

**BUY** Mahindra & Mahindra

Your success is our success

**Muted Q2; valuations still reasonable**

Auto &amp; Auto Ancillaries ▶ Result Update ▶ November 13, 2023

**TARGET PRICE (Rs): 1,690**

**M&M's Q2 results were marked by sequential margin weakness (down by 138bps to 12.1%), on increase in costs across line items, though PAT beat our estimates due to higher other income. For M&M, valuations remain supportive (~14x core FY26E PER) amid reasonably-healthy automotive demand prospects (we build-in ~10% volume CAGR over FY23-26E), though Farm segment demand is expected to be relatively muted (we factor-in ~4% volume CAGR), given the high base. We upgrade FY24E EPS by ~9%, largely to reflect higher than expected other income in H1; FY25E/FY26E EPS is revised upwards marginally by ~1% each. We maintain BUY on M&M, given the undemanding valuations with revised SOTP-based TP of Rs1,690/share (Rs1,590 earlier; including ~Rs460/share for subsidiaries/investments; rolled over to FY26E).**

**Mahindra & Mahindra: Financial Snapshot (Standalone)**

| Y/E Mar (Rs mn)     | FY22     | FY23     | FY24E     | FY25E     | FY26E     |
|---------------------|----------|----------|-----------|-----------|-----------|
| Revenue             | 5,77,869 | 8,49,603 | 10,15,158 | 11,00,509 | 11,68,650 |
| EBITDA              | 70,275   | 1,03,795 | 1,29,849  | 1,40,096  | 1,51,693  |
| Adj. PAT            | 50,786   | 79,782   | 1,02,459  | 1,00,518  | 1,08,702  |
| Adj. EPS (Rs)       | 40.9     | 64.2     | 82.4      | 80.9      | 87.4      |
| EBITDA margin (%)   | 12.2     | 12.2     | 12.8      | 12.7      | 13.0      |
| EBITDA growth (%)   | 1.0      | 47.7     | 25.1      | 7.9       | 8.3       |
| Adj. EPS growth (%) | 394.8    | 34.5     | 56.5      | (1.9)     | 8.1       |
| RoE (%)             | 13.9     | 19.6     | 21.7      | 18.3      | 17.3      |
| RoIC (%)            | 29.7     | 41.0     | 53.4      | 61.4      | 62.2      |
| P/E (x)             | 37.7     | 24.0     | 18.7      | 19.1      | 17.6      |
| EV/EBITDA (x)       | 26.6     | 17.6     | 13.8      | 12.3      | 10.9      |
| P/B (x)             | 5.0      | 4.4      | 3.8       | 3.3       | 2.9       |
| FCFF yield (%)      | 2.0      | 3.8      | 3.9       | 5.8       | 5.9       |

Source: Company, Emkay Research

**Subdued margin performance sequentially**

Revenue rose ~16% YoY to Rs243bn (below estimates), amid ~11% YoY volume growth and ~1% QoQ growth in realizations. EBITDA increased 20% YoY to Rs29.3bn, with EBITDA margin down by 138bps QoQ to 12.1% (Consensus/Emkay est.: 12.9%/13.3%); the miss was owing to higher than expected costs across line items. Gross margins dipped by ~30bps QoQ. Auto segment revenue grew 22% YoY to Rs184bn, while Farm segment revenue was flattish YoY at Rs59bn. EBIT margin for the Auto segment rose by 150bps QoQ, at 9% (underlying Auto margins, however, were up by ~40bps, at 7.9%), while Farm segment EBIT margin declined by 149bps QoQ, to 16%. Adjusted PAT grew 49% YoY to Rs34.5bn (above estimates), driven by higher than expected other income.

**Earnings call KTAs**

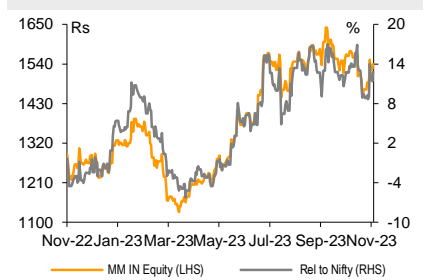
1) In Automotive, demand for the above-Rs1.3-1.4mn/unit segment remains strong, while that for the sub-Rs1-1.2mn/unit segment remains weak; M&M's automotive order-book saw marginal growth to 286K units (vs. 281K units in Q1/290K units in Apr-23); channel inventory as of Q2 is at ~30 days, in line with the industry; cancellation rates remain below 8%. 2) Tractor industry volumes expected to be flattish in FY24, with Mar-24 volumes seen declining due to an adverse base effect (Navratras-induced strong Mar-23). 3) The Automotive segment has reported healthy double-digit growth in the first 20 days of the festive period; Tractors saw some growth during the first few days of Navratras, along expected lines. 4) Remains on track to reach 49K/month automotive capacity run-rate by Mar-24; capacity beyond this would be augmented for upcoming Thar 5-door and the born electric portfolio; would continue investing in ICE, though the lesser age of most of the current portfolio would enable some savings in outlay for a pipeline refresh over the next few years; most manufacturing facilities for ICE and EVs to be fungible. 5) Company has ~60% market share in L5 category E-3Ws and sees robust growth prospects (amid ~10% penetration); margins for the category need to be similar to those of ICE in the longer run, to be able to compete. 6) Retains 18% RoE target (achieved ~20% in H1).

|                         |            |
|-------------------------|------------|
| Target Price – 12M      | Sep-24     |
| <b>Change in TP (%)</b> | <b>6.3</b> |
| Current Reco.           | BUY        |
| Previous Reco.          | BUY        |
| Upside/(Downside) (%)   | 9.7        |
| CMP (13-Nov-23) (Rs)    | 1,541.0    |

| Stock Data                  | Ticker    |
|-----------------------------|-----------|
| 52-week High (Rs)           | 1,670     |
| 52-week Low (Rs)            | 1,123     |
| Shares outstanding (mn)     | 1,243.5   |
| Market-cap (Rs bn)          | 1,916     |
| Market-cap (USD mn)         | 22,996    |
| Net-debt, FY24E (Rs mn)     | -1,29,580 |
| ADTV-3M (mn shares)         | 2         |
| ADTV-3M (Rs mn)             | 3,821.9   |
| ADTV-3M (USD mn)            | 45.9      |
| Free float (%)              | 76.9      |
| Nifty-50                    | 19,444    |
| INR/USD                     | 83.3      |
| <b>Shareholding, Sep-23</b> |           |
| Promoters (%)               | 18.9      |
| FPIs/MFs (%)                | 39.3/26.2 |

**Price Performance**

| (%)           | 1M    | 3M    | 12M  |
|---------------|-------|-------|------|
| Absolute      | (1.4) | (0.4) | 19.7 |
| Rel. to Nifty | 0.2   | (0.4) | 13.0 |

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**Exhibit 1: Q2FY24 snapshot – Sequential margin performance impacted by increase in costs under all line items**

| (Rs mn)              | 2QFY23          | 3QFY23          | 4QFY23          | 1QFY24          | 2QFY24          | YoY (%)     | QoQ (%)      |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|--------------|
| <b>Revenue</b>       | <b>2,10,101</b> | <b>2,16,537</b> | <b>2,25,714</b> | <b>2,40,561</b> | <b>2,43,099</b> | <b>15.7</b> | <b>1.1</b>   |
| Expenditure          | 1,85,667        | 1,88,395        | 1,97,831        | 2,08,209        | 2,13,758        | 15.1        | 2.7          |
| as % of sales        | 88.4            | 87.0            | 87.6            | 86.6            | 87.9            |             |              |
| Consumption of RM    | 1,60,768        | 1,64,471        | 1,69,219        | 1,81,149        | 1,83,793        | 14.3        | 1.5          |
| as % of sales        | 76.5            | 76.0            | 75.0            | 75.3            | 75.6            |             |              |
| Employee Cost        | 9,224           | 9,342           | 9,490           | 10,447          | 11,262          | 22.1        | 7.8          |
| as % of sales        | 4.4             | 4.3             | 4.2             | 4.3             | 4.6             |             |              |
| Other expenditure    | 15,675          | 14,583          | 19,121          | 16,613          | 18,703          | 19.3        | 12.6         |
| as % of sales        | 7.5             | 6.7             | 8.5             | 6.9             | 7.7             |             |              |
| <b>EBITDA</b>        | <b>24,434</b>   | <b>28,142</b>   | <b>27,883</b>   | <b>32,351</b>   | <b>29,341</b>   | <b>20.1</b> | <b>(9.3)</b> |
| Depreciation         | 7,913           | 8,292           | 8,385           | 8,281           | 8,158           | 28.2        | (1.5)        |
| EBIT                 | 16,521          | 19,851          | 19,498          | 24,070          | 21,182          | 28.2        | (12.0)       |
| Other Income         | 13,673          | 6,700           | 3,429           | 9,699           | 22,819          | 66.9        | 135.3        |
| Interest             | 641             | 686             | 698             | 323             | 329             | (48.7)      | 1.8          |
| PBT                  | 29,553          | 25,865          | 22,229          | 33,445          | 43,672          | 47.8        | 30.6         |
| Total Tax            | 6,394           | 5,575           | 1,621           | 5,708           | 9,153           | 43.2        | 60.4         |
| Adjusted PAT         | 23,159          | 20,290          | 20,608          | 27,737          | 34,519          | 49.1        | 24.4         |
| Extra ordinary items | (2,479)         | (5,009)         | (5,118)         | -               | -               |             |              |
| <b>Reported PAT</b>  | <b>20,680</b>   | <b>15,281</b>   | <b>15,490</b>   | <b>27,737</b>   | <b>34,519</b>   | <b>66.9</b> | <b>24.4</b>  |
| (%)                  | 2QFY23          | 3QFY23          | 4QFY23          | 1QFY24          | 2QFY24          | YoY (bps)   | QoQ (bps)    |
| EBITDAM              | 11.6            | 13.0            | 12.4            | 13.4            | 12.1            | 44          | -138         |
| EBITM                | 7.9             | 9.2             | 8.6             | 10.0            | 8.7             | 85          | -129         |
| EBTM                 | 14.1            | 11.9            | 9.8             | 13.9            | 18.0            | 390         | 406          |
| PATM                 | 11.0            | 9.4             | 9.1             | 11.5            | 14.2            | 318         | 267          |
| Effective Tax rate   | 21.6            | 21.6            | 7.3             | 17.1            | 21.0            | -68         | 389          |

Source: Company, Emkay Research

**Exhibit 2: Actual vs estimates**

| Rs mn             | Actual   | Emkay Est | Var %     | Consensus | Var %    |
|-------------------|----------|-----------|-----------|-----------|----------|
| Net sales         | 2,43,099 | 2,48,789  | (2.3)     | 2,46,681  | (1.5)    |
| EBITDA            | 29,341   | 33,089    | (11.3)    | 31,776    | (7.7)    |
| EBITDA Margin (%) | 12.1     | 13.3      | (123) bps | 12.9      | (81) bps |
| Adj net income    | 34,519   | 28,028    | 23.2      | 28,116    | 22.8     |
| EPS (Rs)          | 27.8     | 22.5      | 23.2      | 22.6      | 22.8     |

Source: Company, Emkay Research

**Exhibit 3: Segmental performance – Underlying Auto EBIT up by ~40bps QoQ to 7.9%; Tractor EBIT margin down by 150bps**

| Segmental details (Rs mn)      | 2QFY23   | 3QFY23   | 4QFY23   | 1QFY24   | 2QFY24   | YoY (%)  | QoQ (%)   |
|--------------------------------|----------|----------|----------|----------|----------|----------|-----------|
| <b>Farm Equipment</b>          |          |          |          |          |          |          |           |
| Tractor (Units)                | 93,540   | 1,05,765 | 89,731   | 1,15,009 | 90,061   | (3.7)    | (21.7)    |
| Net Sales (Rs mn)              | 59,446   | 62,777   | 60,117   | 74,556   | 59,195   | (0.4)    | (20.6)    |
| Avg realizations               | 6,35,518 | 5,93,549 | 6,69,969 | 6,48,263 | 6,57,277 | 3.4      | 1.4       |
| EBIT (Rs mn)                   | 9,691    | 10,393   | 9,848    | 13,027   | 9,464    | (2.3)    | (27.4)    |
| EBIT margin (%)                | 16.3     | 16.6     | 16.4     | 17.5     | 16.0     | (32) bps | (149) bps |
| <b>Automotive (incl. MVML)</b> |          |          |          |          |          |          |           |
| Auto (units)                   | 1,79,683 | 1,76,094 | 1,89,227 | 1,86,138 | 2,12,078 | 18.0     | 13.9      |
| Net Sales (Rs mn)              | 1,50,893 | 1,47,965 | 1,65,876 | 1,66,210 | 1,84,055 | 22.0     | 10.7      |
| Avg realizations (Rs)          | 8,39,773 | 8,40,263 | 8,76,600 | 8,92,940 | 8,67,863 | 3.3      | (2.8)     |
| EBIT (Rs mn)                   | 8,831    | 9,896    | 11,761   | 12,524   | 16,624   | 88.2     | 32.7      |
| Margins (%)                    | 5.9      | 6.7      | 7.1      | 7.5      | 9.0      | 318 bps  | 150 bps   |

Source: Company, Emkay Research

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**Exhibit 4: Revenue model – We build-in 11%/13% CAGR in revenue/core EPS, over FY23-26E**

| (Rs mn)                                     | FY20            | FY21            | FY22            | FY23            | FY24E            | FY25E            | FY26E            |
|---|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| Volumes (units)                             | 7,73,094        | 7,03,119        | 8,20,299        | 11,06,001       | 12,34,353        | 13,22,726        | 13,90,071        |
| Growth (%)                                  | -17.6           | -9.1            | 16.7            | 34.8            | 11.6             | 7.2              | 5.1              |
| <b>Segmental volumes</b>                    |                 |                 |                 |                 |                  |                  |                  |
| Automotive                                  | 4,71,179        | 3,48,621        | 4,65,601        | 6,98,456        | 8,20,818         | 8,88,029         | 9,33,288         |
| Growth (%)                                  | (22)            | (26)            | 34              | 50              | 18               | 8                | 5                |
| SUVs  | 1,89,758        | 1,61,457        | 2,33,400        | 3,67,474        | 4,64,385         | 5,13,760         | 5,47,730         |
| Growth (%)                                  | (23)            | (15)            | 45              | 57              | 26               | 11               | 7                |
| Tractors                                    | 3,01,915        | 3,54,498        | 3,54,698        | 4,07,545        | 4,13,534         | 4,34,697         | 4,56,782         |
| ..Growth (%)                                | (9)             | 17              | 0               | 15              | 1                | 5                | 5                |
| <b>Volume mix (%)</b>                       |                 |                 |                 |                 |                  |                  |                  |
| Automotive                                  | 61              | 50              | 57              | 63              | 66               | 67               | 67               |
| Tractors                                    | 39              | 50              | 43              | 37              | 34               | 33               | 33               |
| ASP (Rs/unit)                               | 5,80,337        | 6,34,741        | 7,04,462        | 7,68,175        | 8,22,421         | 8,32,001         | 8,40,712         |
| Growth (%)                                  | 3               | 9               | 11              | 9               | 7                | 1                | 1                |
| <b>Revenue</b>                              | <b>4,48,655</b> | <b>4,46,299</b> | <b>5,77,869</b> | <b>8,49,603</b> | <b>10,15,158</b> | <b>11,00,509</b> | <b>11,68,650</b> |
| Growth (%)                                  | (15.1)          | (0.5)           | 29.5            | 47.0            | 19.5             | 8.4              | 6.2              |
| <b>Revenue mix (%)</b>                      |                 |                 |                 |                 |                  |                  |                  |
| Automotive                                  | 61.6            | 54.8            | 61.9            | 67.8            | 70.6             | 71.2             | 71.2             |
| Tractors                                    | 34.1            | 41.1            | 34.1            | 29.4            | 26.7             | 26.2             | 26.2             |
| EBITDA                                      | 63,506          | 69,575          | 70,275          | 1,03,795        | 1,29,849         | 1,40,096         | 1,51,693         |
| <b>EBITDA margin (%)</b>                    | <b>14.2</b>     | <b>15.6</b>     | <b>12.2</b>     | <b>12.2</b>     | <b>12.8</b>      | <b>12.7</b>      | <b>13.0</b>      |
| EBITDA growth (%)                           | (15.7)          | 9.6             | 1.0             | 47.7            | 25.1             | 7.9              | 8.3              |
| EBITDA/vehicle (%)                          | 82,145          | 98,952          | 85,670          | 93,847          | 1,05,196         | 1,05,915         | 1,09,126         |
| EBIT  | 42,226          | 48,214          | 48,319          | 76,702          | 1,01,923         | 1,10,100         | 1,19,906         |
| EBIT margin (%)                             | 9.4             | 10.8            | 8.4             | 9.0             | 10.0             | 10.0             | 10.3             |
| <b>Segmental margins (%)</b>                |                 |                 |                 |                 |                  |                  |                  |
| Automotive                                  | 6.1             | 3.4             | 3.6             | 4.8             | 7.9              | 8.5              | 9.0              |
| Tractors                                    | 19.0            | 22.7            | 18.1            | 16.2            | 17.5             | 17.5             | 17.7             |
| <b>EBIT mix (%)</b>                         |                 |                 |                 |                 |                  |                  |                  |
| Automotive                                  | 35.9            | 16.5            | 25.6            | 36.1            | 53.4             | 55.9             | 57.0             |
| Tractors                                    | 62.5            | 83.0            | 71.7            | 53.4            | 44.8             | 42.3             | 41.2             |
| <b>Core EPS (excl. dividend income; Rs)</b> | <b>20.5</b>     | <b>28.2</b>     | <b>29.9</b>     | <b>51.2</b>     | <b>69.5</b>      | <b>67.9</b>      | <b>74.5</b>      |

Source: Company, Emkay Research

**Exhibit 5: We raise FY24E EPS by ~9%, largely tracking higher other income; FY25E/FY26E EPS revised marginally upwards**

| Rs mn             | FY24E     |           |          |        | FY25E     |           |          |         | FY26E     |           |          |        |
|-------------------|-----------|-----------|----------|--------|-----------|-----------|----------|---------|-----------|-----------|----------|--------|
|                   | Earlier   | Revised   | % Change | % YoY  | Earlier   | Revised   | % Change | % YoY   | Earlier   | Revised   | % Change | % YoY  |
| Volume (units)    | 12,16,978 | 12,34,353 | 1.4      | 11.6   | 12,86,953 | 13,22,726 | 2.8      | 7.2     | 13,55,371 | 13,90,071 | 2.6      | 5.1    |
| Revenue           | 9,97,257  | 10,15,158 | 1.8      | 19.5   | 10,66,242 | 11,00,509 | 3.2      | 8.4     | 11,36,076 | 11,68,650 | 2.9      | 6.2    |
| EBITDA            | 1,29,744  | 1,29,849  | 0.1      | 25.1   | 1,38,694  | 1,40,096  | 1.0      | 7.9     | 1,50,076  | 1,51,693  | 1.1      | 8.3    |
| EBITDA margin (%) | 13.0      | 12.8      | (22) bps | 57 bps | 13.0      | 12.7      | (28) bps | (6) bps | 13.2      | 13.0      | (23) bps | 25 bps |
| Adj. PAT          | 93,667    | 1,02,459  | 9.4      | 28.4   | 99,206    | 1,00,518  | 1.3      | (1.9)   | 1,07,229  | 1,08,702  | 1.4      | 8.1    |
| EPS (Rs)          | 75.3      | 82.4      | 9.4      | 28.4   | 79.8      | 80.9      | 1.3      | (1.9)   | 86.3      | 87.4      | 1.4      | 8.1    |

Source: Emkay Research

**Exhibit 6: SOTP-based TP of Rs1,690/share**

| Components (Rs bn)            | Basis of Valuation                     | Equity value | M&M stake (%) | Pro-rata value | Hold-co discount (%) | Contr. To SOTP | SOTP (Rs/share) | SOTP breakdown (%) |
|-------------------------------|--|--------------|---------------|----------------|----------------------|----------------|-----------------|--------------------|
| Tractor division              | DCF                                    | 476          |               | 476            |                      | 476            | 383             | 23                 |
| CV and 3W divisions           | DCF                                    | 413          |               | 413            |                      | 413            | 332             | 20                 |
| PV-ICE division               | DCF                                    | 312          |               | 312            |                      | 312            | 251             | 15                 |
| PV-EV division                | 50% discount to Transaction value      | 324          |               | 324            |                      | 324            | 261             | 15                 |
| <b>Standalone business</b>    |  | <b>1,201</b> |               | <b>1,201</b>   |                      | <b>1,201</b>   | <b>1,227</b>    | <b>57</b>          |
| Tech Mahindra                 | TP (Emkay)                             | 1,296        | 25.5          | 330            | 20                   | 264            | 212             | 13                 |
| M&M Financial Services        | TP (Emkay)                             | 290          | 52.2          | 151            | 20                   | 121            | 97              | 6                  |
| <b>Other Subs/investments</b> | <b>Current m-cap/ investment value</b> |              |               |                |                      | <b>190</b>     | <b>153</b>      | <b>9</b>           |
| Total                         |  |              |               |                |                      | 2,100          | 1,689           | 100                |
| <b>Total (Rounded off)</b>    |  |              |               |                |                      |                | <b>1,690</b>    |                    |

Source: Emkay Research

## Mahindra &amp; Mahindra: Standalone Financials and Valuations

| Profit & Loss               |                 |                 |                  |                  |                  |
|-----------------------------|-----------------|-----------------|------------------|------------------|------------------|
| Y/E Mar (Rs mn)             | FY22            | FY23            | FY24E            | FY25E            | FY26E            |
| <b>Revenue</b>              | <b>5,77,869</b> | <b>8,49,603</b> | <b>10,15,158</b> | <b>11,00,509</b> | <b>11,68,650</b> |
| Revenue growth (%)          | 29.5            | 47.0            | 19.5             | 8.4              | 6.2              |
| <b>EBITDA</b>               | <b>70,275</b>   | <b>1,03,795</b> | <b>1,29,849</b>  | <b>1,40,096</b>  | <b>1,51,693</b>  |
| EBITDA growth (%)           | 1.0             | 47.7            | 25.1             | 7.9              | 8.3              |
| Depreciation & Amortization | 24,984          | 31,545          | 33,245           | 35,763           | 37,653           |
| <b>EBIT</b>                 | <b>45,291</b>   | <b>72,250</b>   | <b>96,604</b>    | <b>1,04,333</b>  | <b>1,14,040</b>  |
| EBIT growth (%)             | (1.3)           | 59.5            | 33.7             | 8.0              | 9.3              |
| Other operating income      | 0               | 0               | 0                | 0                | 0                |
| Other income                | 20,538          | 26,081          | 37,951           | 27,704           | 28,455           |
| Financial expense           | 2,262           | 2,728           | 2,349            | 2,337            | 2,234            |
| <b>PBT</b>                  | <b>63,567</b>   | <b>95,603</b>   | <b>1,32,205</b>  | <b>1,29,700</b>  | <b>1,40,261</b>  |
| Extraordinary items         | (2,087)         | (14,295)        | 0                | 0                | 0                |
| Taxes                       | 12,781          | 15,821          | 29,746           | 29,183           | 31,559           |
| Minority interest           | 0               | 0               | 0                | 0                | 0                |
| Income from JV/Associates   | 0               | 0               | 0                | 0                | 0                |
| <b>Reported PAT</b>         | <b>48,699</b>   | <b>65,486</b>   | <b>1,02,459</b>  | <b>1,00,518</b>  | <b>1,08,702</b>  |
| PAT growth (%)              | 394.8           | 34.5            | 56.5             | (1.9)            | 8.1              |
| <b>Adjusted PAT</b>         | <b>50,786</b>   | <b>79,782</b>   | <b>1,02,459</b>  | <b>1,00,518</b>  | <b>1,08,702</b>  |
| <b>Diluted EPS (Rs)</b>     | <b>40.9</b>     | <b>64.2</b>     | <b>82.4</b>      | <b>80.9</b>      | <b>87.4</b>      |
| Diluted EPS growth (%)      | 394.8           | 34.5            | 56.5             | (1.9)            | 8.1              |
| <b>DPS (Rs)</b>             | <b>11.1</b>     | <b>15.9</b>     | <b>20.6</b>      | <b>20.2</b>      | <b>21.9</b>      |
| <b>Dividend payout (%)</b>  | <b>28.4</b>     | <b>30.2</b>     | <b>25.0</b>      | <b>25.0</b>      | <b>25.0</b>      |
| EBITDA margin (%)           | 12.2            | 12.2            | 12.8             | 12.7             | 13.0             |
| EBIT margin (%)             | 7.8             | 8.5             | 9.5              | 9.5              | 9.8              |
| Effective tax rate (%)      | 20.1            | 16.5            | 22.5             | 22.5             | 22.5             |
| <b>NOPLAT (pre-IndAS)</b>   | <b>36,184</b>   | <b>60,293</b>   | <b>74,868</b>    | <b>80,858</b>    | <b>88,381</b>    |
| Shares outstanding (mn)     | 1,243.2         | 1,243.2         | 1,243.2          | 1,243.2          | 1,243.2          |

Source: Company, Emkay Research

| Cash flows                   |                 |                 |                   |                   |                   |
|------------------------------|-----------------|-----------------|-------------------|-------------------|-------------------|
| Y/E Mar (Rs mn)              | FY22            | FY23            | FY24E             | FY25E             | FY26E             |
| PBT                          | 63,567          | 95,603          | 1,32,205          | 1,29,700          | 1,40,261          |
| Others (non-cash items)      | 8,273           | 19,194          | 41,195            | 42,865            | 44,706            |
| Taxes paid                   | (5,984)         | (19,380)        | (33,402)          | (32,769)          | (35,437)          |
| Change in NWC                | 3,913           | (4,125)         | (5,842)           | 14,663            | 3,016             |
| <b>Operating cash flow</b>   | <b>69,767</b>   | <b>91,293</b>   | <b>1,34,156</b>   | <b>1,54,459</b>   | <b>1,52,545</b>   |
| Capital expenditure          | (32,916)        | (21,597)        | (65,000)          | (55,000)          | (55,000)          |
| Acquisition of business      | (23,968)        | (32,350)        | (50,000)          | (65,000)          | (65,000)          |
| Interest & dividend income   | 17,248          | 2,747           | 0                 | 0                 | 0                 |
| <b>Investing cash flow</b>   | <b>(39,636)</b> | <b>(34,819)</b> | <b>(1,15,000)</b> | <b>(1,20,000)</b> | <b>(1,20,000)</b> |
| Equity raised/(repaid)       | 33              | 8               | 0                 | 0                 | 0                 |
| Debt raised/(repaid)         | (15,978)        | (20,330)        | 3,908             | 368               | (109)             |
| Payment of lease liabilities | (497)           | (1,138)         | 0                 | 0                 | 0                 |
| Interest paid                | (4,824)         | (2,728)         | (2,349)           | (2,337)           | (2,234)           |
| Dividend paid (incl tax)     | (10,891)        | (19,769)        | (25,615)          | (25,129)          | (27,175)          |
| Others                       | (25,421)        | 8,510           | 5,846             | (485)             | 2,046             |
| <b>Financing cash flow</b>   | <b>(57,578)</b> | <b>(35,446)</b> | <b>(18,210)</b>   | <b>(27,584)</b>   | <b>(27,472)</b>   |
| Net chg in Cash              | (27,446)        | 21,028          | 946               | 6,875             | 5,073             |
| OCF                          | 69,767          | 91,293          | 1,34,156          | 1,54,459          | 1,52,545          |
| Adj. OCF (w/o NWC chg.)      | 65,855          | 95,418          | 1,39,998          | 1,39,796          | 1,49,529          |
| FCFF                         | 36,852          | 69,696          | 69,156            | 99,459            | 97,545            |
| FCFE                         | 51,838          | 69,716          | 66,807            | 97,122            | 95,312            |
| OCF/EBITDA (%)               | 99.3            | 88.0            | 103.3             | 110.3             | 100.6             |
| FCFE/PAT (%)                 | 106.4           | 106.5           | 65.2              | 96.6              | 87.7              |
| <b>FCFF/NOPLAT (%)</b>       | <b>101.8</b>    | <b>115.6</b>    | <b>92.4</b>       | <b>123.0</b>      | <b>110.4</b>      |

Source: Company, Emkay Research

| Balance Sheet                         |                 |                 |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E Mar (Rs mn)                       | FY22            | FY23            | FY24E           | FY25E           | FY26E           |
| Share capital                         | 5,983           | 5,991           | 5,991           | 5,991           | 5,991           |
| Reserves & Surplus                    | 3,75,998        | 4,27,577        | 5,04,421        | 5,79,809        | 6,61,336        |
| <b>Net worth</b>                      | <b>3,81,981</b> | <b>4,33,567</b> | <b>5,10,411</b> | <b>5,85,800</b> | <b>6,67,326</b> |
| Minority interests                    | 0               | 0               | 0               | 0               | 0               |
| Deferred tax liability (net)          | 17,622          | 14,703          | 11,047          | 7,460           | 3,582           |
| <b>Total debt</b>                     | <b>70,585</b>   | <b>50,255</b>   | <b>54,164</b>   | <b>54,532</b>   | <b>54,422</b>   |
| <b>Total liabilities &amp; equity</b> | <b>4,70,187</b> | <b>4,98,525</b> | <b>5,75,622</b> | <b>6,47,792</b> | <b>7,25,330</b> |
| Net tangible fixed assets             | 1,12,881        | 1,30,501        | 1,06,293        | 1,38,424        | 1,55,771        |
| Net intangible assets                 | 26,610          | 39,261          | 39,261          | 39,261          | 39,261          |
| Net ROU assets                        | 0               | 0               | 0               | 0               | 0               |
| Capital WIP                           | 52,627          | 27,846          | 83,809          | 70,916          | 70,916          |
| Goodwill                              | 0               | 0               | 0               | 0               | 0               |
| Investments [JV/Associates]           | 1,63,024        | 1,75,391        | 1,82,891        | 1,90,391        | 1,97,891        |
| <b>Cash &amp; equivalents</b>         | <b>1,15,526</b> | <b>1,40,298</b> | <b>1,83,744</b> | <b>2,48,119</b> | <b>3,10,692</b> |
| Current assets (ex-cash)              | 1,85,848        | 2,44,502        | 2,92,375        | 3,16,957        | 3,36,582        |
| Current Liab. & Prov.                 | 1,95,878        | 2,59,273        | 3,12,750        | 3,56,274        | 3,85,781        |
| <b>NWC (ex-cash)</b>                  | <b>(10,030)</b> | <b>(14,771)</b> | <b>(20,375)</b> | <b>(39,318)</b> | <b>(49,199)</b> |
| <b>Total assets</b>                   | <b>4,70,187</b> | <b>4,98,525</b> | <b>5,75,622</b> | <b>6,47,792</b> | <b>7,25,330</b> |
| Net debt                              | (44,941)        | (90,042)        | (1,29,580)      | (1,93,587)      | (2,56,270)      |
| Capital employed                      | 4,70,187        | 4,98,525        | 5,75,622        | 6,47,792        | 7,25,330        |
| <b>Invested capital</b>               | <b>1,39,010</b> | <b>1,54,991</b> | <b>1,25,178</b> | <b>1,38,367</b> | <b>1,45,832</b> |
| BVPS (Rs)                             | 307.3           | 348.8           | 410.6           | 471.2           | 536.8           |
| Net Debt/Equity (x)                   | (0.1)           | (0.2)           | (0.3)           | (0.3)           | (0.4)           |
| Net Debt/EBITDA (x)                   | (0.6)           | (0.9)           | (1.0)           | (1.4)           | (1.7)           |
| Interest coverage (x)                 | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>RoCE (%)</b>                       | <b>10.8</b>     | <b>15.2</b>     | <b>18.8</b>     | <b>16.2</b>     | <b>15.6</b>     |

Source: Company, Emkay Research

| Valuations and key Ratios |              |              |              |               |               |
|---------------------------|--------------|--------------|--------------|---------------|---------------|
| Y/E Mar                   | FY22         | FY23         | FY24E        | FY25E         | FY26E         |
| P/E (x)                   | 37.7         | 24.0         | 18.7         | 19.1          | 17.6          |
| P/CE(x)                   | 25.3         | 17.2         | 14.1         | 14.1          | 13.1          |
| P/B (x)                   | 5.0          | 4.4          | 3.8          | 3.3           | 2.9           |
| EV/Sales (x)              | 3.2          | 2.1          | 1.8          | 1.6           | 1.4           |
| EV/EBITDA (x)             | 26.6         | 17.6         | 13.8         | 12.3          | 10.9          |
| EV/EBIT(x)                | 41.3         | 25.3         | 18.5         | 16.5          | 14.6          |
| EV/IC (x)                 | 13.5         | 11.8         | 14.3         | 12.4          | 11.4          |
| FCFF yield (%)            | 2.0          | 3.8          | 3.9          | 5.8           | 5.9           |
| FCFE yield (%)            | 2.7          | 3.6          | 3.5          | 5.1           | 5.0           |
| Dividend yield (%)        | 0.7          | 1.0          | 1.3          | 1.3           | 1.4           |
| <b>DuPont-RoE split</b>   |              |              |              |               |               |
| Net profit margin (%)     | 8.8          | 9.4          | 10.1         | 9.1           | 9.3           |
| Total asset turnover (x)  | 1.3          | 1.8          | 1.9          | 1.8           | 1.7           |
| Assets/Equity (x)         | 1.3          | 1.2          | 1.1          | 1.1           | 1.1           |
| <b>RoE (%)</b>            | <b>13.9</b>  | <b>19.6</b>  | <b>21.7</b>  | <b>18.3</b>   | <b>17.3</b>   |
| <b>DuPont-RoIC</b>        |              |              |              |               |               |
| NOPLAT margin (%)         | 6.3          | 7.1          | 7.4          | 7.3           | 7.6           |
| IC turnover (x)           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           |
| <b>RoIC (%)</b>           | <b>29.7</b>  | <b>41.0</b>  | <b>53.4</b>  | <b>61.4</b>   | <b>62.2</b>   |
| <b>Operating metrics</b>  |              |              |              |               |               |
| Core NWC days             | (6.3)        | (6.3)        | (7.3)        | (13.0)        | (15.4)        |
| <b>Total NWC days</b>     | <b>(6.3)</b> | <b>(6.3)</b> | <b>(7.3)</b> | <b>(13.0)</b> | <b>(15.4)</b> |
| Fixed asset turnover      | 2.0          | 2.5          | 2.8          | 2.7           | 2.5           |
| Opex-to-revenue (%)       | 14.2         | 11.8         | 11.9         | 12.5          | 12.2          |

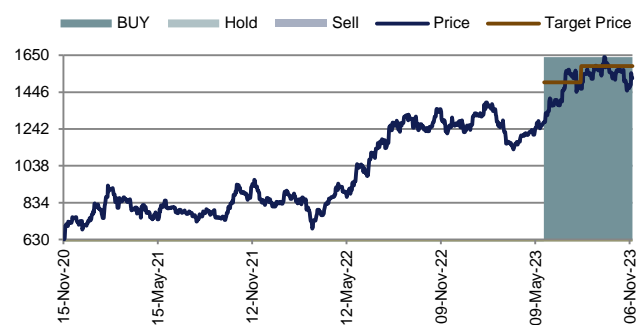
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

| Date      | Closing Price (INR) | TP (INR) | Rating | Analyst     |
|-----------|---------------------|----------|--------|-------------|
| 05-Aug-23 | 1,465               | 1,590    | Buy    | Chirag Jain |
| 26-May-23 | 1,282               | 1,500    | Buy    | Chirag Jain |

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research

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|-------------|---|
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| <b>HOLD</b> | Between -5% to 15%                            |
| <b>SELL</b> | Below -5%                                     |

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