

MAHINDRA & MAHINDRA LIMITED

Decent performance in Q2, segmental drivers remain strong

LKP
Since 1948

Trust • Invest • Grow

M&M reported decent Q2 FY24 numbers wherein the topline was reported at ₹257 bn, a growth of 16.6% yoy and 5.8% qoq. Volumes rose by 20% yoy and realizations went up by about 7.1% yoy. Automotive division revenues came in at ₹184 bn, an increase of 25% yoy led by success of new launches –Thar, Bolero Neo, XUV 700, Scorpio variants and XUV 300 & 400. M&M started rapidly catering to the order backlog as chip shortage issue softened. Automotive segment reported strong EBIT margins, which rose by 150 bps qoq, (290 bps yoy) to 9% due to positive operating leverage, stable commodity basket and model mix. Tractor margins came slightly soft at 16% which were 150 bps lower qoq and flat yoy as lower monsoons led to lower volumes, especially in South and West. Overall EBITDA margins therefore came in at a strong 17.6% (300 bps jump qoq and 130 bps yoy). Higher other income was more or less offset by higher tax, which led PAT adjusted for exceptional items in both the quarters to come in 51% up yoy at ₹35.9 bn. On a sequential basis, the growth was 29% higher.

SUV demand remains strong

M&M witnessed 24% yoy and 15% qoq growth in the SUV segment volumes during the quarter. The company has received an excellent response for the new Scorpio N (incl. Classic) with 119K open bookings since its launch (~17 k per month). The Thar and XUV 700 launches are still having huge order book of ~10K and ~9K per month respectively, as their waiting periods are reducing now. Neo Bolero was launched in July 2021 which already has received strong order bookings (~9K monthly bookings for the entire Bolero family) and has made robust inroads into Southern markets where the earlier Bolero model was not having a wide presence. Also XUV300 and 400 combined have got a very strong response with 6K demand per month, while XUV 400 and 300 open bookings stood at 10K units p.m. The total order bookings stood at ~286K currently. With this, the company was able to increase its SUV revenue market share at 19.9% from 20.2% qoq. Competition is intensifying in the hot SUV segment with MSIL launching an array of launches, thus M&M conceding its #1 position to MSIL (23.3% market share in Q2). M&M might turn once again market leader as the company plans to launch its EV and ICE variants (4 door and 5 door Thar) this fiscal along with several other new products such as BE.05, XUV.e9 and BE-RALL-E for the first time in India. From existing ICE capacity of 39K p.m, the company plans to expand it upto 49K p.m as FY24 exit capacity, which if required can be scaled up further. M&M plans to launch 5 new SUVs this year as supply constraints are easing. We expect SUVs to register 22%/16% growth in FY24E/FY25E respectively.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total sales (₹ bn)	578	850	1,028	1,216
EBITDA margins (%)	12.8	12.3	15.8	16.4
PAT margins (%)	9.5	9.4	12.5	13.0
EPS (₹)	46.4	67.0	108.0	133.2
P/E (x)	32.9	22.7	14.1	11.4
P/BV (x)	4.7	4.2	3.4	2.8
EV/EBITDA (x)	23.2	15.9	10.0	7.9
ROE (%)	14.4	18.4	24.1	24.2
Dividend yield (%)	0.6	0.8	1.6	2.0

Rating	BUY
Current Market Price (₹)	1,524
12M Price Target (₹)	1,801
Potential upside (%)	18

Stock Data

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	1,895
Free Float Market Cap (₹ bn) :	1,364
52-Week High / Low (₹) :	1,670 / 1,123
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

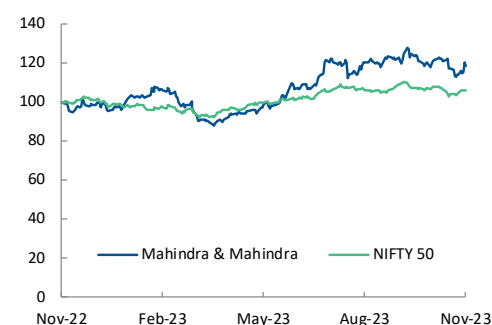
(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	19.34	19.37	19.37	19.39
FPIs	40.26	40.14	39.24	39.16
MFs	13.73	13.94	14.68	15.30
Insurance	10.53	10.72	10.61	10.84
Others	16.14	15.83	16.10	15.31

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
M&M	-0.9%	-1.4%	22.1%	18.4%
Nifty 50	-1.3%	-0.6%	6.1%	5.9%

* To date / current date : November 10, 2023

M&M vs Nifty 50

Out of the planned portfolio, there will be a strong presence of EV products (8 new products starting from CY 24), for which ₹30 bn investment is planned. The company plans to unveil its new INGLO platform for EV products soon. M&M has planned to increase its capex by ₹19 bn mainly for the EVs. M&M is looking for building partnerships with various EV players (Volkswagon) globally and build products such as XUV 700 EV and XUV 620 EV. The company has tied up with British International Investment (BII) to invest up to \$250 mn in new EV Co to be setup at a valuation of up to \$ 9.1 bn. Recently even Temasek invested ₹12 bn (stake purchase ranging 1.49% to 2.97%) in M&M's EV SUV business at valuation of ₹806 bn, which seems positive to us. Ultimately after 1-1.5 years MM is planning to launch an altogether new company for Born Electric (EV vehicles) under one roof called Mahindra Electric and post its financials separately.

Also on the CV side, the company is launching the Bolero Maxy Pick-up soon and has plans to launch several CVs and pick-ups over the next 5 years with a capacity expansion plan for each of the existing model in place. Also with chip shortage issue getting resolved now, we believe M&M will be able to cater to this burgeoning demand in FY24-25 and report solid growth thereby in line with reduction in waiting period. In the LCV business, M&M has gained about 280 bps yoy and 50 bps qoq market share yoy to reach its highest ever quarterly market share of 49.6%. The recent launch of Supro Profit Truck has strengthened offering in 0-2T 4W segment. M&M launched Jeeto CNG and Maxx Pick up in the LCV segment resulting in strong market share growth. We expect 8%/7% volume growth in CVs in FY24E/25E.

M&M has garnered 61% market share in the e-3W space with the success of E-Alfa, Jeeto, Treo Auto and Treo Zor launched few quarters ago. A variant of Treo-Zor, named as Zor Grand was launched in Q2, which is also gaining momentum. M&M sold 18.6K units of E-3Ws in Q2 itself as compared to just 16,000 units in FY 22. M&M is expanding its existing capacity for e-3W and e-4W at its Zaheerabad plant in Telangana for an investment of ₹10 bn over the next 8 years. We expect 50%/15% (on a high base) growth in 3Ws in FY24E/25E respectively.

Tractor segment market share grows on high base, weak monsoons results into muted demand

M&M witnessed about 21% qoq and 15.4 % yoy de-growth in tractor volumes in Q2 FY24. M&M won market share by 150 bps yoy at 41.6% in Q2 FY24. The fall in FES volumes has been led by El Nino and its impact on the southern states and Maharashtra leading to a deficit of 94.4% in CY 2023. However, M&M highlighted that tractor segment fundamentals continue to remain strong led by (1) strong agricultural credit growth & MSPs and (2) strong infrastructural activities which would trigger non agri usage of tractors 3). Strong response to the newly launched Yuvo Tech + and launch of the lower HP range named as 'Swaraj Target' tractors in the 25HP and 29HP range. The altogether range of small HP tractors 'Oja' was also launched on 15th August and national launch of 'Naya Swaraj'. 4).high reservoir levels and 5). Success of international Farm subsidiaries. Also in the farm machinery segment, M&M sees a robust demand with 15 new products launches in the Rice Cultivators, Rice and Vegetable Transplantors, Rotavators space. M&M is #2 in the Rotavator space with 21.5% market share (17.9% in Q2 FY23). On high base of FY23, we may see some base effect in FY24. Also the company highlighted that because of shift of Navratri to April in CY 24 as compared to March in CY 23, March sales may get impacted. On low base of November as Diwali was in October last year, we may see a good growth this month. Currently we expect domestic FES segment to grow at 3%/7% in FY24E/25E respectively as against 16% FY23..

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2 FY24	Q1 FY24	% QoQ	Q2 FY23	% YOY
Net sales	257,727	243,683	5.8%	221,053	16.6%
Raw material costs	183,792	181,149	1.5%	160,768	14.3%
Employee costs	11,262	10,447	7.8%	9,224	22.1%
Other expenses	17,384	16,613	4.6%	15,137	14.8%
EBITDA	45,288	35,474	27.7%	35,925	26.1%
EBITDA margins %	17.6%	14.6%	100 bps	16.3%	130 bps
Other income	8,191	6,576	24.6%	2721	201.0%
Depreciation	8,158	8,281	-1.5%	7913	3.1%
Interest expenses	329	323	1.8%	641	-48.7%
PBT	44,992	33,445	34.5%	30091	49.5%
Tax	9,153	5,708	60.4%	6394	43.2%
Reported PAT	34,519	27,737	24.5%	20680	66.9%
Exceptional items	1,319	-	N/A	(3,018)	N/A
Adjusted PAT	35,839	27,737	29.2%	23697	51.2%
Adj EPS	29.97	23.19	29.2%	19.8	51.2%

Source: Company, LKP Research

Outlook and Valuation

We expect strong SUV run to continue as the semi conductor issue is minimum. Within the Auto sector, the robust order book of Scorpio N variants, Thar and XUV family should assist SUV growth in coming quarters. We expect low single digit growth for the FES segment on waning tractor cycle and visible El Nino impact. New launches may provide some fillip to FES. In EV 3Ws and LCVs too, with new launches the company is in a position to expand its market leadership position, however the management has become cautiously optimistic on the LCV segment. Within EVs the company has entered a tie-up with Volkswagen for battery management and is in a position to increase its capex with reducing debt and increasing cash flows. M&M has over time exited its loss making businesses and have turned around several businesses which would definitely gather confidence of shareholders. The company has identified several growth gems, which can leverage the core strength of M&M group and accelerate the growth for the company over the medium term. RBL stake acquisition and Temasek stake sell are both positive in our view. We maintain BUY rating on attractive valuations; SoTP-based target price stands at ₹1,801 (₹1,466 core business valued at 11x FY25E earnings + subsidiary valuation of ₹335) in line with our assumptions of margin improvement on increase in volumes and value of SUV where we expect market share to bounce back on new launches, 3Ws and LCV segments, growth in FES, production increase offering operating leverage, price hikes and prudent cost reduction measures.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@11x FY 25E EPS)	-	1466
M&M Financial Services	Market cap	25%	50
Tech Mahindra	Market cap	25%	245
Mahindra Lifespaces	Market cap	30%	6
Mahindra Logistics	Market cap	30%	9
Mahindra Holiday & Resorts	Market cap	30%	14
Swaraj Engines	Market cap	30%	8
RBL	Market cap	25%	3
Subsidiaries Total SOTP value			335
Total			1801

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	577,869	849,603	1,027,818	1,216,438
Raw Material Cost	423,416	645,582	750,307	885,567
Employee Cost	33,060	36,499	44,196	49,874
Other Exp	47,562	63,098	70,919	81,501
EBITDA	73,832	104,424	162,395	199,496
EBITDA Margin(%)	12.8	12.3	15.8	16.4
Other Income	20,759	25,452	29,000	32,000
Depreciation	24,511	31,545	33,165	36,452
Interest	2230	2728	1550	1700
PBT	67,851	95,603	156,680	193,344
PBT Margin(%)	11.7	11.3	15.2	15.9
Tax	12,673	15,821	28,202	34,802
Adj PAT	55,178	79,782	128,477	158,542
Adj PAT Margins (%)	9.5	9.4	12.5	13.0
Exceptional items	-2087	-14295	0	0
Reported PAT	53,091	65,487	128,477	158,542
Rep. PAT Margins (%)	9.2	7.7	12.5	13.0

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
Per Share Data (₹)				
Adj. EPS	46.4	67.0	108.0	133.2
CEPS	65.2	81.5	135.8	163.9
BVPS	321.0	364.4	447.5	550.1
DPS	9.2	12.1	24.8	30.6
Growth Ratios(%)				
Total revenues	28.3	47.0	21.0	18.4
EBITDA	13.5	41.4	55.5	22.8
PAT	40.3	44.6	61.0	23.4
EPS Growth	40.3	44.6	61.0	23.4
Valuation Ratios (X)				
PE	32.9	22.7	14.1	11.4
P/CEPS	23.4	18.7	11.2	9.3
P/BV	4.7	4.2	3.4	2.8
EV/Sales	3.0	2.0	1.6	1.3
EV/EBITDA	23.2	15.9	10.0	7.9
Operating Ratios (Days)				
Inventory days	51.5	50.2	44.0	47.0
Receivable Days	16.6	15.2	14.8	14.2
Payables day	101.8	85.1	82.0	78.0
Net Debt/Equity (x)				
Profitability Ratios (%)	0.15	0.05	0.04	0.02
ROE	14.4	18.4	24.1	24.2
Dividend payout	19.7	18.0	23.0	23.0
Dividend yield	0.6	0.8	1.6	2.0

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	5,983	5,991	5,991	5,991
Reserves & Surplus	375,998	427,577	526,504	648,582
Total Networth	381,981	433,567	532,495	654,573
Total debt	76,656	49,128	45,128	41,128
Deferred tax liabilities	17,622	14,703	14,703	14,703
Current liabilities & Provisions	189,807	260,400	255,506	275,188
Total Liabilities	666,065	757,798	847,832	985,592
Assets				
Fixed assets	201,667	197,608	239,443	282,991
Non current Investments	163,024	175,391	185,391	200,391
Other non current assets	39,115	38,363	38,363	38,363
Current Assets	262,259	346,436	384,635	463,847
Cash and bank(i)	7,172	13,101	31,408	56,387
Bank deposits other than(i)	29,333	31,716	31,716	31,716
Inventories	59,704	88,814	90,448	114,032
Sundry Debtors	30,386	40,417	41,676	47,324
Loan, Advances & others	18,455	21,770	21,770	21,770
Other current assets	146,542	182,334	199,334	224,334
Total Assets	666,065	757,798	847,832	985,592

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	63,567	95,603	156,680	193,344
Depreciation	24,984	31,545	33,165	36,452
Interest	2,262	2,728	1,550	1,700
Chng in working capital	3,913	3,871	(5,787)	(8,550)
Tax paid	(5,984)	(19,380)	(28,202)	(34,802)
Other operating activities	(18,973)	(23,074)	0	0
Cash flow from operations (a)	69,768	91,293	157,406	188,144
Capital expenditure	(32,916)	(34,313)	(75,000)	(80,000)
Chng in investments	(37,699)	(43,801)	(27,000)	(40,000)
Other investing activities	30,979	30,579	0	0
Cash flow from investing (b)	(39,636)	(47,535)	(102,000)	(120,000)
Free cash flow (a+b)	30,132	43,758	55,406	68,144
Inc/dec in borrowings	(15,978)	(19,752)	(6,000)	(5,000)
Dividend paid (incl. tax)	(10,891)	(14,359)	(29,550)	(36,465)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(31,659)	(37,838)	(37,100)	(43,165)
Net chng in cash (a+b+c)	(1,527)	5,920	18,306	24,979
Closing cash & cash equivalents	7,173	13,102	31,408	56,387

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.