

MAHINDRA & MAHINDRA LIMITED

.....negatives in farm equipment segment factored in.

LKP
Since 1948**Trust • Invest • Grow**

M&M reported decent Q3 FY24 numbers wherein the topline was reported at ₹256 bn, a growth of 18.4% yoy and flattish qoq. Volumes rose by 11.6% yoy and realizations went up by about 6.6% yoy. Automotive division revenues came in at ₹185 bn, an increase of 26% yoy led by success of Thar, Bolero ,XUV & Scorpio families. M&M started rapidly catering to the order backlog as chip shortage issue softened and order book reduced to ~226K. Automotive segment reported strong EBIT margins, which rose by 160 bps yoy, (70 bps fall qoq) to 8.3% due to positive operating leverage, stable commodity basket and model mix. Tractor margins came slightly soft at 15.5% which were 50 bps lower qoq and lower 110 bps yoy as lower monsoons and unseasonal rains led to fall in volumes and margins, especially in South and West. Overall EBITDA margins therefore came in lower at a 14% (360 bps decline qoq and 100 bps growth yoy). Lower other income coupled with higher tax rate, led PAT to come in 13.8% up yoy at ₹24.5 bn. On a sequential basis, the growth was 31.5% lower. Overall results were quite decent despite tractor business being on weak wicket.

SUV demand remains strong despite capacity mismatch in certain models

M&M witnessed 29.7% yoy and 3% 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 101K open bookings since its launch (~16 k per month). The Thar and high cost XUV 700 launches are still having huge order book of ~7K each per month respectively, as their waiting periods are reducing now. Neo Bolero was launched in July 2021 which already has received strong order bookings (~10K 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 9K demand per month, while XUV 400 and 300 open bookings stood at 8.8K units p.m. The total order bookings stood at a reduced ~226K currently which is a positive sign indicating fast delivery of vehicles on the back of semi-conductor issue easing out. With this, the company was able to increase its SUV revenue market share at 21% from 19.9% 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. M&M might turn once again market leader as the company plans to launch its EV and ICE variants (XUV 300 mid-cycle refresh and 5 door Thar) in CY24. 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.

Key Financials	FY 23	FY 24E	FY 25E	FY 26E
Total sales (₹ bn)	850	997	1,190	1,433
EBITDA margins (%)	12.3	15.0	15.9	16.8
PAT margins (%)	9.4	11.2	12.1	12.7
EPS (₹)	67.0	94.0	120.6	152.4
P/E (x)	26.0	18.6	14.5	11.5
P/BV (x)	4.8	4.0	3.3	2.7
EV/EBITDA (x)	18.4	12.8	10.0	7.7
ROE (%)	18.4	21.6	22.8	23.6
Dividend yield (%)	0.7	1.2	1.6	2.0

Rating	BUY
Current Market Price (₹)	1,769
12M Price Target (₹)	2,051
Potential upside (%)	16

Stock Data

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	2,209
Free Float Market Cap (₹ bn) :	1,585
52-Week High / Low (₹) :	1,785 / 1,123
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

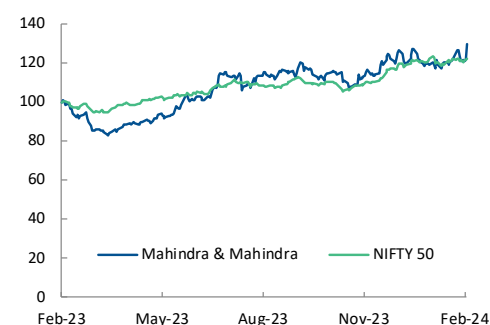
(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	19.32	19.34	19.37	19.37
FPIs	40.87	40.26	40.14	39.24
MFs	13.06	13.73	13.94	14.68
Insurance	10.51	10.53	10.72	10.61
Others	16.24	16.14	15.83	16.10

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
M&M	8.2%	14.6%	14.4%	28.2%
Nifty 50	-0.8%	11.4%	12.7%	21.6%

* To date / current date : February 15, 2024

M&M vs Nifty 50

Two models Thar and Scorpio are having capacity mismatches due to demand exceeding production, which may continue for this quarter, but shall normalise from FY25. There is a ramp down going on for the XUV 300 as a new mid-cycle refresh is coming in June, which may have a greater response. We expect SUVs to register 26%/19%/15% growth in FY24E/FY25E/FY26E respectively.

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. 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.

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. 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% in the <3T market. 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 5%/4%/8% volume growth in CVs in FY24E/25E/26E.

M&M has garnered 59.5% YTD 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 18.1K units of E-3Ws in Q2 itself as compared to just 16,000 units in FY 22. Despite increasing competition, we expect 33%/23%/15% (on a high base) growth in 3Ws in FY24E/25E/26E respectively.

Tractor segment market share grows on high base, near term outlook stays muted

M&M witnessed about 13% qoq growth and a 4% yoy de-growth in tractor volumes in Q3 FY24. M&M won market share by 80 bps yoy at 41.8% in Q3 FY24 yoy. 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, Govt's reduced spending on Agricultural and Rural development, slow Rabi sowing are also some of the reasons for low tractor growth. However, M&M highlighted that tractor segment retails are still holding up, which may report small declines as strong agricultural credit growth & MSPs, infrastructural activities (which would trigger non agri usage of tractors), success of newly launched Yuvo Tech + and launch of the lower HP range named as 'Swaraj Target' tractors in the 25HP and 29HP range may help the cause. 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 21.9% market share (17.3% in YTD 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 and Q4 FY24 may report 10% de-growth yoy. Currently we expect domestic FES segment to grow at -5%/7%/12% in FY24E/25E/26E respectively as against 5% fall expected by management in the current fiscal.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3 FY24	Q2 FY24	% QoQ	Q3 FY23	% YoY
Net sales	256,424	257,727	-0.5%	216,537	18.4%
Raw material costs	190,660	183,792	3.7%	164,471	15.9%
Employee costs	11,343	11,262	0.7%	9,342	21.4%
Other expenses	18,518	17,384	6.5%	14,583	27.0%
EBITDA	35,903	45,288	-20.7%	28,142	27.6%
<i>EBITDA margins %</i>	<i>14.0%</i>	<i>17.6%</i>	<i>(360 bps)</i>	<i>13.0%</i>	<i>100 bps</i>
Other income	3,832	8,191	-53.2%	6700	-42.8%
Depreciation	8,179	8,158	0.3%	8292	-1.4%
Interest expenses	348	329	5.7%	686	-49.2%
PBT	31,208	44,992	-30.6%	25865	20.7%
Tax	6,668	9,153	-27.2%	4296	55.2%
Reported PAT	24,540	34,519	-28.9%	15281	60.6%
Exceptional items	-	1,319	-	(6,288)	-
Adjusted PAT	24,540	35,839	-31.5%	21569	13.8%
Adj EPS	20.52	29.97	-31.5%	18.0	13.8%

Source: Company, LKP Research

Outlook and Valuation

We expect strong SUV run to continue as demand remains healthy. Within the Auto sector, the robust order book of Scorpio N variants, Thar and XUV family should rapidly cater to the waiting period. New launches in both ICE and EV segments should further drive further volumes. We expect low single digit de-growth for the FES segment on waning tractor cycle, low khariff output, slow rabi sowing and unseasonal rains. 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. We maintain BUY rating on attractive valuations; SoTP-based target price stands at ₹2,051 (₹1,676 core business valued at 11x rolled over FY26E earnings + subsidiary valuation of ₹375) 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, production increase offering operating leverage, price hikes and prudent cost reduction measures. We believe negatives of FES segment is factored in the price and we expect a recovery in tractor volumes in FY25E on expectations of normal monsoons by the weather departments.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@11x FY 26E EPS)	-	1,676
M&M Financial Services	Market cap	25%	53
Tech Mahindra	Market cap	25%	279
Mahindra Lifespaces	Market cap	30%	7
Mahindra Logistics	Market cap	30%	9
Mahindra Holiday & Resorts	Market cap	30%	14
Swaraj Engines	Market cap	30%	9
RBL	Market cap	25%	3
Subsidiaries Total SOTP value			375
Total			2,051

Income Statement

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
Total Revenues	849,603	996,642	1,190,061	1,433,100
Raw Material Cost	645,582	733,529	869,935	1,040,431
Employee Cost	36,499	42,856	48,793	57,324
Other Exp	63,098	70,762	82,114	94,585
EBITDA	104,424	149,496	189,220	240,761
<i>EBITDA Margin(%)</i>	<i>12.3</i>	<i>15.0</i>	<i>15.9</i>	<i>16.8</i>
Other Income	25,452	24,000	27,000	29,000
Depreciation	31,545	33,165	36,452	42,852
Interest	2728	1350	1500	1650
PBT	95,603	138,981	178,268	225,259
<i>PBT Margin(%)</i>	<i>11.3</i>	<i>13.9</i>	<i>15.0</i>	<i>15.7</i>
Tax	15,821	27,101	34,762	43,926
Adj PAT	79,782	111,880	143,506	181,334
<i>Adj PAT Margins (%)</i>	<i>9.4</i>	<i>11.2</i>	<i>12.1</i>	<i>12.7</i>
Exceptional items	-14295	1319	0	0
Reported PAT	65,487	113,199	143,506	181,334
<i>Rep. PAT Margins (%)</i>	<i>7.7</i>	<i>11.4</i>	<i>12.1</i>	<i>12.7</i>

Key Ratios

YE Mar	FY 23	FY 24E	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	67.0	94.0	120.6	152.4
CEPS	81.5	120.8	151.2	188.4
BVPS	364.4	435.9	528.8	646.1
DPS	12.1	21.4	27.7	35.0
Growth Ratios(%)				
Total revenues	47.0	17.3	19.4	20.4
EBITDA	41.4	43.2	26.6	27.2
PAT	44.6	40.2	28.3	26.4
EPS Growth	44.6	40.2	28.3	26.4
Valuation Ratios (X)				
PE	26.0	18.6	14.5	11.5
P/CEPS	21.4	14.4	11.5	9.3
P/BV	4.8	4.0	3.3	2.7
EV/Sales	2.3	1.9	1.6	1.3
EV/EBITDA	18.4	12.8	10.0	7.7
Operating Ratios (Days)				
Inventory days	50.2	49.0	49.0	50.0
Receivable Days	15.2	14.5	14.2	13.9
Payables day	85.1	87.0	78.0	70.0
Net Debt/Equity (x)				
Profitability Ratios (%)	0.05	0.04	0.03	0.02
ROE	18.4	21.6	22.8	23.6
Dividend payout	18.0	22.7	23.0	23.0
Dividend yield	0.7	1.2	1.6	2.0

Balance Sheet

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	5,991	5,991	5,991	5,991
Reserves & Surplus	427,577	512,708	623,208	762,835
Total Networth	433,567	518,699	629,198	768,825
Total debt	49,128	45,128	43,128	41,128
Deferred tax liabilities	14,703	14,703	14,703	14,703
Current liabilities & Provisions	260,400	261,785	271,848	283,478
Total Liabilities	757,798	840,314	958,877	1,108,134
Assets				
Fixed assets	197,608	239,443	282,991	335,140
Non current Investments	175,391	185,391	200,391	220,391
Other non current assets	38,363	38,363	38,363	38,363
Current Assets	346,436	377,118	437,132	514,242
Cash and bank(i)	13,101	12,948	22,944	36,037
Bank deposits other than(i)	31,716	31,716	31,716	31,716
Inventories	88,814	98,474	116,786	142,525
Sundry Debtors	40,417	39,593	46,298	54,576
Loan, Advances & others	21,770	21,770	21,770	21,770
Other current assets	182,334	204,334	229,334	259,334
Total Assets	757,798	840,314	958,877	1,108,134

Cash Flow

(₹ mn)	FY 23	FY 24E	FY 25E	FY 26E
PBT	95,603	138,981	178,268	225,259
Depreciation	31,545	33,165	36,452	42,852
Interest	2,728	1,350	1,500	1,650
Chng in working capital	3,871	(5,451)	(13,955)	(20,386)
Tax paid	(19,380)	(27,101)	(34,762)	(43,926)
Other operating activities	(23,074)	0	0	0
Cash flow from operations (a)	91,293	139,625	167,503	205,450
Capital expenditure	(34,313)	(75,000)	(80,000)	(95,000)
Chng in investments	(43,801)	(32,000)	(40,000)	(50,000)
Other investing activities	30,579	0	0	0
Cash flow from investing (b)	(47,535)	(107,000)	(120,000)	(145,000)
Free cash flow (a+b)	43,758	32,625	47,503	60,450
Inc/dec in borrowings	(19,752)	(6,000)	(3,000)	(4,000)
Dividend paid (incl. tax)	(14,359)	(25,429)	(33,006)	(41,707)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(37,838)	(32,779)	(37,506)	(47,357)
Net chng in cash (a+b+c)	5,920	(153)	9,996	13,093
Closing cash & cash equivalents	13,102	12,948	22,944	36,037

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.