RATING: BUY

M&M: Focus on EVs, clear timelines

Ebitda margins seen stabilising at ~12.5% over FY24-25E

THE OPERATING PERFORMANCE of Mahindra & Mahindra in Q4FY23 was in line, though net profit exceeded expectations thanks to higher other income and lower tax. Business margins for both auto and tractor businesses saw improvement led by operating leverage.

At a standalone level, the company is India's largest tractor manufacturer (FY23 market share at 41.2%), second-largest CV maker and the fourth-largest PV maker (25.8%, 9.2% market share).

SUV business order backlog continues to increase (~292k units vs 266k in 3Q), driven by new launches, despite increase in production. Open bookings for SUV as of May 1, 2023 stood at ~292k units (vs 266k as of February 1), with ~57k fresh bookings per month. Cancellations are less than 8%. It lost ~10k volumes due to semiconductor issues in the fourth quarter.

The company expects the tractor industry to grow in low single digits in FY24E, led by healthy reservoir levels, growth in government spending in rural regions and favourable terms of trade for farm. It is focusing on gaining market share by launching products in lightweight tractors. It plans to launch a new Swaraj platform (for 25HP and 29HP lightweight tractors) in June 2023 and a global launch of Mahindra Oja in August 2023.

Valuation methodology

We value M&M based on a SOTP methodology to arrive at our target price of ₹1,790. We value the core M&M + MVML business, based on a 11x target EV-Ebitda on FY25F Ebitda. We value its investments in other listed subsidiaries at ₹354/share, at the current market price for listed subs and add ₹35 for key unlisted subs at book value.

Risks that may impede achievement of the target price

Rising losses in unlisted subsidiaries and any material investment in these subsidiaries will affect return ratios and stock performance. Weaker monsoons may affect tractor demand. We factor in ~6% y-y volume growth for tractors in FY22F, on a high base. However, if the monsoons are weaker, it could lead to downside risks to our estimates.

Particular	₹ crore
Market Capitalization	1,59,130
Total Debt (FY23P)	4,644
Cash and Inv (FY23P)	14,030
Enterprise Value	1,49,744
52 week H/L (₹)	1,397 / 915
Equity capital (₹ cr)	599.1
Face value (₹)	5

Shareholding pattern

	2022			2023
	Jun	Sep	Dec	Mar
Promoter	19.5	19.4	19.4	19.4
FII	37.9	38.3	39.2	39.2
DII	28.9	28.5	27.7	27.7
Other	13.7	13.8	13.7	13.7

Source: Company, ICICI Direct Research

With operating leverage at play, benign commodity prices, focus on cost control but offset by lower share of tractors in the overall mix (high margin product), we expect EBITDA margins to stabilise at ~12.5% over FY24-25E.

The continued focus on prudent capital allocation, leadership position in E-3-W and LCV space and revival of rural demand to act as structural positives. It has a persistent focus towards electrification with clear product timelines amid N overall aim to have 20-30% of SUV portfolio as electric vehicles by 2027.

M&M's automotive revenues were up 10.8% QoQ to ₹16,400 crore amid a 7.5% QoQ growth in volumes at ~1.89 lakh units and a 3.1% ASP growth to ₹8.67 lakh/unit. Tractor revenues degrew 11% QoQ to ₹5,584 crore, tracking a 15.1% QoQ volume degrowth at 89,731 units and ASPs at ₹6.2 lakh/unit, up 4.9% QoQ.

Standalone EBITDA was at ₹2,797 crore with attendant EBITDA margins at 12.4% (down 60 QoQ). Gross margin expanded 98 bps QoQ but was negated by higher other expense, which was up 170 bps QoQ. —NOMURA