

MAHINDRA & MAHINDRA LIMITED

Product pipeline in SUVs and recovery in FES to drive the growth

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M&M reported decent Q4 FY24 numbers wherein the topline was reported at ₹254 bn, a growth of 12.7% yoy and flattish qoq. Volumes rose by 9.3% yoy and realizations went up by about 3.1% yoy. Automotive division revenues came in at ₹199 bn, an increase of 20% yoy led by success of Thar, Bolero, XUV & Scorpio families with ~220K order book. Automotive segment reported strong EBIT margins, which rose by 170 bps yoy and 50 bps qoq to 8.8% on positive operating leverage, stable commodity basket and model mix. Tractor margins came at 15.8% which was 30 bps up qoq and lower 60 bps yoy as lower monsoons and unseasonal rains led to fall in volumes but margins improved qoq on lower RM basket costs. Overall EBITDA margins therefore came in higher at 14% (flattish qoq and 160 bps up yoy). Lower other income coupled with higher tax rate, led PAT to come in 4.3% up yoy at ₹21.6 bn. On a sequential basis, the growth was 12% lower. Overall results were quite decent despite tractor business being on weak wicket.

SUV demand remains strong on robust demand for XUV 3XO

M&M witnessed 28% growth in the SUV segment volumes during the year. The company has received an excellent response for the new XUV 3XO with 50K bookings on the opening day. Scorpio N (incl. Classic) with 86K open bookings since its launch (~17 k per month) is another recent big success. The Thar and high cost XUV 700 are still having huge order book of ~7K and ~8K each per month respectively, as their waiting periods are reducing now. Neo Bolero was launched in July 2021 which still has received strong order bookings (~9.5K monthly bookings for the entire Bolero family). With the smooth phasing out of XUV 300, the company has managed to bring in XUV 3XO at attractive price point. With this, the company was able to increase its SUV revenue market share at 20.4%, 130 bps up yoy and 40 bps up 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 (recent XUV 3XO and 5 door Thar) in CY24. From existing ICE capacity of 39K p.m by FY23 end, the company has ramped it upto 49K p.m by FY 24 end, which will be scaled up further to 64K and 72K by the end of FY25 and FY26 respectively. SUV as an industry is attracting bulk of the PV demand now (>50%) and since M&M is driving substantial part of it, we expect this segment to register 19%/15% growth in FY24E/FY25E/FY26E respectively. M&M plans to launch 9 ICE SUVs by 2030.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales(bn)	866	1,012	1,212	1,448
EBITDA margins(%)	14.0	15.2	16.2	17.5
PAT margins(%)	9.3	10.8	12.1	13.0
EPS	67.7	92.2	122.9	157.6
P/E	35.1	25.7	19.3	15.0
P/BV	6.5	5.4	4.4	3.6
EV/EBITDA	22.1	17.1	13.2	10.1
ROE%	18.6	21.0	22.9	23.7
Dividend yield %	0.5	0.7	1.0	1.3

Rating	BUY
Current Market Price (₹)	2,372
12M Price Target (₹)	2,740
Potential upside (%)	16

Stock Data

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	3,131
Free Float Market Cap (₹ bn) :	2,411
52-Week High / Low (₹) :	2558 / 1237
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

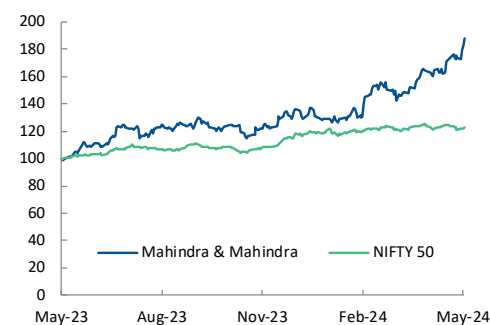
(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	18.59	19.32	19.34	19.37
FPIs	41.75	40.87	40.26	40.14
MFs	12.72	13.06	13.73	13.94
Insurance	10.88	10.51	10.53	10.72
Others	16.06	16.24	16.14	15.83

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
M&M	16.8%	29.2%	51.1%	87.8%
Nifty 50	1.2%	1.6%	13.3%	23.2%

* To date / current date : May 16, 2024

M&M vs Nifty 50

Out of the planned portfolio, there will be a strong presence of EV products (7 new products starting from CY 24 till 2030). M&M has planned to increase its capex up to ₹270 bn (o/w ₹140 bn will be for ICE SUVs, ₹120 bn for EVs and ₹10 bn for other subsidiaries) in the period between FY 25-27. 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 has launched the Bolero Max Pick-up 2T 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 350 bps yoy market share to reach market share of 49% 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 7%/8% volume growth in CVs in FY25E/26E.

M&M has garnered 58.7% market share in the e-3W space with the success of E-Alfa, Jeeto, Treo Auto (recently launched Metal body) 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 66K units of E-3Ws in FY 24 as compared to 43.6K units in FY 23. Despite increasing competition, we expect 23%/15% (on a high base) growth in 3Ws in FY25E/26E respectively.

Tractor segment may see revival with above normal expected monsoons in CY24

M&M witnessed about 29% qoq and a 20% yoy de-growth in tractor volumes in Q4 FY24, while in FY 24, they declined by 6%. M&M lost market share by 130 bps yoy in Q4 at 39.4% while in FY24 the company gained 40 bps at 41.6%. 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, success of newly launched Oja, Target and Naya Swaraj tractors in the 20HP and 30HP range led M&M to win market share of 12.8% quickly. 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 20.3% market share (16.5% in FY23) leading to a growth of 32% in the farm Machinery segment in FY24. On high base of FY23, we saw base effect as well in FY24. Currently we expect domestic FES segment to grow at 7%/10% in FY25E/26E respectively as against 6% fall in FY24. We believe that due to election year, first half of the year may remain soft while on expectations of strong monsoons and weakening El Nino (as predicted by MET departments), we believe H2 FY25 to be stronger than H1.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
Net sales	254,361	256,424	-0.8%	225,713	12.7%
Raw material costs	184,462	190,660	-3.3%	169,219	9.0%
Employee costs	11,112	11,343	-2.0%	9,490	17.1%
Other expenses	23,114	18,518	24.8%	19,031	21.5%
EBITDA	35,672	35,903	-0.6%	27,973	27.5%
EBITDA margins %	14.0%	14.0%	0 bps	12.4%	160 bps
Other income	2,203	3,832	-42.5%	3428	-35.7%
Depreciation	9,770	8,179	19.5%	8385	16.5%
Interest expenses	387	348	11.1%	698	-44.6%
PBT	27,718	31,208	-11.2%	22318	24.2%
Tax	6,123	6,668	-8.2%	1621	277.7%
Reported PAT	20,382	24,540	-16.9%	15578	30.8%
Exceptional items	1,213	-	N/A	(5,118)	N/A
Adjusted PAT	21,595	24,540	-12.0%	20697	4.3%
Adj EPS	18.06	20.52	-12.0%	17.3	4.3%

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 the new XUV 3XO, 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 volumes. We expect single digit growth for the FES segment in FY 25 on revival in tractor cycle on above normal rains expected. New launches may as well provide fillip to FES. In EV, 3Ws and LCVs too, with new launches the company is in a position to expand its market leadership position. Ambitious capex plans focus on both ICE and EVs shall once again lead to capturing of market share in the robust SUV segment. M&M has over time exited its loss making businesses and have turned around several businesses which would definitely gather confidence of shareholders. The identified growth gems are leveraging the core strength of M&M group and accelerating the growth for the company. We maintain BUY rating on attractive valuations; SoTP-based target price now stands raised at ₹2,740 (₹2,364 core business valued at 15x FY 26E earnings + subsidiary valuation of ₹376) 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 FES segment also to revive in FY 25E on expectations of above normal monsoons by the weather departments.

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@15x FY 26E EPS)	-	2364
M&M Financial Services	Market cap	25%	49
Tech Mahindra	Market cap	25%	282
Mahindra Lifespaces	Market cap	30%	8
Mahindra Logistics	Market cap	30%	11
Mahindra Holiday & Resorts	Market cap	30%	14
Swaraj Engines	Market cap	30%	9
RBL	Market cap	25%	3
Subsidiaries Total SOTP value			376
Total			2740

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	866,446	1,012,194	1,212,431	1,447,517
Raw Material Cost	645,582	740,064	878,699	1,038,438
Employee Cost	36,499	44,164	51,060	56,901
Other Exp	63,098	74,212	86,682	99,576
EBITDA	121,268	153,754	195,990	252,603
<i>EBITDA Margin(%)</i>	<i>14.0</i>	<i>15.2</i>	<i>16.2</i>	<i>17.5</i>
Other Income	9,327	19,384	23,000	25,000
Depreciation	31,545	34,389	35,755	42,955
Interest	2728	1388	1500	1650
PBT	96,322	137,362	181,735	232,998
<i>PBT Margin(%)</i>	<i>11.1</i>	<i>13.6</i>	<i>15.0</i>	<i>16.1</i>
Tax	15,821	27,652	35,438	45,435
Adj PAT	80,501	109,711	146,297	187,564
<i>Adj PAT Margins (%)</i>	<i>9.3</i>	<i>10.8</i>	<i>12.1</i>	<i>13.0</i>
Exceptional items	-14295	2533	0	0
Reported PAT	66,206	112,243	146,297	187,564
<i>Rep. PAT Margins (%)</i>	<i>7.6</i>	<i>11.1</i>	<i>12.1</i>	<i>13.0</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	67.7	92.2	122.9	157.6
CEPS	82.1	119.0	153.0	193.7
BVPS	364.4	439.3	537.7	663.8
DPS	12.1	17.0	24.6	31.5
Growth Ratios(%)				
Total revenues	49.9	16.8	19.8	19.4
EBITDA	64.2	26.8	27.5	28.9
PAT	45.9	36.3	33.3	28.2
EPS Growth	45.9	36.3	33.3	28.2
Valuation Ratios (X)				
PE	35.1	25.7	19.3	15.0
P/CEPS	28.9	19.9	15.5	12.2
P/BV	6.5	5.4	4.4	3.6
EV/Sales	3.2	2.7	2.2	1.8
EV/EBITDA	22.1	17.1	13.2	10.1
Operating Ratios (Days)				
Inventory days	50.2	46.9	47.0	50.0
Receivable Days	15.2	15.9	15.5	15.2
Payables day	85.1	88.1	85.0	83.0
Net Debt/Equity (x)				
Profitability Ratios (%)	0.05	0.02	0.01	0.01
ROE	18.6	21.0	22.9	23.7
Dividend payout	17.8	18.4	20.0	20.0
Dividend yield	0.5	0.7	1.0	1.3

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	5,991	5,996	5,996	5,996
Reserves & Surplus	427,577	516,769	633,807	783,858
Total Networth	433,567	522,766	639,803	789,854
Total debt	49,128	40,010	38,010	36,010
Deferred tax liabilities	14,703	15,551	15,551	15,551
Current liabilities & Provisions	260,400	259,788	277,497	307,006
Total Liabilities	757,798	838,114	970,860	1,148,421
Assets				
Fixed assets	197,608	212,838	277,084	339,129
Non current Investments	175,391	215,487	230,487	250,487
Other non current assets	38,363	58,730	58,730	58,730
Current Assets	346,436	351,058	404,559	500,074
Cash and bank(i)	13,101	18,694	29,014	41,610
Bank deposits other than(i)	31,716	36,566	31,716	31,716
Inventories	88,814	95,048	113,148	142,252
Sundry Debtors	40,417	45,495	50,425	59,239
Loan, Advances & others	21,770	23,789	23,789	23,789
Other current assets	182,334	168,032	188,183	233,183
Total Assets	757,798	838,114	970,860	1,148,420

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	95,603	134,830	181,735	232,998
Depreciation	31,545	34,389	35,755	42,955
Interest	2,728	1,388	1,500	1,650
Chng in working capital	3,871	8,681	(4,321)	(6,409)
Tax paid	(19,380)	(28,509)	(35,438)	(45,435)
Other operating activities	(23,074)	0	0	0
Cash flow from operations (a)	91,293	112,792	179,231	225,759
Capital expenditure	(34,313)	(48,328)	(100,000)	(105,000)
Chng in investments	(43,801)	(13,284)	(40,000)	(65,000)
Other investing activities	30,579	9,785	4,849	0
Cash flow from investing (b)	(47,535)	(51,826)	(135,151)	(170,000)
Free cash flow (a+b)	43,758	60,966	44,080	55,759
Inc/dec in borrowings	(19,752)	(38,648)	(3,000)	(4,000)
Dividend paid (incl. tax)	(14,359)	(20,211)	(29,259)	(37,513)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(37,838)	(55,375)	(33,759)	(43,163)
Net chng in cash (a+b+c)	5,920	5,591	10,320	12,597
Closing cash & cash equivalents	13,102	18,693	29,014	41,610

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