

Strong Automotive division outlook to drive healthy growth!

Q2FY24 Result Update | Sector: Auto | November 15, 2023

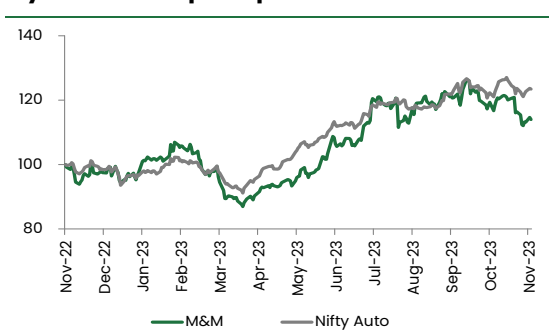
BUY

CMP (Rs)	1,543
Target Price (Rs)	1,804
Potential Upside	16.9%
Sensex	65,606
Nifty	19,656

Key Stock data	
BSE Code	500520
NSE Code	M&M
Bloomberg	MM:IN
Shares o/s, Cr (FV 5)	119.8
Market Cap (Rs Cr)	191,783
3M Avg Volume	2,420,786
52 week H/L	1,670,1123

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	19.4	19.4	19.3
FII	39.2	40.1	40.3
DII	27.8	27.0	26.9
Others	13.7	13.5	13.5

1 year relative price performance

1 year P/E Forward (x)

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Healthy revenue growth: M&M Q2FY24 revenue came in at Rs 24,310 Cr, registering a growth of 15.7% YoY/1.1% QoQ. The growth in revenue was driven by upbeat volumes across its auto division especially the UV category which continues to witness healthy demand while tractors volume declined on the account of softer monsoon. Amongst divisions, Automotive revenue stood at Rs 18,405 Cr up by 22% YoY/10.7% QoQ while Farm Equipment revenue declined marginally as compared to last year and 20.6% sequentially.

Mixed margin performance: Gross profit was reported at Rs 5,931 Cr, up by 20.2% YoY while remained flat sequentially with a margin of 24.4% which expanded by 92bps QoQ and declined by 30bps QoQ. Similarly, EBITDA stood at Rs 2,934 Cr registering a growth of 20.1% YoY whereas it declined by 9.3% sequentially with a margin of 12.1% which expanded by 44bps YoY and declined by 138bps QoQ. The mixed performance in margin was due to the weaker mix of products and one time cost associated with the launch of tractors.

Strong Automotive performance: Its EBIT was reported at Rs 1,662 Cr up by 88.2% YoY/32.7% QoQ and margin of 9% which expanded by 318bps YoY/150bps QoQ, benefiting from cost optimization efforts and increase in price of its key variants like XUV 700 and Thar. Management has indicated that they foresee margin improvement in coming quarters which will be aided by better product mix and their cost reduction efforts along with value engineering.

Subdued Farm Equipment performance: EBIT declined by 2.3% YoY to Rs 946 Cr due to decline in volume by 3.7% YoY because of high base and relatively softer monsoon. Consequently, EBIT margin declined by 32bps YoY to 16% while its core tractor EBIT remained flat at 17.5%. The decline in margin was due to one-time cost of OJA, Naya Swaraj and other tractors. Management indicated that the margin could see another one-time impact in the upcoming quarter on the account of sponsorship in the cricket world cup event.

Outlook & Valuations: With consistent demand in its Automotive division especially for its utility vehicles will drive the volume higher for the company while new launches in LCV segment and Farm Equipment would further aid in volume growth in the respective segments. The company has been consistently improving its market share across divisions, indicating healthy response for products and strong execution of its strategy. Further, traction in its EV business in passenger vehicle and LCV segment shall provide the next leg of growth for the company. With a favorable demand scenario in the Auto Division and strong growth outlook in the Farm Equipment business, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 18.2%/25.1%/38.2% over FY23-FY25E. We maintain our **Buy** rating with a revised target price of **Rs 1,804** (14.5x of FY25 EPS and its subsidiaries at Rs 290).

Financial Summary - standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	57,787	84,960	102,802	118,798
EBITDA	7,027	10,379	13,313	16,252
EBITDAM (%)	12.2	12.2	13.0	13.7
Reported PAT	4,870	6,549	9,892	12,506
APATM (%)	8.4	7.7	9.6	10.5
EPS (Rs)	42.4	66.6	82.6	104.4
PE (x)	36.3	23.2	18.7	14.8
RoE (%)	13.9	19.6	20.9	22.3

Source : RBL Research

Key concall & other highlights: 1) Improved its revenue market share by 90bps to 19.9% in Automotive division while Farm equipment market share improved by 150bps to 41.6%. 2) Order book in UVs stood at ~286,000 units ~51% accounted for premium category like XUV700 and Thar. 3) The company will scale its production capacity to 49,000 units per month by Q4FY24 and will further look to expand its capacity. 4) It introduced a 2-tonnage vehicle in the LCV segment to cater the higher demand in its category. 5) Its LCV market share in its category improved by 280bps to 49.6%.

P&L Account Quarterly - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Volumes	302,139	273,223	10.6	301,147	0.3
Realisation (Rs.)	804,593	768,974	4.6	798,814	0.7
Net sales	24,310	21,010	15.7	24,056	1.1
Total material cost	18,379	16,077	14.3	18,115	1.5
Gross Profit	5,931	4,933	20.2	5,941	(0.2)
Gross Margin (%)	24.4	23.5	92 bps	24.7	-30 bps
Employee cost	1,126	922	22.1	1,045	7.8
Other overheads	1,870	1,568	19.3	1,661	12.6
EBITDA	2,934	2,443	20.1	3,235	(9.3)
EBITDA Margin (%)	12.1	11.6	44 bps	13.4	-138 bps
Depreciation	816	791	3.1	828	(1.5)
Interest	33	64	(48.7)	32	1.8
Other income	2,282	1,367	66.9	970	135.3
Extra ordinary items	-	(248)	-	-	-
PBT	4,367	2,707	61.3	3,345	30.6
Tax	915	639	43.1	571	60.3
Effective tax rate (%)	21.0	23.6	-266 bps	17.1	389 bps
Reported PAT	3,452	2,068	66.9	2,774	24.5
PAT margin (%)	14.2	9.8	436 bps	11.5	267 bps
Adjusted PAT	3,452	2,316	49.1	2,774	24.5

Source : RBL Research

Cost analysis

As a % of net sales	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	Q-o-Q (bps)
Material costs	75.6	76.5	-92 bps	75.3	30 bps
Personnel Costs	4.6	4.4	24 bps	4.3	29 bps
Other overheads	7.7	7.5	23 bps	6.9	79 bps
Total costs	87.9	88.4	-44 bps	86.6	138 bps

Source : RBL Research

Healthy revenue growth led by robust Automotive performance

Mixed trend of margin due to onetime expense related to tractor launches

Higher other operational income led to exceptional profitability

Automotive segment continues to drive revenue higher while FES declined due to high base of last year

Strong Auto Division momentum while Tractors decline on the account of higher base

Segmental Revenue - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Automotive	18,405	15,089	22.0	16,621	10.7
Farm Equipment	5,920	5,945	(0.4)	7,456	(20.6)
Auto Investments	108	7	-	50	114.1
Farm Investments	80	34	136.1	-	-
Other Investments	1,275	1,430	(10.8)	262	-
Total	25,788	22,505	14.6	24,389	5.7
Less: Inter-segment revenue	15	24	(36.7)	21	(26.7)
Less: Exceptional Items	-	376	-	-	-
Total Revenue	25,773	22,105	16.6	24,368	5.8

Source : RBL Research

Volumes Analysis - standalone

Particulars	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Passenger Vehicles	14,742	92,413	24.2	100,172	14.5
Commercial Vehicles	68,508	64,104	6.9	61,252	11.8
3-Wheelers	21,446	14,918	43.8	17,780	20.6
Exports (excluding tractor)	7,382	8,248	(10.5)	6,934	6.5
Auto Division	212,078	179,683	18.0	186,138	13.9
Domestic Tractor	86,849	88,922	(2.3)	111,875	(22.4)
Exports Tractor	3,212	4,618	(30.4)	3,134	2.5
Tractors Division	90,061	93,540	(3.7)	115,009	(21.7)
Total Volumes	302,139	273,223	10.6	301,147	0.3

Source : RBL Research

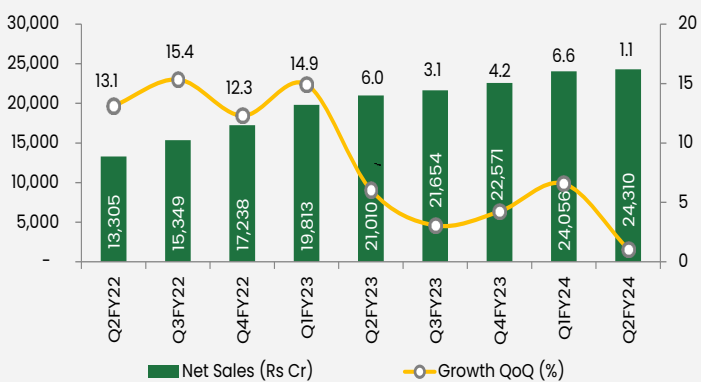
SOTP Valuation

Particulars	Basis	Rs
Core Business	14.5x (FY25 EPS)	1,514
Subsidiaries	Basis	40% Discount
Tech Mahindra	Market Cap	145
M&M Financial Services	Market Cap	86
Mahindra Life Spaces	Market Cap	20
Mahindra Holidays	Market Cap	27
Mahindra Logistics	Market Cap	8
Swaraj Engines	Market Cap	4
Total Subsidiaries Value		290
Total SOTP		1,804

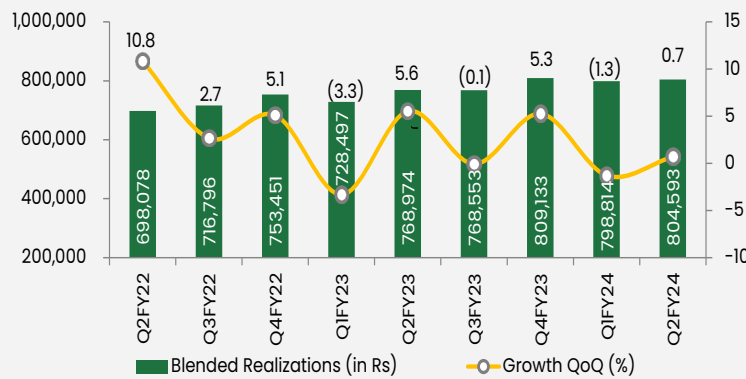
Source : RBL Research

Story in charts

Strong Auto division volumes aid stable revenue

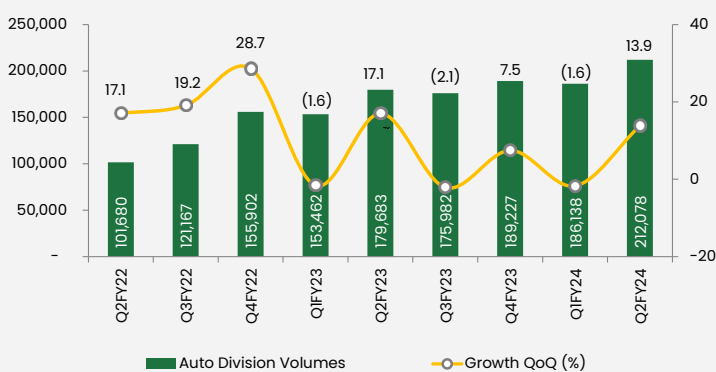


Trend of blended realizations

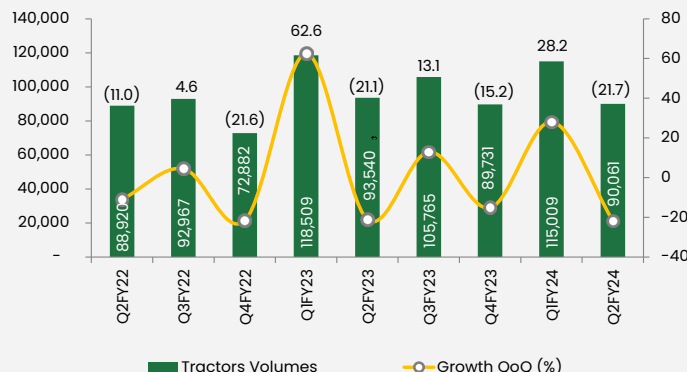


Source : RBL Research

Festive demand led the volume growth

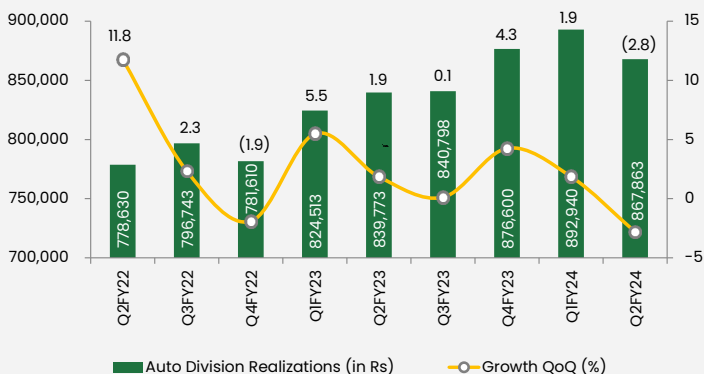


Offseason and softer monsoon results in volume decline

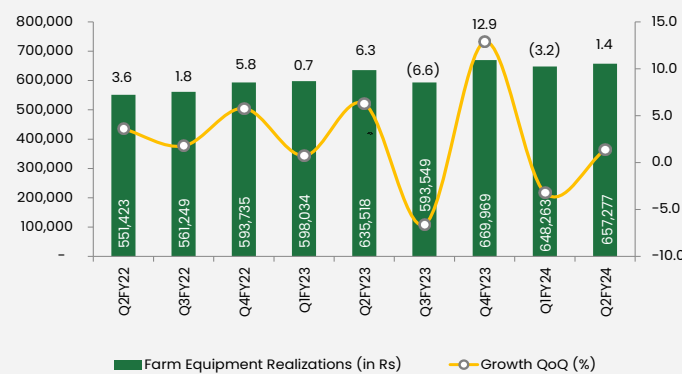


Source : RBL Research

Sequential dip due to weaker mix

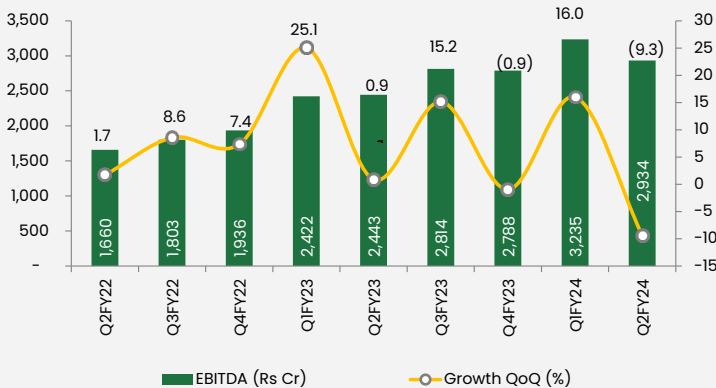


Sequential improvement in FE realizations

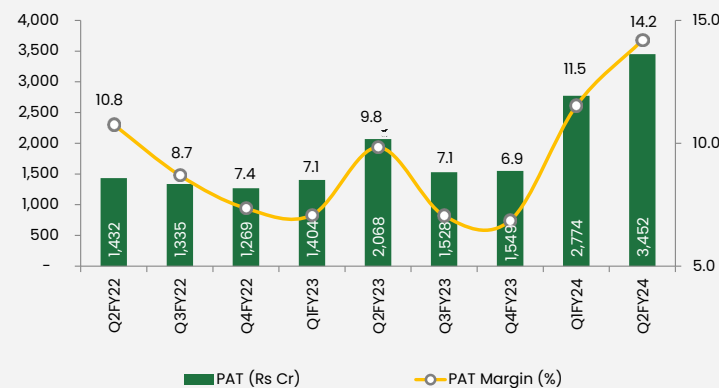


Source : RBL Research

Decline in EBITDA due to onetime expenses of tractor launches



Trend of PAT & PAT Margin



Source : RBL Research

P&L Account – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	57,787	84,960	102,802	118,798
Expenditure				
Total raw material cost	42,560	64,558	77,615	89,098
Employee cost	3,330	3,650	4,369	4,930
Other expenses	4,869	6,373	7,505	8,518
Total expenditure	50,759	74,581	89,489	102,546
EBITDA	7,027	10,379	13,313	16,252
EBITDAM (%)	12.2	12.2	13.0	13.7
Other income	2,054	2,608	3,260	3,749
Depreciation	2,498	3,154	3,312	3,312
PBIT	6,583	9,833	13,261	16,688
Interest expenses	226	273	246	233
PBT	6,357	9,560	13,015	16,455
Tax	1,278	1,582	3,124	3,949
Adjusted profit	5,079	7,978	9,892	12,506
Exceptional items	(209)	(1,430)	-	-
Reported PAT	4,870	6,549	9,892	12,506
PATM (%)	8.4	7.7	9.6	10.5

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	598.3	599.1	599.1	599.1
Reserves & Surplus	37,600	42,758	50,493	60,602
Total Shareholder's Fund	38,198	43,357	51,092	61,202
Non-Current Liabilities				
Total borrowings	6,498	4,644	4,344	4,144
Other long term liabilities	1,059	1,374	1,174	1,424
Deferred tax liabilities	1,762	1,470	1,620	1,745
Long term provision	925	1,207	1,107	1,307
Current Liabilities				
Trade payables	12,970	17,146	20,046	2,572
Other current liabilities	5,194	6,582	7,870	7,768
Total Liabilities	66,607	75,780	87,254	100,162
Fixed Assets	12,243	13,050	16,257	20,445
Current work in process	5,263	2,785	3,585	4,385
Intangible assets	2,661	3,926	3,926	3,926
Non current investment	16,302	17,539	21,039	24,039
Other non-current assets	3,912	3,836	3,631	3,481
Current Assets				
Current investments	7,902	9,548	9,766	10,692
Inventories	5,970	8,881	11,308	12,771
Trade receivables	3,039	4,042	5,140	5,702
Cash & Cash equivalents	3,651	4,482	3,966	4,385
Other current assets	5,664	7,691	8,635	10,335
Total Assets	66,607	75,780	87,254	100,162

Source : RBL Research

Cashflow – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Reported PBT	6,357	9,560	13,015	16,455
Depreciation	2,498	3,154	3,312	3,312
Tax paid	(1,278)	(1,582)	(3,124)	(3,949)
Working capital Change	(5,465)	(2,023)	(499)	(2,228)
Operating Cash Flow (a)	2,112	9,109	12,705	13,591
Capex	(4,528)	(2,749)	(7,319)	(8,300)
Free Cash Flow	(2,416)	6,361	5,386	5,291
Investments	2,401	(1,161)	(3,295)	(2,850)
Investing Cash Flow (b)	(2,128)	(3,910)	(10,614)	(11,150)
Debt Issuance/ (Repaid)	(1,289)	(1,854)	(300)	(200)
Dividend Paid	(1,382)	(1,947)	(2,157)	(2,396)
Others	(58)	(567)	(150)	575
Financing Cash Flow (c)	(2,729)	(4,368)	(2,607)	(2,021)
Net Cash Flow (a + b + c)	(2,745)	831	(516)	419
Closing Cash	3,651	4,482	3,966	4,385

Source : RBL Research

Key ratios – standalone

Particulars	FY22	FY23	FY24E	FY25E
Per Share Ratios				
Dividend per share (Rs)	11.6	16.3	18.0	20.0
EPS (Rs)	42.4	66.6	82.6	104.4
CEPS (Rs)	63.3	92.9	110.2	132.0
Book value per share (Rs)	319.2	361.9	426.4	510.8
Profitability Ratios				
EBITDA Margin (%)	12.2	12.2	13.0	13.7
PBT Margin (%)	11.0	11.3	12.7	13.9
Net Profit Margin (%)	8.8	9.4	9.6	10.5
RoCE (%)	14.5	20.5	24.9	26.9
RoE (%)	13.9	19.6	20.9	22.3
Efficiency				
Debtors Velocity (Days)	19	17	18	18
Inventory (Days)	38	38	40	39
Creditor (Days)	82	74	71	69
Interest Cover Ratio (x)	29.1	36.0	54.0	71.6
Debt-Equity Ratio (x)	0.2	0.1	0.1	0.1
Valuation Ratios				
P/E (x)	36.3	23.2	18.7	14.8
P/B (x)	4.8	4.3	3.6	3.0
EV/EBITDA (x)	26.7	17.8	13.9	11.4
Dividend Yield (%)	0.9	1.2	1.3	1.5

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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