

November 10, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

Mahindra & Mahindra Ltd

Adjusted for one-offs margins are healthy

Valuation and View

M&M (MM) 2QFY24 results, adjusted for new product launch expenses in FES (~90bp impact), EBITDA margins came in-line at 13.5%. This was further helped by higher other income at Rs21.5b (est Rs8b, +1.2x QoQ) lead to Adj.PAT beat at Rs34.5b (est ~Rs27b, +24% QoQ). The key highlight of the quarter was continued increase in auto segment margins (EBIT) at 7.9% (+40bp QoQ/ +200bp YoY) and farm margins at 16% (-150bp QoQ). We reckon, margins to remain at an elevated level led by 1) moderating RM inflation, 2) operating leverage and 3) cost controls. The second highlight of the quarter was auto order book which remained healthy at 286k units as of Nov'23 (v/s 281k units as of Aug'23 and 292k as of May'23) where MSIL order book declined QoQ further to 288k as of 2QFY24 (v/s ~355k units in 1QFY24 and 412k in 4QFY23). The management indicated healthy demand for premium products.

We upgrade our FY24/25 EPS by 12%/2.6% each to factor in for higher other income. While we expect auto business to lead the growth over FES, deterioration in the mix would restrict Revenue/EBITDA/PAT CAGR to ~13%/16.7%/25% over FY23-25E. Implied core P/E for MM stands at 11.6x/10.7x FY24/FY25E EPS is attractive. Hence, we maintain ADD rating on the stock with revised SoTP based TP at Rs1,753 (v/s Rs1,721 earlier) on Mar'25 EPS.

Result Highlights – Adjusted for launch expenses, margins were in-line

- Revenues grew 15.7% YoY (+1.1% QoQ) at Rs243.1b (est Rs255.5) as volumes grew 10.6% YoY/ +1.2% QoQ to 302.1k units while ASP grew 4.6% YoY (flat QoQ) at Rs804.5k unit (est ~Rs845.7k/unit). Auto ASP grew 3.3% YoY (-4.1% QoQ) at Rs867.8k/unit while Farm ASP grew 3.4% YoY (+1.4% QoQ) at Rs657.3k/unit. Gross margins expanded 130bp YoY (-30bp QoQ) at 24.7% (est 25%).
- Gross margins expanded 90bp YoY (-30bp QoQ) at 24.4% (est 24.9%). EBITDA came in at Rs30.7b (+25.7% YoY/ -5.2% QoQ, est Rs34b) with margins at 12.6% (+100bp YoY/ -80bp QoQ, est 13.6%). However, adjusted for one-offs impact of ~90bp due to new product launches in FES, margin were in-line.
- Segmental EBIT - Auto +150bp QoQ (+310bp YoY) at 9%, FES at 16% (+70bp YoY/ -150bp QoQ).
- Led by higher other income at Rs21.5b (including investment income from subs, est Rs8b) due to one-off gains of Rs2.1b pertaining to transfer of MLMML, Adj.PAT came in better at Rs34.5b (+53% YoY/ +24.4% QoQ, est ~Rs27b).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	243,099	255,546	246,681	-4.9	-1.5	Adjusted for one-offs, EBITDA margins were in-line with our estimates.
EBITDA	30,660	34,747	31,776	-11.8	-3.5	
EBITDA margins %	12.6	13.6	12.9	-100bp	-30bp	
Adjusted PAT	34,519	26,945	26,442	28.1	30.5	

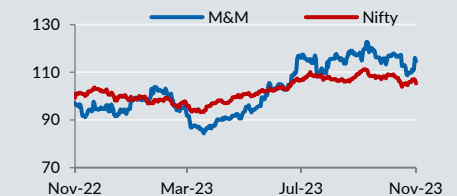
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,524
Target Price	: Rs 1,753
Potential Return	: +15%

Stock data (as on Nov 10, 2023)

Nifty	19,425
52 Week h/l (Rs)	1670 / 1123
Market cap (Rs/USD mn)	1858366 / 22318
Outstanding Shares (mn)	1,197
6m Avg t/o (Rs mn):	3,603
Div yield (%):	1.0
Bloomberg code:	MM IN
NSE code:	M&M

Stock performance



	1M	3M	1Y
Absolute return	-0.9%	-1.4%	17.4%

Shareholding pattern (As of Sep'23)

Promoter	18.9%
FII+DII	65.6%
Others	9.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,753	1,721

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	90.5	98.5
EPS (Old)	80.7	96.0
% change	12.2	2.6

Financial Summary

INR bn	2023	2024E	2025E
Sales	849.6	975.9	1,085.3
EBITDA	104.4	126.3	142.2
Adj. Profit	77.0	110.7	120.3
EPS (INR)	64.3	92.4	100.4
EPS Gr. (%)	52.7	43.8	8.6
BV/Sh. (INR)	362	437	519
RoE (%)	18.7	23.1	21.0
RoCE (%)	16.3	20.8	19.2
P/E (x)	23.7	16.5	15.2
P/BV (x)	4.2	3.5	2.9
EV/EBITDA (x)	16.6	13.6	12.2
Div. Yield (%)	1.1	1.1	1.2

DEEP SHAH

Lead Analyst

deep.shah@ysil.in



Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY24	Q2FY23	YoY chg	Q1FY24	H1FY24	H1FY23	YoY chg
Net Revenues	243,099	210,101	15.7	240,561	483,659	407,352	18.7
Raw Materials	183,793	160,768	14.3	181,149	364,941	311,893	17.0
% of Net Sales	75.6%	76.5%		75.3%	75.5%	76.6%	
Personnel	11,262	9,224	22.1	10,447	21,710	17,666	22.9
% of Net Sales	4.6%	4.4%		4.3%	4.5%	4.3%	
Manufacturing & Other Exp	17,384	15,723	10.6	16,613	33,997	30,071	13.1
% of Net Sales	7.2%	7.5%		6.9%	7.0%	7.4%	
Total Expenditure	212,439	185,715	14.4	208,209	420,648	359,630	17.0
EBITDA	30,660	24,387	25.7	32,351	63,011	47,722	32.0
EBITDA Margin (%)	12.6%	11.6%	1.0	13.4%	13.0%	11.7%	
Depreciation	8,158	7,913	3.1	8,281	16,440	14,868	10.6
EBIT	22,502	16,474	36.6	24,070	46,571	32,854	41.8
Interest Expenses	329	641	(48.7)	323	653	1,339	(51.3)
Non-operating income	21,500	13,134	63.7	9,699	31,199	15,413	102.4
Extraordinary Income	0	(2,479)		0	0	(2,888)	NA
PBT	43,672	26,488	64.9	33,445	77,117	44,040	75.1
Tax-Total	9,153	6,394	43.2	5,708	14,861	9,905	50.0
Tax Rate (%) - Total	21.0%	24.1%		17.1%	19.3%	22.5%	
Reported PAT	34,519	20,094	71.8	27,737	62,256	34,135	82.4
Adj. PAT	34,519	22,572	52.9	27,737	62,256	37,023	68.2
PAT Margin	14.2%	10.7%		11.5%	12.9%	9.1%	
Key Operating Metrics							
Sales Volume (nos)	302,139	273,213	10.6	298,642	600,781	545,184	10.2
Net Realisation/Vehicle	804,593	769,002	4.6	805,515	805,051	747,182	7.7
Material cost / vehicle	608,304	588,434	3.4	606,575	607,445	572,087	6.2
Gross Profit / vehicle	196,288	180,568	8.7	198,939	197,606	175,095	12.9
Employee cost /vehicle	37,276	33,761	10.4	34,983	36,136	32,404	11.5
Other expenses / vehicle	57,536	57,547	(0.0)	55,629	56,588	55,157	2.6
EBITDA/vehicle	101,476	89,259	13.7	108,327	104,882	87,534	19.8
Net Profit/vehicle	114,248	82,618	38.3	92,878	103,625	67,910	52.6

Source- Company, YES Sec

Exhibit 3: SOTP valuation

Particulars	FY24E	FY25E
Core EPS (excl. subsidiary dividend)	90.5	98.5
PE attributable (x)	13	13
Value of core business	1,177	1,280
Valuation of ePV business (@ 50% holdco)	163	163
Value of subsidiaries @ Hold Co discount	30	30
1. Tech Mahindra	231	231
2. M&M Financial Services	34	34
3. Mahindra Lifespaces	4	4
4. Mahindra Holidays	24	24
5. Mahindra Logistics	17	17
Target price	1,649	1,753

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Auto

- **Open bookings** as of 1st Nov'23 at ~286 units (v/s 281k units on 1st Aug'23 at 292k units in May'23, 266k units in Feb'23 and Nov'22 at 260k+) –
 - XUV300/400 at 10k (v/s 11k/29k/23k/13k in Aug'23/May'23/Feb'23/Nov'22),
 - XUV700 – 70k (v/s 77k/78k/77k/80k in Aug'23/May'23/Feb'23/Nov'22),
 - Thar 76k (v/s 68k/58k/37k/20k in Aug'23/May'23/Feb'23/Nov'22),
 - Bolero (including NEO) – 11k/(v/s 8.4k/8.2k/9k/13k in Aug'23/May'23/Feb'23/Nov'22),
 - Scorpio N (including classic) at 119k (v/s 117k /117k/119k /130k in Aug'23 /May'23/Feb'23/Nov'22).
 - **Cancellation remains at <8% (average of monthly cancellations)**
 - **Vehicles priced higher >1.3-1.4m demand is still strong while <1.2-1m is seeing some stretch. Festive demand** have seen a good growth.
 - Thar – launch of rear wheel drive has helped garner bookings.
 - XUV 700 – demand is still strong for the higher end trims while able to meet demand for lower end trims.
 - **Scorpio Classic** – demand has not seen much cannibalization with Scorpio N.
- SUV on track to achieve 49k units production by end of FY24E (v/s current production run rate at 44k unit per month). Expect capacity to be higher than 49k.
- **Inventory** - Dealer average stock is ~30 days in 2QFY24 (flat QoQ).
- LCV <3.5t market share at 49.6% (v/s 49.1%/44.4%/46.5%/ 46.9% 1Q/4Q/3Q/2QFY23).
- **Last mile mobility business** –
 - EV 3W volumes highest ever at 18.6k units in 2Q (v/s 14.7k units in 1Q, 14.65k units in 4Q and 11.8k units in 3Q) with e3Wmarket share at ~63% in 1HFY24 (v/s 65.5% in 1Q, 67% in 1Q and 63.5% in 4Q). Expect FY24E EV 3W volumes to be ~74k units.
 - EV penetration in L5 category is ~10.5% in 2QF24 (~7.2% 2QFY23) where pax penetration at 10.1% and Cargo penetration at 12.5%.
 - Have received certification for PLI. Have not yet submitted application for XUV400.
- **Classic legends** – recent launches are well received by the market. Challenges are behind and expect the significant growth ahead.
- **Hybrid vs ICE** – make sense in certain usage patterns such as fleet as fuel efficiency offset by high upfront investments. M&M can decide to take on hybrid route for certain segment (currently not doing much on hybrid) but core strategy would be BEV only.

Farm segment

- **Outlook** – Expect farm industry volumes to be flat for FY24E. Markets like South states and Maharashtra is slow while North market is doing well.
- **Farm machinery revenues** grew 35% YoY at Rs2.23b (v/s Rs1.97b in 1Q and Rs1.65b in 2QFY23). Maintained guidance of +40% growth in FY24E as 1HFY24 revenues grew by 29% YoY at Rs4.2b.

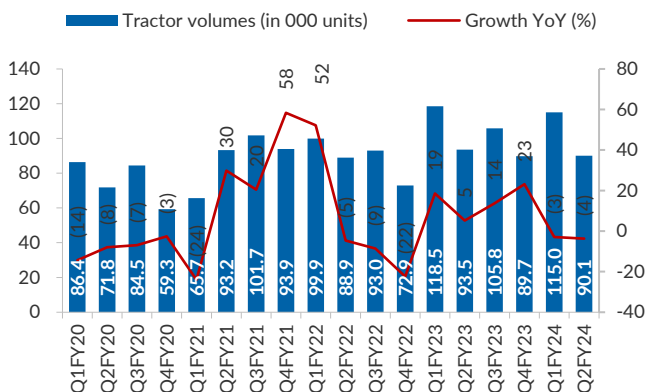
- Indicated no 2 position in Rotavators with estimated market share of 21.5% in 1HFY24 (v/s 23.5% in 1QFY24 and 17.9% in 1HFY23).
- **New products launch** - Have launch Swaraj 8200 wheel harvester.
- **Core tractor EBIT margins at 17.5%** (v/s 18.6%/17.9%/16.9% in 1QFY24/4QFY23/1QFY23 and FY19 margins of 19.8%).
 - **Margins impact** - One-time impact of 90b due to OJA, Naya Swaraj & Target launches, 20bp impact due to mix impact of OJA
 - Expect one-time impact in 3QFY24 due to world cup sponsorship (indicated to three digit Rs impact).

Financials

- **PAT for Auto and FES at Rs10.15b** (2x YoY) and Rs8b (-7% YoY).
- Powerol revenue is ~Rs20b per annum.

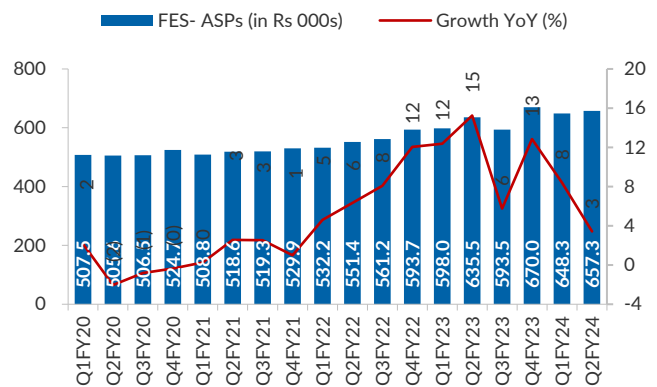
CHARTS

Exhibit 1: FES volumes fell 4% YoY in 2QFY24



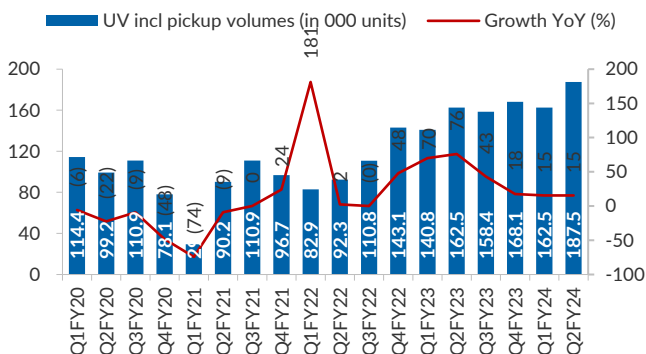
Source: Company, YES Sec

Exhibit 2: ...while FES ASP grew ~3.4% YoY at Rs657.3k



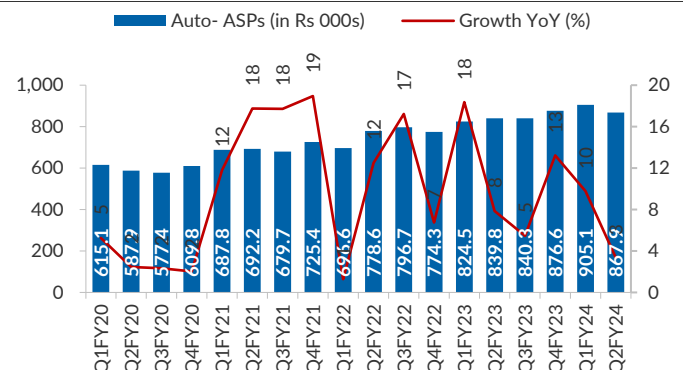
Source: Company, YES Sec

Exhibit 3: Auto vols grew 15.4% YoY in 2QFY24



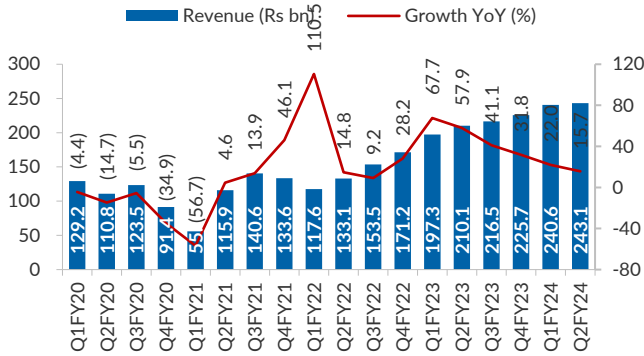
Source: Company, YES Sec

Exhibit 4: Auto ASPs grew 3.3% YoY at Rs867.9k/unit



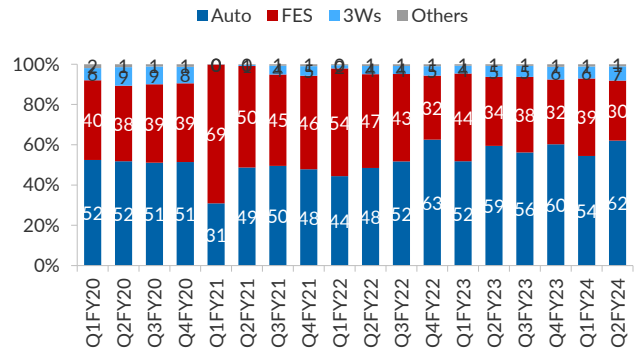
Source: Company, YES Sec

Exhibit 5: S/A revenue grew ~15.7% YoY at ~Rs243.1b



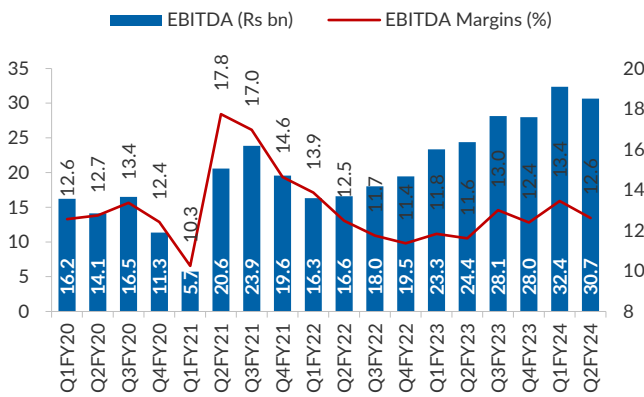
Source: Company, YES Sec

Exhibit 6: Tractor volume mix declined in 2QFY24



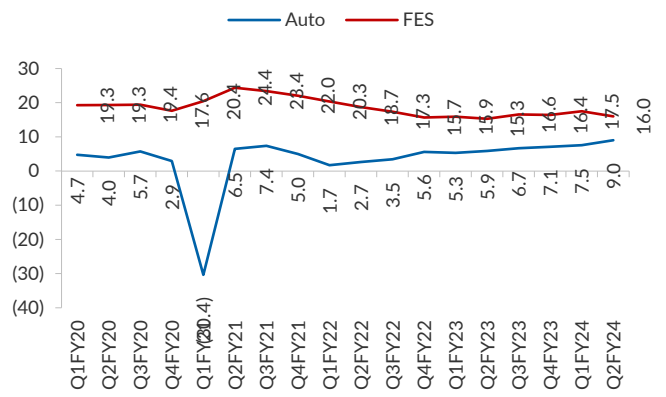
Source: Company, YES Sec

Exhibit 7: Margins contracted ~80bp QoQ at 12.6%



Source: Company, YES Sec

Exhibit 8: Segmental EBIT margin trend of Auto/FES



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/E March	2021	2022	2023	2024E	2025E
Share Capital	5,974	5,983	5,991	5,991	5,991
Reserves	343,536	383,627	427,577	517,629	616,051
Net Worth	349,510	389,610	433,568	523,619	622,041
Deferred tax	14,497	17,008	14,703	14,850	14,998
Loans	77,863	67,336	50,255	48,455	46,655
Capital Employed	441,870	473,953	498,526	586,925	683,695
Application of Funds					
Gross Fixed Assets	273,119	308,460	364,280	367,127	392,127
Less: Depreciation	153,006	162,974	194,518	228,529	258,899
Net Fixed Assets	120,113	145,487	169,762	138,598	133,228
Capital WIP	61,255	50,182	27,846	60,000	70,000
Investments	217,826	251,098	270,871	275,391	290,171
Curr.Assets, L & Adv.	216,451	224,537	289,319	349,811	445,294
Inventory	47,830	58,829	88,814	106,952	163,536
Sundry Debtors	22,028	30,351	40,417	58,823	65,414
Cash & Bank Bal.	63,952	36,505	44,818	64,347	54,386
Loans & Advances	19,324	28,057	23,544	27,045	68,388
Others	63,317	70,795	91,727	92,644	93,571
Current Liab. & Prov.	173,775	197,350	259,273	236,875	254,997
Sundry Creditors	106,427	128,935	171,456	147,058	163,536
Other Liabilities	52,271	54,752	69,677	68,980	68,291
Provisions	15,077	13,663	18,139	20,836	23,171
Net Current Assets	42,676	27,187	30,047	112,936	190,297
Application of Funds	441,870	473,953	498,526	586,925	683,695

Source: Company, YES Sec

Exhibit 10: Income statement

Y/E March	2021	2022	2023	2024E	2025E
Net Op. Income	446,299	577,869	849,603	975,933	1,085,283
Change (%)	(1.9)	29.5	47.0	14.9	11.2
Total Expenditure	376,724	507,595	745,179	849,677	943,069
% of sales	84.4	87.8	87.7	87.1	86.9
EBITDA	69,575	70,275	104,424	126,256	142,213
Margins (%)	15.6	12.2	12.3	12.9	13.1
Depreciation	23,699	24,984	31,545	34,010	30,370
EBIT	45,876	45,291	72,879	92,245	111,843
Deferred Revenue Exp.	-	-	-	-	-
Int. & Finance Charges	3,963	2,262	2,728	2,468	1,902
Other Income	11,995	20,538	25,452	50,373	42,321
Non-recurring Expense	-	-	-	-	-
Non-recurring Income	(30,873)	(2,087)	(14,295)	-	0
Profit before Tax	23,035	61,480	81,308	140,151	152,262
Tax	13,193	12,781	15,821	29,432	31,975
Eff. Tax Rate (%)	57.3	20.8	19.5	21.0	21.0
Profit after Tax	9,842	48,699	65,486	110,719	120,287
Adj. Profit after Tax	34,296	50,352	77,000	110,719	120,287
Change (%)	56.6	46.8	52.9	43.8	8.6
Adj. PAT	40,974	48,418	77,523	108,439	118,006

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/E March	2021	2022	2023	2024E	2025E
OP/(Loss) before Tax	53,907	64,441	72,879	92,245	111,843
Int./Dividends Received	(9,458)	(17,438)	25,452	50,373	42,321
Depreciation & Amort.	23,699	24,511	31,545	34,010	30,370
Direct Taxes Paid	(11,381)	(5,981)	(18,127)	(29,285)	(31,827)
(Inc)/Dec in Wkg. Capital	35,866	4,967	5,452	(63,360)	(87,322)
Other Items	4,928	3,220	-	-	-
CF from Oper. Activity	97,563	73,720	117,202	83,985	65,386
Extra-ordinary Items	(1,626)	(2,783)	(14,295)	-	-
CF after EO Items	95,936	70,937	102,906	83,985	65,386
(Inc)/Dec in FA+CWIP	(33,113)	(31,859)	(33,485)	(35,000)	(35,000)
Free Cash Flow	64,450	41,861	83,717	48,985	30,386
(Pur)/Sale of Invest.	(112,247)	(11,730)	(19,773)	(4,520)	(14,780)
CF from Inv. Activity	(145,359)	(43,589)	(53,257)	(39,520)	(49,780)
Change in Net Worth	-	-	(2,059)	0	(0)
Inc/(Dec) in Debt	42,115	(13,168)	(17,080)	(1,800)	(1,800)
Interest Paid	(4,038)	(4,793)	(4,661)	(4,401)	(3,835)
Dividends Paid	(2,936)	(10,891)	(19,469)	(20,667)	(21,865)
CF from Fin. Activity	35,142	(28,852)	(43,270)	(26,868)	(27,501)
Inc/(Dec) in Cash	(14,282)	(1,504)	20,675	17,597	(11,895)
Add: Beginning Balance	22,957	8,676	36,505	44,818	64,347
Closing Balance	8,675	7,172	57,180	62,414	52,453

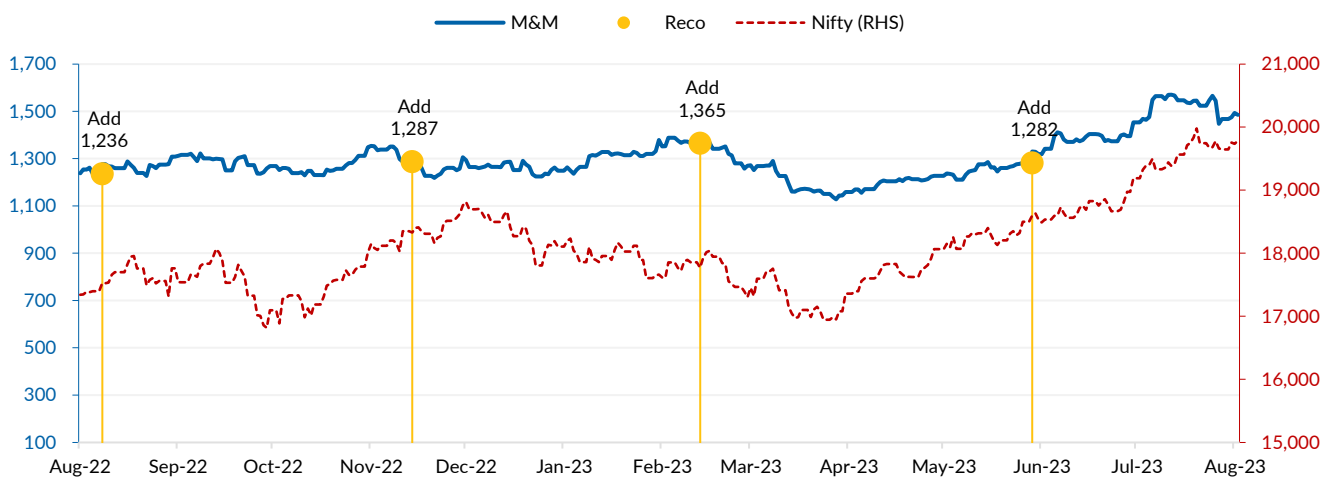
Source- Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/E March	2021	2022	2023	2024E	2025E
Basic (INR)					
Fully diluted EPS	28.7	42.1	64.3	92.4	100.4
FD EPS (incl MVML)	34.3	40.5	64.7	90.5	98.5
Cash EPS	48.5	63.0	90.6	120.8	125.7
Book Value per Share	292.5	325.6	361.9	437.0	519.2
DPS	8.8	11.6	16.3	17.3	18.3
Payout (Incl. Div. Tax) %	106.2	28.4	29.7	18.7	18.2
Valuation (x)					
P/E	44.4	37.7	23.6	16.8	15.5
Cash P/E	31.4	24.2	16.8	12.6	12.1
EV/EBITDA	25.7	25.3	16.6	13.6	12.2
EV/Sales	4.0	3.1	2.0	1.8	1.6
Price to Book Value	5.2	4.7	4.2	3.5	2.9
Dividend Yield (%)	0.6	0.8	1.1	1.1	1.2
Profitability Ratios (%)					
RoE	9.9	13.6	18.7	23.1	21.0
RoCE	6.0	11.4	16.3	20.8	19.2
ROIC	19.1	30.5	40.3	42.6	38.7
Turnover Ratios					
Debtors (Days)	18.0	19.2	17.4	22.0	22.0
Inventory (Days)	39.1	37.2	38.2	40.0	55.0
Creditors (Days)	87.0	81.4	73.7	55.0	55.0
Working Capital (Days)	34.9	17.2	12.9	42.2	64.0
Asset Turnover (x)	1.0	1.2	1.7	1.7	1.6
Growth (%)					
Sales	(1.9)	29.5	47.0	14.9	11.2
Operating Profit	15.6	12.2	12.3	12.9	13.1
Net Profit	56.6	46.8	52.9	43.8	8.6
EPS	56.3	46.6	52.7	43.8	8.6
Leverage Ratio					
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1

Source- Company, YES Sec

Recommendation Tracker



Source – YES Sec

DISCLAIMER

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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

✉ research@ysil.in | Website: www.YESinvest.in

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Details of Compliance Officer: Name: Aditya Goenka, **Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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