



#### 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
	+ Positive	= Neutral	- Negative

#### What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

#### ESG Disclosure Score NEW

<b>ESG RISK RATING</b>	<b>27.81</b>			
Updated May 08, 2023				
<b>Medium Risk</b>				
NEGL	LOW	<b>MED</b>	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

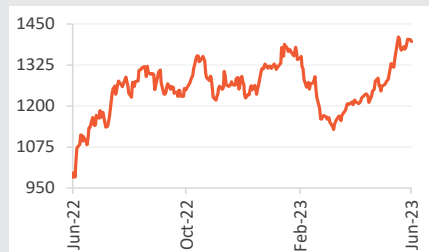
#### Company details

Market cap:	Rs. 1,59,377 cr
52-week high/low:	Rs. 1420/ 972
NSE volume: (No of shares)	22.8 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	100.2 cr

#### Shareholding (%)

Promoters	19.4
FII	39.2
DII	27.7
Others	13.7

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	10.8	20.4	10.4	37.1
Relative to Sensex	9.0	11.2	9.3	17.8

Sharekhan Research, Bloomberg

#### Automobiles

#### Sharekhan code: M&M

Reco/View: Buy

CMP: Rs. 1,397

Price Target: Rs. 1,550

↑ Upgrade  
 ↔ Maintain  
 ↓ Downgrade

#### Summary

- We reiterate our Buy rating on M&M with an unchanged PT of Rs. 1,550 on focus on consistent improvement in its operating performance, market share expansion via new launches and aim to attain scale in its operating areas.
- The company launched XUV 700 in Australia, in line with its global expansion strategy and aiming to expand in the domestic lightweight tractor market via Swaraj Target 630.
- The company enjoys an order book of 292K units due to robust demand for SUVs.
- The stock trades at a P/E multiple of 17.3x and EV/EBITDA multiple of 10.7x its FY2025 estimates

Mahindra & Mahindra (M&M) is a market leader in the tractor segment and a leading player in the SUV segment in the domestic market. The company has strategies in hand to penetrate the electric car segment. We believe M&M is a well-diversified automobile player and a good proxy play to rural recovery. Further, M&M has been consistently improving its performance and continues to achieve its long-term targets. With improvement in market share in the SUV segment and its leadership position in the tractor segment, the company has been building up its presence in the EPV segment. Over Q4FY2020 to Q4FY2023, M&M's market share has expanded from 13.2% to 19.6% in the UV segment and 39.4% to 40.7% in the tractor segment. Going ahead, management is looking to scaling its business to sustain growth momentum. Backed by its disciplined capital allocation strategy, management is continuously looking for an improvement in its core business and is aiming to enhance growth potential in its non-core businesses. Historically, M&M's operating performance has largely been dependent on the tractor segment; however, we believe the auto segment would also contribute to driving its operating performance going ahead. We maintain our Buy rating on the stock with an SOTP-based PT of Rs. 1,550.

- Gaining market share in the tractor segment:** Given its high exposure to the rural economy, M&M's performance is expected to recover in rural areas. It is assumed that M&M generates 65% of its volumes from the rural segment. Management has guided for low single-digit growth for the tractor industry in FY2024. While the tractor industry's growth is expected to moderate due to a high base, we believe M&M would grow ahead of the industry due to its market leadership position and deep penetration in the rural market, given it has gained 1.2%-point market share in FY2023 to 41.2%. The term and trade in the rural region have been improving, led by better crop yield and MSP. Recently, the government has also increased MSPs for Kharif crops and it is expected that healthy reservoir would continue to support the rural economy in FY2024. Besides its core tractor business, the company has been focussing on expansion in the farm machinery business. M&M is focussing on growing its implement business by 10x in the next three years.
- New product launch continues:** The company's new product launch strategy has successfully helped M&M in gaining market share in the SUV segment as M&M enjoys order book of 292K units in the PV segment (by Q4FY2023). Similarly, M&M has been expanding its product portfolio in the tractor segment to maintain its leadership position. In line with its plan, M&M has introduced Swaraj Target 630 with a price tag of Rs. 5.35 lakh in the lightweight tractor segment. The lightweight tractor segment has a market size of 50K-60K units. M&M has a low market share in the lightweight tractor segment compared to its market share in the overall tractor market. M&M's overall market share in the tractor segment would expand if it would successfully penetrate the lightweight tractor market. Further, M&M is expected to launch a global tractor on August 15, 2023, under the brand name OJA.
- International market expansion:** Besides the domestic market, M&M is now strategically focussing on export markets. M&M is now approaching the global market via phase-wise approach to gain a significant market share, given M&M has achieved 5-6% market share in the Brazil tractor market and has been targeting 15-20% market share in the Brazil market. Similarly, in the auto segment, M&M aims to initially capture right-hand drive markets and then expand its presence in other markets via electric vehicles (EV) products. In phase 1, M&M plans to launch new products in the existing market; and in phase 2, it aims to launch born electric products. In line with its strategy to expand in the global market, M&M has recently introduced XUV 700 in Australia.

#### Our Call

**Valuation – Maintain Buy with an unchanged PT of Rs. 1,550:** We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment, and regaining its market share in the highly competitive SUV segment. M&M is on track its growth roadmap in the EV segment. The company eyes 10x growth in its farm equipment business by FY2026E, while strengthening its SUV segment via new launches. M&M continues to enjoy a strong order book position as, at the end of Q4FY2023, order book in the PV segment stands at 292,000 units in Q4FY2023 compared with 266,000 units in Q3FY2023. M&M has been consistently registering improvement in its profitability. M&M's EV plans are on track and, its latest launch, XUV400 has been receiving a healthy response in the market. We maintain our Buy rating with an SOTP-based price target (PT) of Rs. 1,550 (16.5x its FY2025 core EPS, Rs. 334 for listed subsidiaries, and Rs. 209 for the EV arm) on consistent improvement in profitability, focus on disciplined capital allocation, and aim to achieve market leadership in its operating areas.

#### Key Risks

Uneven distribution of monsoons can affect our volume estimates for M&M's farm equipment segment. Unsuccessful new launches and volatility in raw-material cost trend can impact our projection adversely.

#### Valuation

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	44,630	57,787	84,960	93,215	1,03,874
Growth (%)	-0.5	29.5	47.0	9.7	11.4
EBIDTA	6,957	7,027	10,442	11,838	13,649
OPM (%)	15.6	12.2	12.3	12.7	13.1
APAT	2,303	5,035	7,700	8,475	10,016
Growth (%)	49.3	118.6	52.9	10.1	18.2
AEPS (Rs )	19	40	62	68	81
PE (x)	75.4	34.5	22.6	20.5	17.3
P/BV (x)	5.0	4.5	4.0	3.5	3.1
EV/EBIDTA (x)	22.0	21.6	14.1	12.4	10.7
RoNW (%)	6.6	12.9	17.8	17.2	17.8
RoCE (%)	5.8	11.5	16.5	16.1	16.8

Source: Company; Sharekhan estimates

### **PV segment: Aiming for a balance between ICs and EVs**

In the PV segment, capacities have reached 39,000 units per month, but it is unable to produce 39,000 units currently due to short-term supply chain issues. The company's 10-12% of the capacity is getting impacted due to production constraints. Further, its capacity enhancement plan is on track and assumes that it would reach production capacity of 49,000 units by February 2024. Given the company has scheduled to come out with EVs in the coming period, it is selectively increasing IC capacity so that it would have an optimum balance between IC capacity and EV capacity in future. Hence, currently, it is not planning for IC capacity beyond 49,000 units. M&M continues to enjoy a strong order book position as, at the end of Q4FY2023, order book in the PV segment stands at 292,000 units in Q4FY2023 compared with 266,000 units in Q3FY2023. The cancellation rate stands in the normal range of 8%.

### **EBITDA margin trend: More dependent on RM cost trend**

M&M has been consistently registering improvement in its profitability. Both its FES and automotive segments have been consistently reporting sequential improvement in EBIT margin for the last five quarters. We believe the EBITDA margin trend would be more dependent on the raw-material cost trend and product mix, as going forward the margin profile of the automotive division may change on increasing EV volumes. Broadly, the commodity cost trend is assumed to be steady, and the broader trend would depend on global issues.

### **Tractor industry expected to grow in low single digit in FY2024**

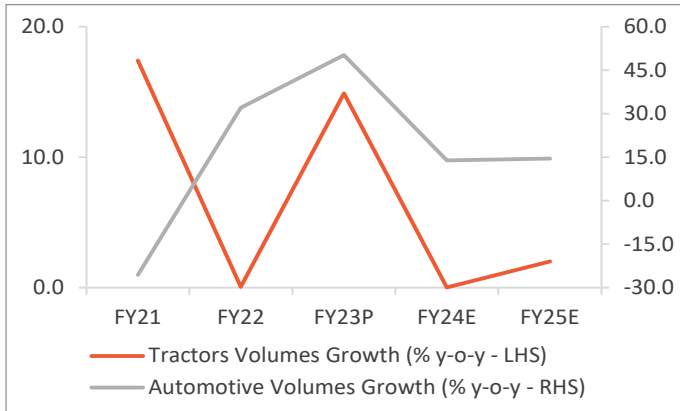
The term and trade in the rural region have been improving, led by better crop yield and MSP. Further, the government has recently increased MSPs for Kharif crop. It is assumed that tractor volume growth would be impacted in Q1FY2023 due to a shift in Navratri, given the Navratri season fell in March in 2023 compared with April in 2022. However, despite the high base, management has indicated for low single-digit volume growth for the industry in FY2024. Historically, the occurrence of El Nino and tractor has not found a strong correlation and, hence, M&M is not unduly worried about the expected El Nino's negative impact on tractor demand in FY2024 as reservoir levels are healthy. M&M has gained 1.2%-point market share to 41.2% in FY2023, backed by a strong response to its Yuvo tech and expansion of Swaraj brand. The company has been adding new products and entering into new segments to expand its addressable market. The company has launched Swaraj brand of tractors into the lightweight tractor market. The lightweight tractor market size stands at 50,000 to 60,000 units per annum. The farm machinery segment has registered a 38% y-o-y increase in revenue in FY2023 and has gained 3.5% market share to 16.5% in the rotavators segment.

### **Eyeing on overseas markets**

M&M has been aiming to expand in international markets to expand its addressable market in a phased manner. The company has achieved healthy penetration in the Brazilian tractor market and aims to focus on individual markets via localised market penetration strategies. Similarly, in the automotive segment, initially the company plans to launch new products in existing markets and then introduce EVs in the right-hand drive market. Over the period, it would launch EVs in the left-hand drive markets also.

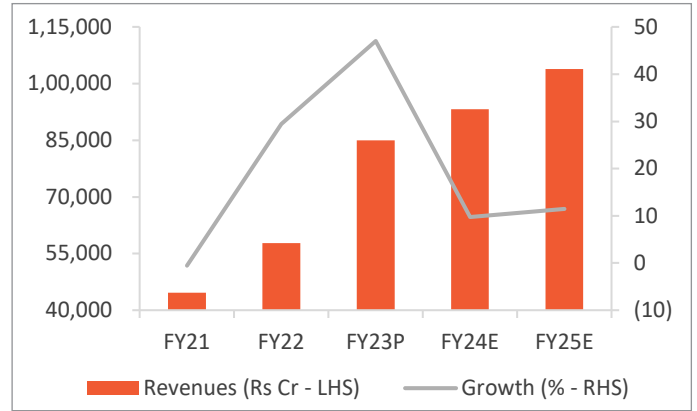
**Financials in charts**

**Volume growth trend**



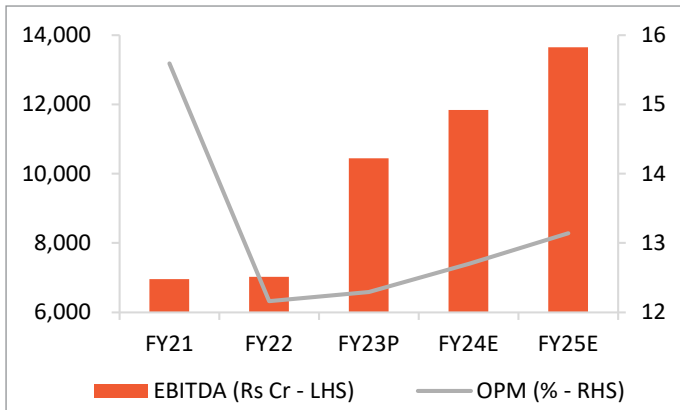
Source: Company, Sharekhan Research

**Revenue trend**



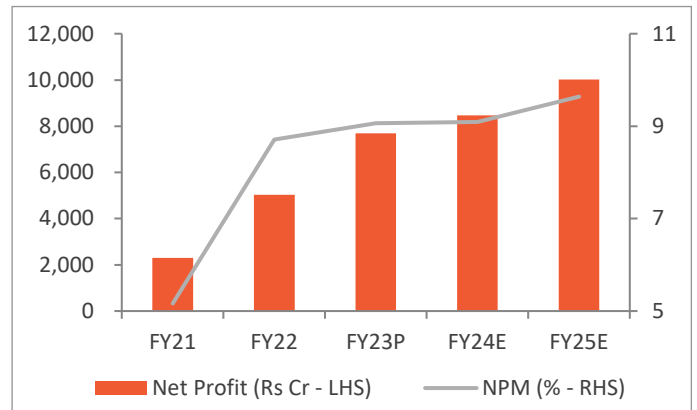
Source: Company, Sharekhan Research

**EBITDA and OPM trend**



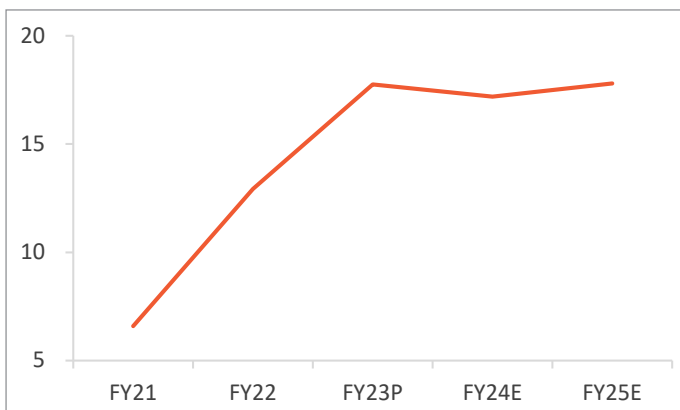
Source: Company, Sharekhan Research

**Profitability trend**



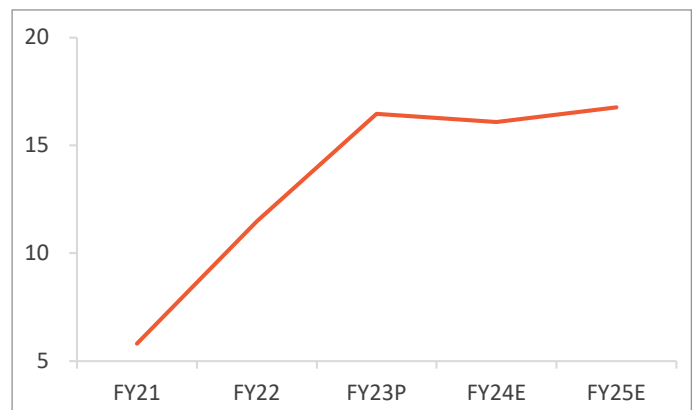
Source: Company, Sharekhan Research

**ROE trend**



Source: Company, Sharekhan Research

**ROCE trend**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Structural uptick continues

We expect tractor sales volumes to remain healthy over the next couple of years, aided by healthy rural cash flows. Growth might moderate in the medium term due to a high base. We expect the rural economy to recover at a healthy rate on account of the government's grounded initiatives for the agriculture and farming sector, higher grain prices in Mandis than MSPs, and healthy reservoir levels. Further, the PV segment is expected to register single-digit volume growth in FY2024 on account back of robust volume performance in FY2023. However, we believe the PV cycle is on a structural uptick phase. The shift in demand from the cars segment to SUVs would help OEMs in generating healthy operating performance. Along with that, the MHCV cycle would continue to follow the macro uptrend. Revival in the bus segment and rise in replacement demand would support the CV segment's growth.

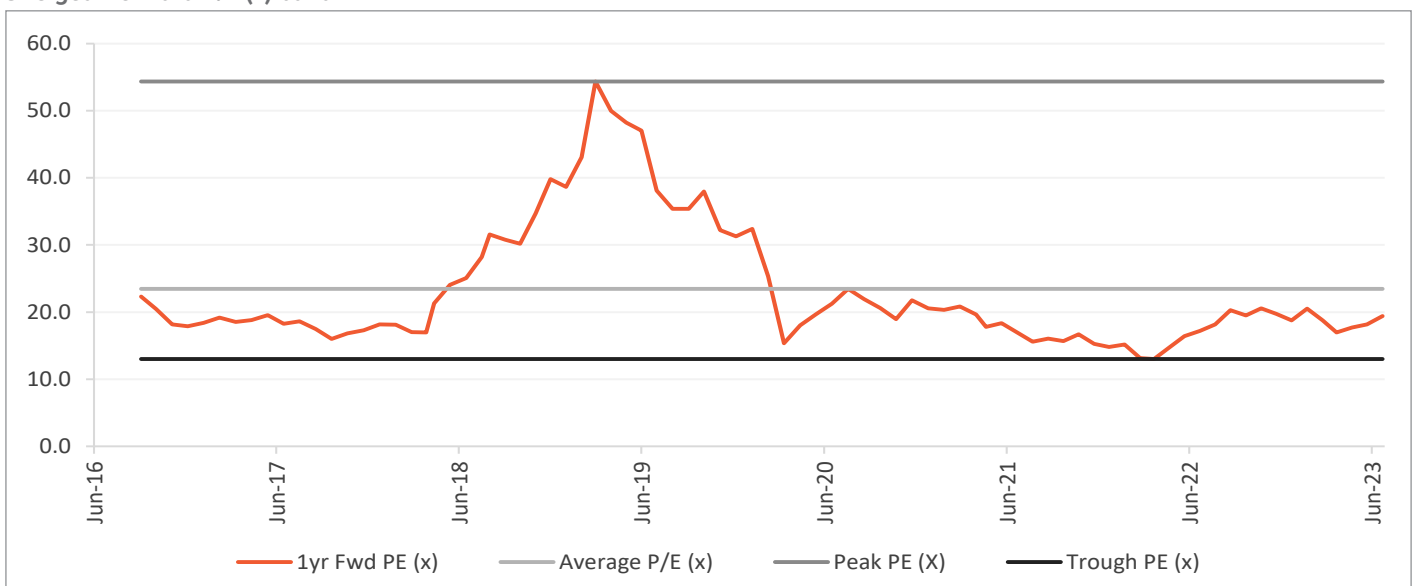
### ■ Company outlook - Maintained traction

We expect M&M to benefit from its leadership status in the tractor segment, strengthening position in the LCV segment, and regaining its market share in the highly competitive SUV segment. M&M is on track its growth roadmap in the EV segment. M&M is timely addressing the capacity constraints in the PV segment. Given its high exposure to the rural economy, M&M's performance is expected to recover in rural areas. M&M generates 65% of its volumes from the rural segment. It has been a market leader in the tractor segment. While growth in the tractor industry is expected to moderate due to a high base, we believe M&M would grow ahead of the industry because of its market leadership position and deep penetration in the rural market. Besides its core tractor business, the company has been focussing on expansion in the farm machinery business. Currently, M&M is focussing on expansion of the agri business in place of targeting a specific operating performance. The company has laid down a strong roadmap for its automotive segment by investing in technology and launching new products regularly to regain its market share in the segment. M&M's focus continues to drive bookings in key brands – Thar, XUV-300, Scorpio, and Bolero, despite long waiting periods.

### ■ Valuation - Maintain Buy with an unchanged PT of Rs. 1,550

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#### One-year forward P/E (x) band



Source: Sharekhan Research

## About company

M&M is the flagship company of Mahindra Group. M&M's core business houses the automotive and tractor segments. M&M is the only automotive company that is virtually present across all segments. The company is the market leader in LCVs and is a leading UV and 3W player. M&M also manufactures medium and heavy commercial vehicles (MHCV) and is present in the 2W space through its investment in Jawa. Apart from being a strong player in the automotive space, M&M is the market leader in the tractor segment, having a market share of about 40%. Apart from the core business, M&M is also the promoter/holds controlling interest in companies that are engaged in diverse businesses under the Mahindra brand (IT services, NBFC, logistics, hospitality, real estate, and auto ancillary business).

## Investment theme

M&M expects the tractor industry's growth to remain buoyant with strong farm sentiments on account of higher rainfall, expected increase in Kharif output, and increased government spending. Higher groundwater reservoir levels coupled with robust farmer cash flows mean tractor demand would remain decent even at a high base. Automotive volumes are also improving. With the success of new launches (Thar with strong bookings) and inventory filling (automotive inventory is lower than normal), automotive demand is expected to improve further. Going ahead, M&M's strategy revolves around tighter capital allocation, exit from loss-making subsidiaries, and focusing on the core UV business and emerging EV businesses. The company has started to take concrete steps to achieve and sustain 18% RoE from all its businesses, which makes a compelling case for re-rating of the stock. This would further substantially reduce losses in overseas subsidiaries and act as a key re-rating trigger for M&M. We maintain our Buy call on the stock.

## Key Risks

- ◆ Uneven distribution of monsoons can affect our volume estimates for M&M's farm equipment segment.
- ◆ Unsuccessful or delayed launches may affect the company's growth prospects.

## Additional Data

### Key management personnel

Anand G. Mahindra	Chairman
Anish Shah	Managing Director and CEO
Rajesh Jejurikar	Executive Director (Auto and Farm Sectors)
Manoj Bhat	Group Chief Financial Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Prudential MGMT & Services	11.38%
2	M&M Benefit Trust	6.79%
3	Life Insurance Corp of India	5.00%
4	First State Investments ICVC	4.57%
5	SBI Funds Management Ltd	3.78%
6	M&M EMP STK OP Trust	3.65%
7	First Sentier Investors LLC	3.31%
8	BlackRock Inc	3.14%
9	Vanguard Group Inc/The	2.89%
10	JPMorgan Chase & Co	2.61%

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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