

# Mahindra & Mahindra | BUY

## Healthy qtr; Robust demand for UVs, Tractor cycle key monitorable

Mahindra & Mahindra (M&M) reported 3QFY24 EBITDA margin of 12.8% (-20bps YoY, +20bps QoQ), 40bps above JMFe. Domestic tractor industry is expected to decline by 10% / 5% during 4Q / FY24 owing to muted demand and inventory correction. Normal monsoon remains a key enabler for FY25. In the auto segment, supply constraints have largely eased. Gradual addition to SUV capacity (by 4QFY24), high outstanding bookings (226k+ units) and healthy new bookings' rate are likely to drive sales growth. Higher operating leverage and benign commodity costs are expected to support the margin performance going ahead. Driven by strong demand tailwind in autos, we maintain BUY with a Mar'25 target price of INR 1,850 (SOTP valuation, 16x core business). Revival in tractor demand remains a key monitorable.

- 3QFY24 – Margin beats estimate:** In 3QFY24, M&M reported net sales of INR 253bn (+17% YoY, +4%QoQ), broadly in-line with JMFe. EBITDA margin stood at 12.8% (-20bps YoY, +20bps QoQ), 40bps above JMFe. Auto EBIT margin (adj.) stood at 8.3% (+170bps YoY, -70bps QoQ), 80bps above JMFe. Reported farm segment EBIT margin stood at 15.5% (-70bps YoY, -50bps QoQ), 100bps below JMFe. This was due to higher marketing expenses (70bps impact). EBITDA stood at INR 32.4bn (+15%YoY, +6%QoQ), 4% above JMFe. Adj. PAT for the quarter stood at INR 24.5bn (+14%YoY, -29% QoQ), 2% above JMFe.
- FES segment - 3QFY24 update & outlook:** M&M's total tractor volume stood at c.101.7k units (-4% YoY, +13% QoQ). Its tractor market share improved by 80bps YoY to 41.8% (during 9MFY24) led by new launches and network expansion. The company indicated that monsoon shortfall has impacted demand in Southern states and Maharashtra. While retails have been higher than wholesales, current inventory is slightly higher than normal level (30 days) and it expects to correct the same over next 2 months. Overall, the industry is expected to decline by c.10% / c.5% during 4Q / FY24. Positive enablers for FY25 are 1) normal monsoons, 2) positive terms of trade and 3) favourable festive base. In respect of Farm Machinery, revenue grew by 35% YoY at INR 2.2bn (+28% YoY). M&M is aiming for 40% CAGR growth in the medium-term (30%+ in FY24) and expect significant improvement in profitability over next 18-24 months.
- Automotive segment - 3QFY24 update & outlook:** M&M's revenue market share for SUV segment increased by 40bps to 21% during 3Q (FY23: 19.1%). The company remains on track to ramp-up SUV vols. to c.49k units/month by 4QFY24. Supply situation has normalised. Led by the ramp-up in capacity, the company has brought down its order book to 226k+ units from 286k+ units QoQ. Management indicated that the underlying demand remains robust esp. in the premium segment (>INR 1.3mn price point products) and new booking run-rate stands at c.50k units/month. While cancellations increased during 3Q to c.10% p.m. (owing to seasonality), it has normalised in Jan'24 to c.8%. Management has guided for mid-to-high teen growth in SUV sales during FY25 (vs. industry SUV growth of 10-12%). Development of 'Born Electric' EV models is on track. Management indicated that Auto EBIT margins are gradually improving led by positive operating leverage and better efficiencies.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,850
Upside/(Downside)	11.6%
Previous Price Target	1,725
Change	7.2%

### Key Data – MM IN

Current Market Price	INR1,657
Market cap (bn)	INR2,060.6/US\$24.8
Free Float	68%
Shares in issue (mn)	1,189.9
Diluted share (mn)	1,198.1
3-mon avg daily val (mn)	INR4,157.4/US\$50.1
52-week range	1,758/1,123
Sensex/Nifty	71,823/21,840
INR/US\$	83.0

### Price Performance

%	1M	6M	12M
Absolute	2.0	7.1	21.6
Relative*	3.1	-2.5	3.3

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	577,869	849,603	990,202	1,093,101	1,179,896
Sales Growth (%)	28.3	47.0	16.5	10.4	7.9
EBITDA	70,275	104,424	127,246	144,957	157,619
EBITDA Margin (%)	12.2	12.3	12.9	13.3	13.4
Adjusted Net Profit	50,786	79,782	111,831	119,407	127,369
Diluted EPS (INR)	42.4	66.6	93.3	99.7	106.3
Diluted EPS Growth (%)	29.0	56.9	40.2	6.8	6.7
ROIC (%)	25.5	35.9	40.7	38.8	37.6
ROE (%)	14.0	19.6	23.3	20.8	18.9
P/E (x)	39.0	24.9	17.8	16.6	15.6
P/B (x)	5.2	4.6	3.8	3.2	2.7
EV/EBITDA (x)	27.4	18.0	14.5	12.4	11.0
Dividend Yield (%)	0.7	0.7	1.0	1.2	1.2

Source: Company data, JM Financial. Note: Valuations as of 14/Feb/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

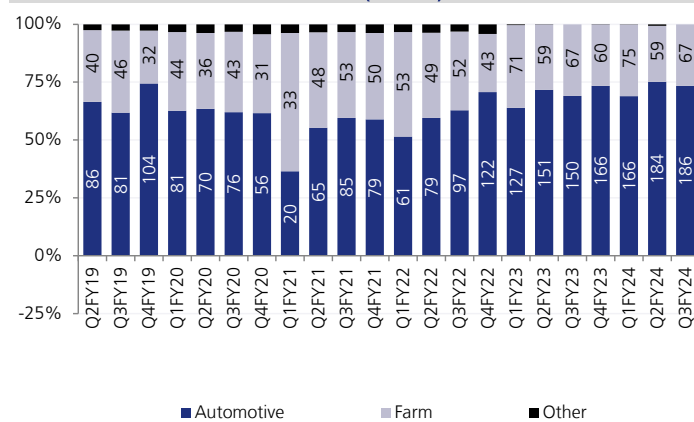
- **Capital allocation:** 1) The Company indicated that both Auto and Farm segments are generating healthy cash flows and are self-sufficient. If required, cashflows from farm and services segment (MMFSL & TechM) will also be available to fund EV related investments (INR100bn by FY27) and 'Growth Gems' for value creation.
- **Other highlights:** 1) Management indicated that Susten (one of its Growth Gems) is on track to create >5x value in 5yrs. The other 'Growth Gems' – E3Ws, Hospitality, Real Estate, Logistics and Classic Legends are also on track to create significant value over medium-to-long term. 2) E3W volumes during 3Q were 11.6k units (+118% YoY) and market share stood at 48.5%. However, it stood at c.61% during Jan'24. Currently, E3W industry penetration stands at 11.6%. The company indicated that with rise in competition, it expects EV penetration to increase and M&M market share to moderate going forward. 3) PLI scheme - E3Ws are eligible for PLI and the company expects to receive incentives soon. With respect to electric passenger vehicles M&M will apply for PLI certification by 2QFY25. 4) M&M remains committed to sustaining at least 18% ROE for its group operations.

**Exhibit 1. Quarterly financial result (standalone)**

(INR mn)	3QFY24	3QFY23	% YoY	2QFY24	% QoQ	3QFY24E	% A/E
<b>Sales</b>	<b>252,885</b>	<b>216,537</b>	<b>16.8</b>	<b>243,099</b>	<b>4.0</b>	<b>249,967</b>	<b>1.2</b>
Cost of Goods Sold	190,660	164,471	15.9	183,793	3.7	189,975	0.4
As a % of sales	75.4	76.0	-60bps	75.6	-20bps	76.0	-60bps
Staff Cost	11,343	9,342	21.4	11,262	0.7	10,624	6.8
As a % of sales	4.5	4.3	20bps	4.6	-10bps	4.3	20bps
Other expenses	18,518	14,583	27.0	17,384	6.5	18,373	0.8
As a % of sales	7.3	6.7	60bps	7.2	20bps	7.4	0bps
Expenditure	220,521	188,395	17.1	212,439	3.8	218,971	0.7
<b>EBITDA</b>	<b>32,364</b>	<b>28,142</b>	<b>15.0</b>	<b>30,660</b>	<b>5.6</b>	<b>30,996</b>	<b>4.4</b>
<b>EBITDA Margin (%)</b>	<b>12.8</b>	<b>13.0</b>	<b>-20bps</b>	<b>12.6</b>	<b>20bps</b>	<b>12.4</b>	<b>40bps</b>
Other Income	7,370	6,700	10.0	21,500	-65.7	8,000	-7.9
Interest	348	686	-49.2	329	5.7	330	5.5
Depreciation	8,179	8,292	-1.4	8,158	0.3	8,300	-1.5
PBT	31,207	25,865	20.7	43,672	-28.5	30,366	2.8
Tax	6,668	4,296	55.2	9,153	-27.2	6,377	4.6
Tax rate (%)	21.4	16.6	480bps	21.0	40bps	21.0	40bps
<b>PAT (Adjusted)</b>	<b>24,540</b>	<b>21,569</b>	<b>13.8</b>	<b>34,519</b>	<b>-28.9</b>	<b>23,989</b>	<b>2.3</b>
<b>PAT Margin (%)</b>	<b>9.7</b>	<b>10.0</b>	<b>-30bps</b>	<b>14.2</b>	<b>-450bps</b>	<b>9.6</b>	<b>10bps</b>

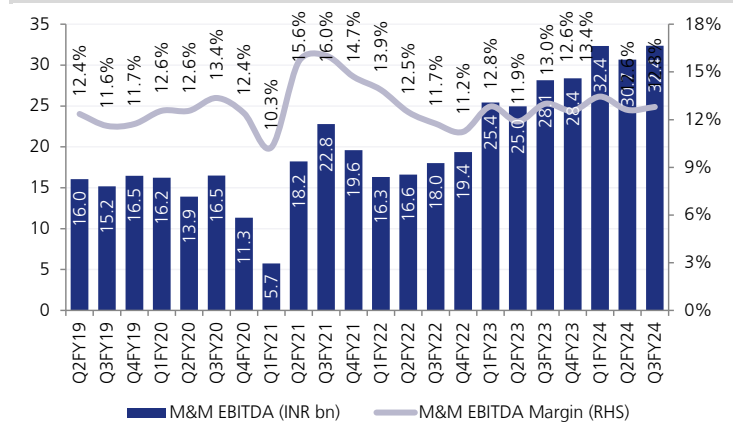
Source: Company, JM Financial

**Exhibit 2. Standalone revenue mix (INR bn)**



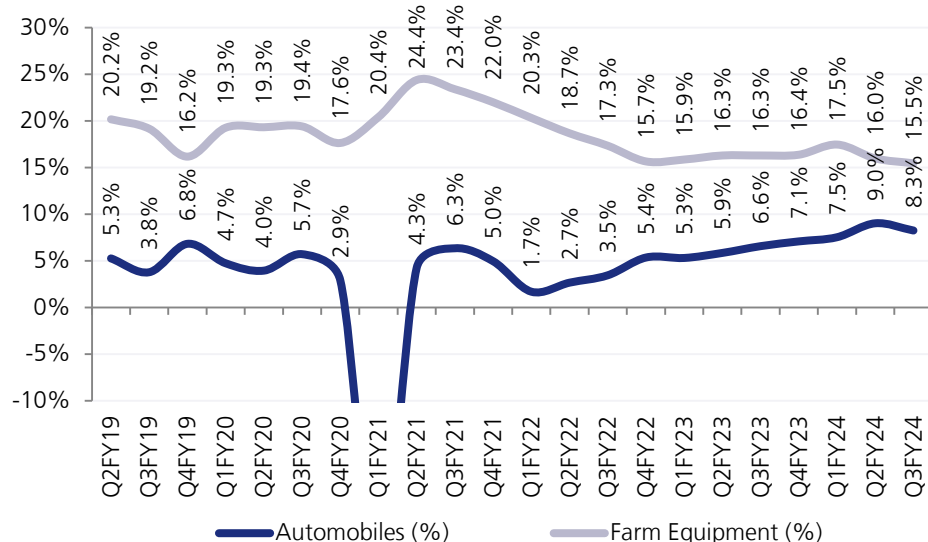
Source: Company, JM Financial

**Exhibit 3. Standalone EBITDA trend**



Source: Company, JM Financial

## Exhibit 4. Segment-wise EBIT margin



Source: Company, JM Financial

## Exhibit 5. M&amp;M (standalone) - change in assumptions

M&M	New assumption			Old assumption			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	990,202	1,093,101	1,179,896	980,937	1,070,461	1,152,881	1%	2%	2%
Auto Vol. (mn units)	837,699	912,478	975,029	803,580	880,325	945,382	4%	4%	3%
Growth (%)	20%	9%	7%	15%	10%	7%			
Tractor Vol. (mn units)	388,507	405,435	422,232	408,446	418,128	428,155	-5%	-3%	-1%
Growth (%)	-5%	4%	4%	0%	2%	2%			
EBITDA (INR mn)	127,246	144,957	157,619	128,595	143,113	155,143	-1.0%	1.3%	1.6%
EBITDA margin (%)	12.9%	13.3%	13.4%	13.1%	13.4%	13.5%	(20bps)	(10bps)	(10bps)
PAT (INR mn)	111,831	119,407	127,369	110,027	115,318	122,634	1.6%	3.5%	3.9%
EPS (INR)	93	100	106	92	96	102	1.6%	3.5%	3.9%

Source: Company, JM Financial

## Exhibit 6. SOTP valuation

	Methodology	Value per share (INR)
<b>Core business</b>	<b>16x Core EPS</b>	<b>1,300</b>
<b>PV EV Co.</b>	<a href="#">Refer link</a>	<b>170</b>
<b>Listed subsidiaries:</b>		
Tech Mahindra	30% discount to TP/CMP	177
Mahindra Finance	30% discount to TP/CMP	120
Mahindra Life	30% discount to TP/CMP	20
Mahindra Holiday	30% discount to TP/CMP	32
Mahindra Logistics	30% discount to TP/CMP	9
Swaraj Engines	30% discount to TP/CMP	9
EPC	30% discount to TP/CMP	1
CIE Automotive SA	30% discount to TP/CMP	12
<b>Total subsidiary value</b>		<b>380</b>
<b>Total Value - SOTP</b>		<b>1,850</b>

Source: JM Financial

## Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	577,869	849,603	990,202	1,093,101	1,179,896	
Sales Growth	28.3%	47.0%	16.5%	10.4%	7.9%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>577,869</b>	<b>849,603</b>	<b>990,202</b>	<b>1,093,101</b>	<b>1,179,896</b>	
Cost of Goods Sold/Op. Exp	425,604	645,582	748,593	824,198	888,462	
Personnel Cost	33,296	36,499	43,069	47,429	51,223	
Other Expenses	48,695	63,098	71,295	76,517	82,593	
<b>EBITDA</b>	<b>70,275</b>	<b>104,424</b>	<b>127,246</b>	<b>144,957</b>	<b>157,619</b>	
EBITDA Margin	12.2%	12.3%	12.9%	13.3%	13.4%	
EBITDA Growth	8.0%	48.6%	21.9%	13.9%	8.7%	
Depn. & Amort.	24,984	31,545	33,576	38,359	43,168	
EBIT	45,291	72,879	93,671	106,598	114,451	
Other Income	20,538	25,452	47,618	49,977	52,464	
Finance Cost	2,262	2,728	1,500	1,500	1,500	
PBT before Excep. & Forex	63,567	95,603	139,789	155,075	165,415	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	63,567	95,603	139,789	155,075	165,415	
Taxes	12,781	15,821	27,958	35,667	38,045	
Extraordinary Inc./Loss(-)	-2,087	-14,295	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	48,699	65,486	111,831	119,407	127,369	
<b>Adjusted Net Profit</b>	<b>50,786</b>	<b>79,782</b>	<b>111,831</b>	<b>119,407</b>	<b>127,369</b>	
Net Margin	8.8%	9.4%	11.3%	10.9%	10.8%	
Diluted Share Cap. (mn)	1,196.6	1,198.1	1,198.1	1,198.1	1,198.1	
<b>Diluted EPS (INR)</b>	<b>42.4</b>	<b>66.6</b>	<b>93.3</b>	<b>99.7</b>	<b>106.3</b>	
Diluted EPS Growth	29.0%	56.9%	40.2%	6.8%	6.7%	
Total Dividend + Tax	13,821	13,838	19,469	23,962	23,962	
Dividend Per Share (INR)	11.6	11.6	16.3	20.0	20.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	63,567	95,603	139,789	155,075	165,415	
Depn. & Amort.	24,984	31,545	33,576	38,359	43,168	
Net Interest Exp. / Inc. (-)	2,262	2,728	1,500	1,500	1,500	
Inc (-) / Dec in WCap.	-10,015	-111	-13,492	-5,600	-5,979	
Others	-2,087	-14,295	0	0	0	
Taxes Paid	-12,781	-15,821	-27,958	-35,667	-38,045	
<b>Operating Cash Flow</b>	<b>65,930</b>	<b>99,648</b>	<b>133,414</b>	<b>153,666</b>	<b>166,058</b>	
Capex	-76,536	-27,486	-53,147	-57,399	-61,991	
Free Cash Flow	-10,606	72,162	80,267	96,268	104,068	
Inc (-) / Dec in Investments	-1,393	-28,826	-25,000	-25,000	-25,000	
Others	-2,262	-2,728	-1,500	-1,500	-1,500	
<b>Investing Cash Flow</b>	<b>-80,191</b>	<b>-59,040</b>	<b>-79,647</b>	<b>-83,899</b>	<b>-88,491</b>	
Inc / Dec (-) in Capital	9	8	0	0	0	
Dividend + Tax thereon	-13,821	-13,838	-19,469	-23,962	-23,962	
Inc / Dec (-) in Loans	-3,517	-17,175	6,000	6,000	6,000	
Others	5,541	-1,291	1,398	1,551	1,654	
<b>Financing Cash Flow</b>	<b>-11,788</b>	<b>-32,297</b>	<b>-12,071</b>	<b>-16,411</b>	<b>-16,308</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-26,049</b>	<b>8,312</b>	<b>41,696</b>	<b>53,357</b>	<b>61,260</b>	
Opening Cash Balance	62,554	36,505	44,818	86,513	139,870	
Closing Cash Balance	36,505	44,817	86,513	139,870	201,130	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	381,981	433,567	525,929	621,375	724,782	
Share Capital	5,983	5,991	5,991	5,991	5,991	
Reserves & Surplus	375,998	427,577	519,939	615,384	718,791	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	67,431	50,255	56,255	62,255	68,255	
Def. Tax Liab. / Assets (-)	20,687	19,465	20,862	22,413	24,067	
<b>Total - Equity &amp; Liab.</b>	<b>470,098</b>	<b>503,287</b>	<b>603,047</b>	<b>706,043</b>	<b>817,104</b>	
Net Fixed Assets	201,667	197,608	217,180	236,219	255,042	
Gross Fixed Assets	314,223	366,490	414,336	467,483	524,882	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	165,183	196,728	230,303	268,663	311,830	
Capital WIP	52,627	27,846	33,147	37,399	41,991	
Investments	242,045	270,871	295,871	320,871	345,871	
Current Assets	222,353	289,319	374,350	457,618	544,108	
Inventories	59,704	88,814	94,951	104,818	113,141	
Sundry Debtors	30,386	40,417	54,258	59,896	64,652	
Cash & Bank Balances	36,505	44,818	86,513	139,870	201,130	
Loans & Advances	95,758	115,271	138,628	153,034	165,185	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	195,968	254,511	284,354	308,665	327,916	
Current Liabilities	129,701	171,456	194,839	214,517	231,244	
Provisions & Others	66,266	83,055	89,515	94,148	96,673	
Net Current Assets	26,385	34,808	89,996	148,953	216,192	
<b>Total - Assets</b>	<b>470,097</b>	<b>503,287</b>	<b>603,047</b>	<b>706,043</b>	<b>817,104</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	8.8%	9.4%	11.3%	10.9%	10.8%	
Asset Turnover (x)	1.3	1.7	1.8	1.7	1.5	
Leverage Factor (x)	1.2	1.2	1.2	1.1	1.1	
RoE	14.0%	19.6%	23.3%	20.8%	18.9%	

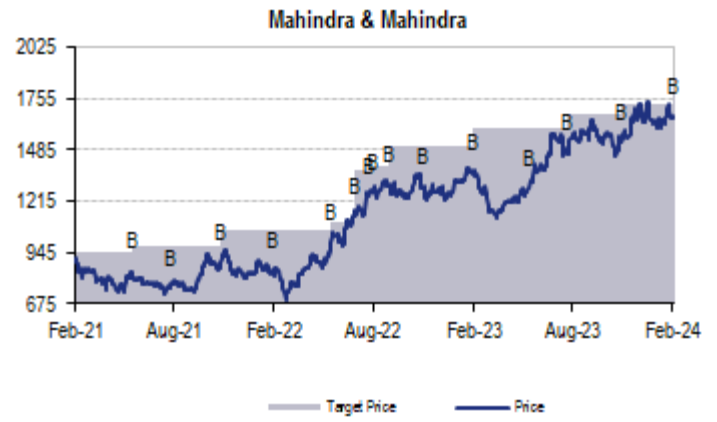
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	319.2	361.9	439.0	518.6	604.9	
ROIC	25.5%	35.9%	40.7%	38.8%	37.6%	
ROE	14.0%	19.6%	23.3%	20.8%	18.9%	
Net Debt/Equity (x)	-0.1	-0.2	-0.2	-0.3	-0.3	
P/E (x)	39.0	24.9	17.8	16.6	15.6	
P/B (x)	5.2	4.6	3.8	3.2	2.7	
EV/EBITDA (x)	27.4	18.0	14.5	12.4	11.0	
EV/Sales (x)	3.3	2.2	1.9	1.6	1.5	
Debtor days	19	17	20	20	20	
Inventory days	38	38	35	35	35	
Creditor days	93	84	82	83	83	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
13-Apr-20	Buy	490	
13-Jun-20	Buy	550	12.2
9-Aug-20	Buy	650	18.2
10-Nov-20	Buy	740	13.8
7-Feb-21	Buy	950	28.4
30-May-21	Buy	980	3.2
7-Aug-21	Buy	980	0.0
9-Nov-21	Buy	1,060	8.2
11-Feb-22	Buy	1,060	0.0
30-May-22	Buy	1,100	3.8
10-Jul-22	Buy	1,375	25.0
7-Aug-22	Buy	1,400	1.8
15-Aug-22	Buy	1,400	0.0
12-Sep-22	Buy	1,500	7.2
13-Nov-22	Buy	1,500	0.0
12-Feb-23	Buy	1,600	6.7
28-May-23	Buy	1,600	0.0
6-Aug-23	Buy	1,675	4.7
12-Nov-23	Buy	1,725	3.0
14-Feb-24	Buy	1,850	7.2

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

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