	=
BEVs	—	—	—	+
Overall SUVs capacity	**29,000**	**39,000**	**49,000**	**+**

Source: Company, Kotak Institutional Equities estimates

*Q3 FY24

M&M witnessed strong growth in the UV segment in Q2FY23 y-o-y, led by strong demand for Thar, XUV700, Bolero and Scorpio amid strong demand from consumers and improving chip supplies. The company has open bookings of 260k units, as of November 1, with (i) 130k open bookings for Scorpio-N (including Classic)—17k bookings in October 2022, (ii) 80k open bookings for XUV700—11.1k bookings in October 2022, (iii) 20k open bookings for Thar—4.9k bookings in October 2022, and (iv) 13k open bookings each for Bolero and XUV300. M&M would be expanding its capacity to 39k units per month by end-Q4FY23 and 49k units per month by end-Q4FY24 from a capacity of 29k units in Q4FY22.

We expect the automotive segment's volume rise at a CAGR of 28% over FY2022-25 estimates.

In terms of margins, the company would focus on material cost savings, fixed cost optimisation and calibrated price hikes to improve the profitability of the automotive segment. However, we expect M&M to maintain aggressive pricing to keep the model off-take momentum intact. As a result, we expect automotive Ebit margins to improve to 6.3% in FY2023 estimates from 3.8% in FY2022.

KOTAK INSTITUTIONAL EQUITIES