

Mahindra & Mahindra | BUY



Decent qtr; Robust demand for UVs, Tractor cycle key monitorable

Mahindra & Mahindra (M&M) reported 2QFY24 EBITDA margin of 12.6% (+70bps YoY, -80bps QoQ), 120bps below JMFe. Domestic tractor industry is expected to be flattish in FY24 owing to high base of FY23. In the auto segment, supply constraints have largely eased. Gradual addition to SUV capacity (by 4QFY24), high outstanding bookings (280k+ open bookings) 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 Sept'24 target price of INR 1,725 (SOTP valuation, 16x core business). Peaking tractor cycle is the key risk to our call.

- 2QFY24 – Margin misses estimate:** In 2QFY24, M&M reported net sales of INR 243bn (+16% YoY, +1%QoQ), 3% below JMFe. EBITDA margin stood at 12.6% (+70bps YoY, -80bps QoQ), 120bps below JMFe. Auto EBIT margin (adj.) stood at 7.9% (+200bps YoY, +40bps QoQ), in-line with JMFe. Reported farm segment EBIT margin stood at 16% (-30bps YoY, -150bps QoQ), 80bps below JMFe. This was due to adverse mix, higher new launch related expenses (90bps impact). EBITDA stood at INR 30.6bn (+23%YoY, -5%QoQ). Adj. PAT for the quarter stood at INR 34.5bn (+49%YoY, +24% QoQ), 27% higher than JMFe due to higher other income (dividend income from investment cos.).
- FES segment - 2QFY24 update & outlook:** M&M's total tractor volume stood at c.90k units (-4% YoY, -22% QoQ). The company indicated that monsoon shortfall has impacted demand in Southern states and Maharashtra. However, it expects demand to remain healthy in the near-term owing to festive season. Its tractor market share improved by 80bps YoY to 42.2% (during 1H) led by new launches and network expansion. And, the company expects further market share gain led by 'OJA' platform and 'Swaraj Target'. In respect of Farm Machinery, revenue grew by 35% YoY at Rs2.23bn (FY23 revenue Rs.6.50bn). The company targets 40% growth in FY24 given the large opportunity size (domestic industry is 60bn) and low market share of M&M. The company expects domestic tractor industry volumes to be flattish in FY24.
- Automotive segment - 2QFY24 update & outlook:** M&M's revenue market share for SUV segment increased by 90bps to 19.9% during 2Q (FY23: 19.1%). Channel inventory stands at avg. ~30 days for 2Q. Supply situation has largely normalised. M&M is currently operating at full capacity (c.42k units/month) and the company plans to ramp-up to 49k units/month by 4QFY24. Management indicated that the underlying demand remains robust esp. in the premium segment (>INR 1.3mn price point products) with total open bookings at 286k+ units. New booking run-rate of c.51k units/ month and cancellations at <8% p.m. Development of 'Born Electric' models is on track. Management indicated that Auto EBIT margins are gradually improving led by positive operating leverage and better efficiencies.
- Capital allocation:** 1) The company also indicated that currently both Auto and Farm segments are generating healthy cash flows and are self-sufficient. If required, cashflows

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,725
Upside/(Downside)	13.2%
Previous Price Target	1,675
Change	3.0%

Key Data – MM IN

Current Market Price	INR1,524
Market cap (bn)	INR1,895.3/US\$22.7
Free Float	68%
Shares in issue (mn)	1,189.9
Diluted share (mn)	1,198.1
3-mon avg daily val (mn)	INR3,871.4/US\$46.5
52-week range	1,670/1,123
Sensex/Nifty	64,905/19,425
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-0.9	22.1	17.4
Relative*	0.9	16.5	9.6

* To the BSE Sensex

Financial Summary

Y/E March	FY18A	FY19A	FY24E	FY25E	FY26E
Net Sales	4,86,856	5,36,139	9,80,937	10,70,461	11,52,881
Sales Growth (%)	10.5	10.1	15.5	9.1	7.7
EBITDA	62,240	66,394	1,28,595	1,43,113	1,55,143
EBITDA Margin (%)	12.8	12.4	13.1	13.4	13.5
Adjusted Net Profit	39,224	48,257	1,10,027	1,15,318	1,22,634
Diluted EPS (INR)	33.0	40.5	91.8	96.3	102.4
Diluted EPS Growth (%)	26.7	22.9	37.9	4.8	6.3
ROIC (%)	33.1	34.9	40.8	38.2	37.1
ROE (%)	13.7	15.0	23.0	20.2	18.4
P/E (x)	46.2	37.6	16.6	15.8	14.9
P/B (x)	6.0	5.3	3.5	3.0	2.6
EV/EBITDA (x)	28.5	26.7	13.1	11.4	10.2
Dividend Yield (%)	0.5	0.6	1.1	1.3	1.3

Source: Company data, JM Financial. Note: Valuations as of 10/Nov/2023

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

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from farm and services segment (MMFSL & TechM) will also be available to fund EV related investments (INR100bn by FY27).

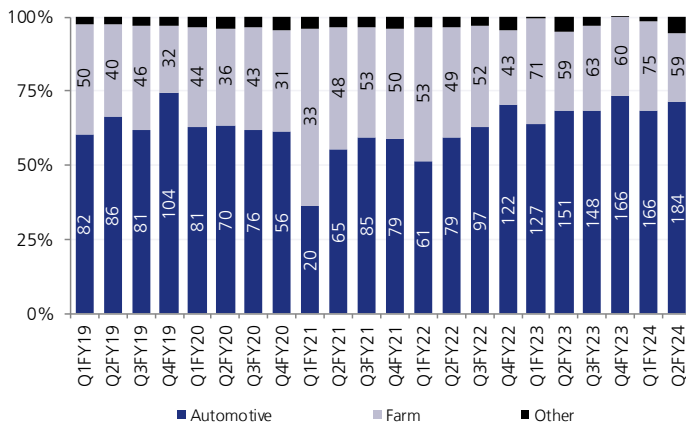
- **Other highlights:** 1) Management indicated that three growth gems – Susten, E3Ws and Real Estate businesses are on track to become 5x in size in 5yrs. The other three growth gems – Hospitality, Logistics and Classic Legends are WIP. 2) Management indicated that ‘Growth Gems’ are on track to achieve USD1bn+ valuation over 3-5 years. M&M remains committed to sustaining at least 18% ROE for its group operations.

Exhibit 1. Quarterly financial result (standalone)

(INR mn)	2QFY24	2QFY23	% YoY	1QFY24	% QoQ	2QFY24E	% A/E
Sales	243,099	210,101	15.7	240,561	1.1	250,917	-3.1
Cost of Goods Sold	183,793	160,768	14.3	181,149	1.5	188,188	-2.3
As a % of sales	75.6	76.5	-90bps	75.3	30bps	75.0	60bps
Staff Cost	11,262	9,224	22.1	10,447	7.8	11,040	2.0
As a % of sales	4.6	4.4	20bps	4.3	30bps	4.4	20bps
Other expenses	17,384	15,137	14.8	16,613	4.6	17,062	1.9
As a % of sales	7.2	7.2	-10bps	6.9	20bps	6.8	40bps
Expenditure	212,439	185,128	14.8	208,209	2.0	216,291	-1.8
EBITDA	30,660	24,973	22.8	32,351	-5.2	34,627	-11.5
EBITDA Margin (%)	12.6	11.9	70bps	13.4	-80bps	13.8	-120bps
Other Income	21,500	13,134	63.7	9,699	121.7	8,000	168.7
Interest	329	641	-48.7	323	1.8	350	-5.9
Depreciation	8,158	7,913	3.1	8,281	-1.5	8,400	-2.9
PBT	43,672	29,553	47.8	33,445	30.6	33,877	28.9
Tax	9,153	6,394	43.2	5,708	60.4	6,775	35.1
Tax rate (%)	21.0	21.6	-70bps	17.1	390bps	20.0	100bps
PAT (Adjusted)	34,519	23,159	49.1	27,737	24.4	27,101	27.4
PAT Margin (%)	14.2	11.0	320bps	11.5	270bps	10.8	340bps

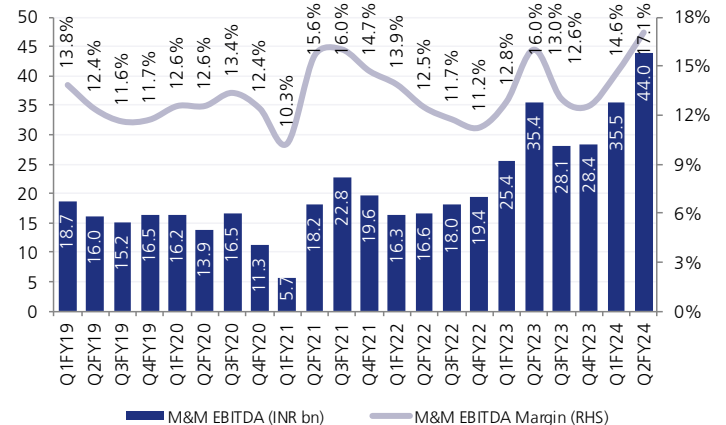
Source: Company, JM Financial

Exhibit 2. Standalone revenue mix (INR bn)



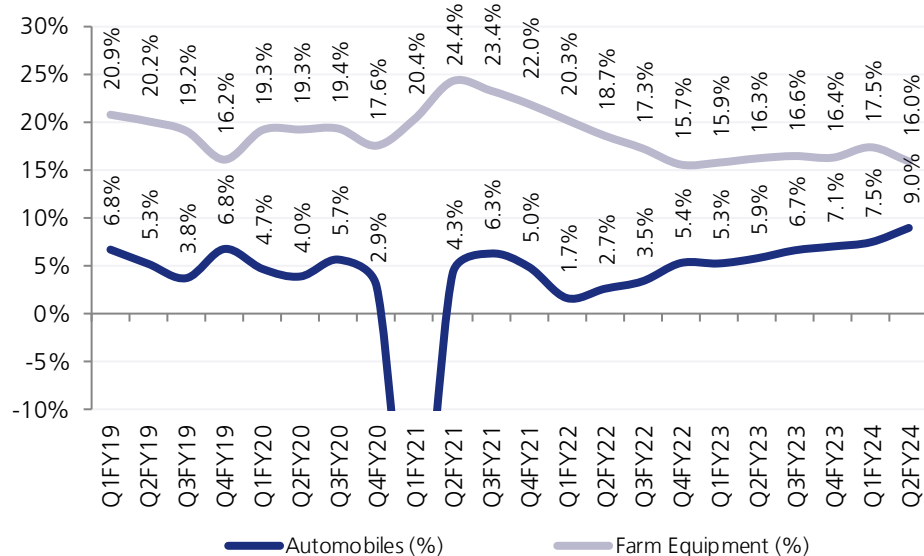
Source: Company, JM Financial

Exhibit 3. Standalone EBITDA trend



Source: Company, JM Financial

Exhibit 4. Segment-wise EBIT margin



Source: Company, JM Financial

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

M&M	New assumption			Old assumption			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	980,937	1,070,461	1,152,881	967,870	1,057,574	1,136,717	1%	1%	1%
Auto Vol. (mn units)	803,580	880,325	945,382	767,091	834,537	888,261	5%	5%	6%
Growth (%)	15%	10%	7%	10%	9%	6%			
Tractor Vol. (mn units)	408,446	418,128	428,155	418,184	428,061	438,287	-2%	-2%	-2%
Growth (%)	0%	2%	2%	3%	2%	2%			
EBITDA (INR mn)	128,595	143,113	155,143	135,147	147,365	154,744	-4.8%	-2.9%	0.3%
EBITDA margin (%)	13.1%	13.4%	13.5%	14.0%	13.9%	13.6%	(70bps)	(50bps)	10bps
PAT (INR mn)	110,027	115,318	122,634	94,999	100,686	103,670	15.8%	14.5%	18.3%
EPS (INR)	92	96	102	79	84	87	15.8%	14.5%	18.3%

Source: Company, JM Financial

Exhibit 6. SOTP valuation

	Methodology	Value per share (INR)
Core business	16x Core EPS	1,210
PV EV Co.	Refer link	170
Listed subsidiaries:		
Tech Mahindra	35% discount to TP/CMP	150
Mahindra Finance	35% discount to TP/CMP	115
Mahindra Life	35% discount to TP/CMP	20
Mahindra Holiday	35% discount to TP/CMP	32
Mahindra Logistics	35% discount to TP/CMP	9
Swaraj Engines	35% discount to TP/CMP	8
EPC	35% discount to TP/CMP	1
CIE Automotive SA	35% discount to TP/CMP	10
Total subsidiary value		345
Total Value - SOTP		1,725

Source: JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY24E	FY25E	FY26E	
Net Sales	4,86,856	5,36,139	9,80,937	10,70,461	11,52,881	
Sales Growth	10.5%	10.1%	15.5%	9.1%	7.7%	
Other Operating Income	0	0	0	0	0	
Total Revenue	4,86,856	5,36,139	9,80,937	10,70,461	11,52,881	
Cost of Goods Sold/Op. Exp	3,41,347	3,82,565	7,38,646	8,04,987	8,65,814	
Personnel Cost	28,409	29,802	43,069	47,429	51,223	
Other Expenses	54,860	57,377	70,627	74,932	80,702	
EBITDA	62,240	66,394	1,28,595	1,43,113	1,55,143	
EBITDA Margin	12.8%	12.4%	13.1%	13.4%	13.5%	
EBITDA Growth	37.9%	6.7%	23.1%	11.3%	8.4%	
Depn. & Amort.	14,794	18,604	35,137	39,682	44,656	
EBIT	47,446	47,790	93,458	1,03,431	1,10,486	
Other Income	10,364	16,890	45,575	47,833	50,279	
Finance Cost	1,122	1,134	1,500	1,500	1,500	
PBT before Excep. & Forex	56,688	63,546	1,37,534	1,49,764	1,59,265	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	56,688	63,546	1,37,534	1,49,764	1,59,265	
Taxes	17,464	15,290	27,507	34,446	36,631	
Extraordinary Inc./Loss(-)	4,336	-297	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	43,560	47,959	1,10,027	1,15,318	1,22,634	
Adjusted Net Profit	39,224	48,257	1,10,027	1,15,318	1,22,634	
Net Margin	8.1%	9.0%	11.2%	10.8%	10.6%	
Diluted Share Cap. (mn)	1,189.9	1,191.6	1,198.1	1,198.1	1,198.1	
Diluted EPS (INR)	33.0	40.5	91.8	96.3	102.4	
Diluted EPS Growth	26.7%	22.9%	37.9%	4.8%	6.3%	
Total Dividend + Tax	8,925	10,129	19,469	23,962	23,962	
Dividend Per Share (INR)	7.5	8.5	16.3	20.0	20.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY24E	FY25E	FY26E	
Profit before Tax	56,688	63,546	1,37,534	1,49,764	1,59,265	
Depn. & Amort.	14,794	18,604	35,137	39,682	44,656	
Net Interest Exp. / Inc. (-)	1,122	1,134	1,500	1,500	1,500	
Inc (-) / Dec in WCAP.	10,951	-364	-13,388	-4,124	-5,601	
Others	4,336	-297	0	0	0	
Taxes Paid	-17,464	-15,290	-27,507	-34,446	-36,631	
Operating Cash Flow	70,427	67,333	1,33,276	1,52,377	1,63,189	
Capex	-26,561	-33,738	-53,147	-57,399	-61,991	
Free Cash Flow	43,866	33,595	80,129	94,978	1,01,198	
Inc (-) / Dec in Investments	-26,746	-14,331	-25,000	-25,000	-25,000	
Others	-1,122	-1,134	-1,500	-1,500	-1,500	
Investing Cash Flow	-54,429	-49,203	-79,647	-83,899	-88,491	
Inc / Dec (-) in Capital	2,982	8	0	0	0	
Dividend + Tax thereon	-8,925	-10,129	-19,469	-23,962	-23,962	
Inc / Dec (-) in Loans	1,070	-3,867	6,000	6,000	6,000	
Others	937	4,236	1,375	1,498	1,593	
Financing Cash Flow	-3,936	-9,751	-12,094	-16,464	-16,369	
Inc / Dec (-) in Cash	12,063	8,379	41,535	52,014	58,329	
Opening Cash Balance	16,875	28,937	44,818	86,353	1,38,366	
Closing Cash Balance	28,937	37,317	86,353	1,38,366	1,96,695	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY18A	FY19A	FY24E	FY25E	FY26E	
Shareholders' Fund	3,02,940	3,42,092	5,24,125	6,15,482	7,14,153	
Share Capital	5,950	5,958	5,991	5,991	5,991	
Reserves & Surplus	2,96,991	3,36,134	5,18,135	6,09,491	7,08,163	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	29,581	25,713	56,255	62,255	68,255	
Def. Tax Liab. / Assets (-)	5,418	8,341	20,840	22,338	23,930	
Total - Equity & Liab.	3,37,939	3,76,147	6,01,220	7,00,074	8,06,339	
Net Fixed Assets	1,09,881	1,25,015	2,15,618	2,33,335	2,50,669	
Gross Fixed Assets	1,68,780	2,05,183	4,14,336	4,67,483	5,24,882	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	90,186	1,04,366	2,31,865	2,71,547	3,16,203	
Capital WIP	31,287	24,198	33,147	37,399	41,991	
Investments	2,05,830	2,20,160	2,95,871	3,20,871	3,45,871	
Current Assets	1,58,457	1,81,795	3,71,496	4,49,533	5,31,821	
Inventories	27,017	38,393	94,062	1,02,647	1,10,550	
Sundry Debtors	31,730	39,453	53,750	58,655	63,172	
Cash & Bank Balances	28,937	37,317	86,353	1,38,366	1,96,695	
Loans & Advances	70,773	66,633	1,37,331	1,49,865	1,61,403	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	1,36,229	1,50,824	2,81,765	3,03,665	3,22,021	
Current Liabilities	86,034	96,782	1,92,250	2,09,517	2,25,349	
Provisions & Others	50,195	54,042	89,515	94,148	96,673	
Net Current Assets	22,228	30,971	89,731	1,45,869	2,09,799	
Total - Assets	3,37,939	3,76,147	6,01,220	7,00,074	8,06,339	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY18A	FY19A	FY24E	FY25E	FY26E	
Net Margin	8.1%	9.0%	11.2%	10.8%	10.6%	
Asset Turnover (x)	1.5	1.5	1.8	1.6	1.5	
Leverage Factor (x)	1.1	1.1	1.2	1.1	1.1	
RoE	13.7%	15.0%	23.0%	20.2%	18.4%	

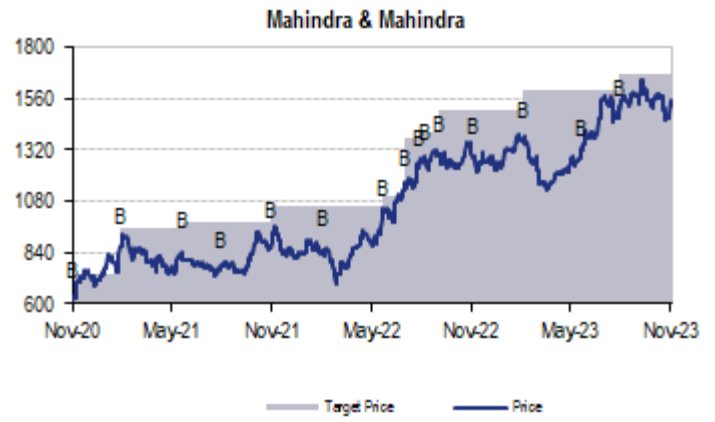
Key Ratios						
Y/E March	FY18A	FY19A	FY24E	FY25E	FY26E	
BV/Share (INR)	254.6	287.1	437.5	513.7	596.1	
ROIC	33.1%	34.9%	40.8%	38.2%	37.1%	
ROE	13.7%	15.0%	23.0%	20.2%	18.4%	
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3	-0.3	
P/E (x)	46.2	37.6	16.6	15.8	14.9	
P/B (x)	6.0	5.3	3.5	3.0	2.6	
EV/EBITDA (x)	28.5	26.7	13.1	11.4	10.2	
EV/Sales (x)	3.6	3.3	1.7	1.5	1.4	
Debtor days	24	27	20	20	20	
Inventory days	20	26	35	35	35	
Creditor days	74	75	82	82	82	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
11-Feb-20	Buy	760	
13-Apr-20	Buy	490	-35.5
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

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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Rating	Meaning
Buy	Total expected returns of more than 10% 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.

* REIT refers to Real Estate Investment Trusts.

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