

# MAHINDRA & MAHINDRA LIMITED

...splendid performance in Q1, beat on all fronts

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M&M reported decent Q1 FY24 numbers wherein the topline was reported at ₹240 bn, a growth of 22.7% yoy and 6.6% qoq. Volumes rose by 10% yoy and realizations went up by about 11.2% yoy. Automotive division revenues came in at ₹166 bn, an increase of 21% yoy led by success of new launches –Thar, Bolero Neo, XUV 700, Scorpio variants and XUV 300 & 400. M&M started rapidly catering to the order backlog as chip shortage issue softened. Automotive segment reported strong EBIT margins, which rose by 40 bps qoq, (180 bps yoy) to 7.5% due to positive operating leverage, stable commodity basket and model mix. Tractor margins came in strong at 17.5% which were 40 bps up qoq and 150 bps up yoy. Overall EBITDA margins therefore came in at 13.4% (100 bps jump qoq and 150 bps yoy). Coupled with higher other income, PAT came in 89% up yoy and 11.5% qoq at ₹27.4 bn.

## SUV remains the bright spot, to continue with its good run

M&M witnessed 32% yoy and 1% 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 117K open bookings since its launch. The Thar and XUV 700 launches are still having huge order book of 10K and 8K per month respectively, though these models have long waiting periods. Neo Bolero was launched in July 2021 which already has received strong order bookings (9K 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 6K demand per month, while XUV 400 and 300 open bookings stood at 11K units p.m. The total order bookings stood at 281K currently. With this, the company was able to increase its SUV revenue market share at 20.2% from 19.6% qoq and staying at #1 position. Also the company plans to launch its EV and ICE variants (4 door and 5 door Thar) this fiscal along with several other new products such as BE.05, XUV.e9 and BE-RALL-E for the first time in India. From existing ICE capacity of 39K p.m, the company plans to expand it upto 49K p.m as FY 24 exit capacity. M&M plans to launch 5 new SUVs this year as supply constraints are easing (impact of just 7K units in the SUV + pick up segment during Q1). We expect SUVs to register 20%/15% growth in FY24E/FY25E respectively.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total sales (₹ bn)	578	850	1,017	1,206
EBITDA margins (%)	12.8	12.3	13.6	14.3
PAT margins (%)	9.5	9.4	11.0	11.4
EPS (₹)	46.4	67.0	94.2	115.2
P/E (x)	31.6	21.9	15.6	12.7
P/BV (x)	4.6	4.0	3.4	2.8
EV/EBITDA (x)	22.2	15.2	11.4	8.9
ROE (%)	14.4	18.4	21.6	21.9
Dividend yield (%)	0.6	0.8	1.5	1.8

Rating	<b>BUY</b>
Current Market Price (₹)	<b>1,465</b>
12M Price Target (₹)	<b>1,727</b>
Potential upside (%)	<b>18</b>

## Stock Data

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	1,820
Free Float Market Cap (₹ bn) :	1,310
52-Week High / Low (₹) :	1,595 / 1,123
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

## Shareholding Pattern

(%)	Jun-24	Mar-23	Dec-22	Sep-22
Promoter	19.37	19.37	19.39	19.38
FPIs	40.14	39.24	39.16	38.27
MFs	13.94	14.68	15.30	15.01
Insurance	10.72	10.61	10.84	12.00
Others	15.83	16.10	15.31	15.34

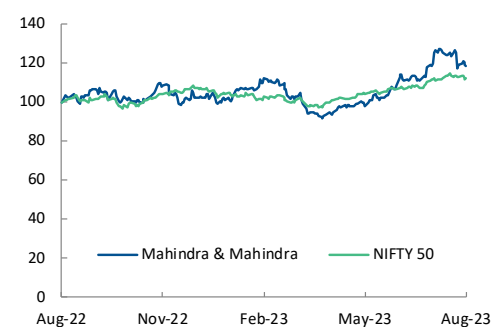
Source: BSE

## Price Performance

(%)	1M	3M	6M	12M
M&M	-0.2%	18.9%	5.5%	18.5%
Nifty 50	1.0%	6.9%	9.3%	12.2%

\* To date / current date : August 4, 2023

## M&M vs Nifty 50



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. The company plans to unveil its new INGLO platform for EV products soon. 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. The company has tied up with British International Investment (BII) to invest up to \$250 mn in new EV Co to be setup at a valuation of up to \$ 9.1 bn. Recently even Temasek invested ₹12 bn (stake purchase ranging 1.49% to 2.97%) in M&M's EV SUV business at valuation of ₹806 bn, which seems positive to us.

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. Also with chip shortage issue getting resolved now, we believe M&M will be able to cater to this burgeoning demand in FY24 and report solid growth thereby in line with reduction in waiting period. In the LCV business, M&M has gained about 480 bps market share qoq to reach its highest ever quarterly market share of 49.1%. 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 9%/10% volume growth in CVs in FY24E/25E.

M&M has garnered 65.5% 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 14.7K units of E-3Ws in Q1 itself as compared to just 16,000 units in FY 22. M&M is expanding its existing capacity for e-3W and e-4W at its Zaheerabad plant in Telangana for an investment of ₹10 bn over the next 8 years. We expect 18%/15% growth in 3Ws in FY24E/25E respectively.

#### Tractor segment may throw a surprise this year

M&M witnessed about 28% qoq growth in tractor volumes and 17.5% margins in Q1 FY24. M&M won market share by 220 bps qoq and 20 bps yoy at 42.9% in Q1 FY24. However, with expected El Nino and its impact on monsoon and in turn on the tractor segment, we expect some effect to be shown on tractor sales, though the management believes that there is little correlation between El Nino and tractor sales. M&M highlighted that tractor segment fundamentals continue to remain strong led by (1) strong agricultural credit growth & MSPs and (2) strong infrastructural activities which would trigger non agri usage of tractors 3). Strong response to the newly launched Yuvo Tech + and launch of the lower HP range (already launched in 5 states) named as 'Swaraj Target' tractors in the 25HP and 29HP range on 2nd June. The altogether range of small HP tractors 'Oja' will be launched on 15th August. 4).high reservoir levels and 5). Success of international Farm subsidiaries. Also 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 23.5% market share (19.5% in Q1 FY23).

On high base of FY23, we may see some base effect in FY24 along with impact of El Nino. However, with 6% surplus rains by the end of July pan India we may see better than expected monsoon performance this year leading to a beat in FES growth estimates. Currently we expect domestic FES segment to grow at 4%/7% in FY24E/25E respectively as against 16% FY23 volume growth.

#### RBL stake purchase does not seem to impact capital allocation adversely

M&M acquired a small 3.5% stake in RBL Bank few days ago at a valuation of ₹4 bn with a long term view of 7-10 years with a motive to understand the banking business to enhance their financial services business (MMFSL which is valued at ~₹400 bn). This stake may over time reach 9.9% maximum in case they see a compelling strategic value at any time in future. We believe this to be a good synergetic move and would not impact the capital allocation as it is just a small stake purchase not impacting M&M's huge cash bank.

#### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Net sales	240,561	225,713	6.6%	196,126	22.7%
Raw material costs	181,149	169,219	7.0%	150,240	20.6%
Employee costs	10,447	9,490	10.1%	8,362	24.9%
Other expenses	16,613	19,031	-12.7%	14,114	17.7%
EBITDA	32,351	27,973	15.7%	23,410	38.2%
<i>EBITDA margins %</i>	<i>13.4%</i>	<i>12.4%</i>	<i>100 bps</i>	<i>11.9%</i>	<i>140 bps</i>
<i>Other income</i>	<i>9,699</i>	<i>3,428</i>	<i>182.9%</i>	<i>2386</i>	<i>306.5%</i>
Depreciation	8,281	8,385	-1.2%	6806	21.7%
Interest expenses	323	698	-53.7%	698	-53.7%
PBT	33,445	22,318	49.9%	18292	82.8%
Tax	5,708	1,621	252.1%	3581	59.4%
Reported PAT	27,737	15,578	78.0%	14302	93.9%
Exceptional items	-	(5,118)	-	(410)	-
Adjusted PAT	27,737	20,697	34.0%	14711	88.5%
Adj EPS	23.19	17.30	34.0%	12.3	88.5%

Source: Company, LKP Research

### Outlook and Valuation

We expect strong SUV run to continue as the semi conductor issue is minimum. Within the Auto sector, the robust order book of Scorpio N variants, Thar and XUV family should assist SUV growth in coming quarters. We expect mid-single digit growth for the FES segment on waning tractor cycle and possible El Nino impact, though we cannot rule out better than expected performance depending on monsoon in the second half of the season given the strong first half performance. 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. 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 levers, which can leverage the core strength of M&M group and accelerate the growth for the company over the medium term. RBL stake acquisition and Temasek stake are both positive in our view. We maintain BUY on attractive valuations; SoTP-based target price stands at ₹1,727 (₹1,382 core business valued at 12x FY25E earnings + subsidiary valuation of ₹345) in line with our assumptions of margin improvement on increase in volumes and value of SUV, 3Ws and LCV segments, decent growth in FES, production increase offering operating leverage, price hikes and prudent cost reduction measures.

### SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
<b>M&amp;M</b>	<b>P/E (@12x FY 25E EPS)</b>	<b>-</b>	<b>1,382</b>
M&M Financial Services	Market cap	25%	53
Tech Mahindra	Market cap	25%	253
Mahindra Lifespaces	Market cap	30%	6
Mahindra Logistics	Market cap	30%	10
Mahindra Holiday & Resorts	Market cap	30%	12
Swaraj Engines	Market cap	30%	8
RBL	Market cap	25%	3
<b>Subsidiaries Total SOTP value</b>			<b>345</b>
<b>Total</b>			<b>1,727</b>

### Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	577,869	849,603	1,016,800	1,206,206
Raw Material Cost	423,416	645,582	762,600	901,036
Employee Cost	33,060	36,499	42,706	50,661
Other Exp	47,562	63,098	73,210	82,022
<b>EBITDA</b>	<b>73,832</b>	<b>104,424</b>	<b>138,285</b>	<b>172,487</b>
<i>EBITDA Margin(%)</i>	12.8	12.3	13.6	14.3
Other Income	20,759	25,452	34,000	36,000
Depreciation	24,511	31,545	33,551	39,641
Interest	2230	2728	2000	1700
<b>PBT</b>	<b>67,851</b>	<b>95,603</b>	<b>136,734</b>	<b>167,146</b>
<i>PBT Margin(%)</i>	11.7	11.3	13.4	13.9
Tax	12,673	15,821	24,612	30,086
<b>Adj PAT</b>	<b>55,178</b>	<b>79,782</b>	<b>112,122</b>	<b>137,060</b>
<i>Adj PAT Margins (%)</i>	9.5	9.4	11.0	11.4
Exceptional items	-2087	-14295	0	0
<b>Reported PAT</b>	<b>53,091</b>	<b>65,487</b>	<b>112,122</b>	<b>137,060</b>
<i>Rep. PAT Margins (%)</i>	9.2	7.7	11.0	11.4

### Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
<b>Per Share Data (₹)</b>				
Adj. EPS	46.4	67.0	94.2	115.2
CEPS	65.2	81.5	122.4	148.5
BVPS	321.0	364.4	436.9	525.6
DPS	9.2	12.1	21.7	26.5
<b>Growth Ratios(%)</b>				
Total revenues	28.3	47.0	19.7	18.6
EBITDA	13.5	41.4	32.4	24.7
PAT	40.3	44.6	40.5	22.2
EPS Growth	40.3	44.6	40.5	22.2
<b>Valuation Ratios (X)</b>				
PE	31.6	21.9	15.6	12.7
P/CEPS	22.5	18.0	12.0	9.9
P/BV	4.6	4.0	3.4	2.8
EV/Sales	2.8	1.9	1.5	1.3
EV/EBITDA	22.2	15.2	11.4	8.9
<b>Operating Ratios (Days)</b>				
Inventory days	51.5	50.2	44.0	47.0
Receivable Days	16.6	15.2	14.8	14.2
Payables day	101.8	85.1	82.0	78.0
<b>Net Debt/Equity (x)</b>				
Profitability Ratios (%)	0.15	0.05	0.04	0.02
ROE	14.4	18.4	21.6	21.9
Dividend payout	19.7	18.0	23.0	23.0
Dividend yield	0.6	0.8	1.5	1.8

### Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
<b>Equity and Liabilities</b>				
Equity Share Capital	5,983	5,991	5,991	5,991
Reserves & Surplus	375,998	427,577	513,910	619,447
Total Networth	381,981	433,567	519,901	625,437
Total debt	76,656	49,128	45,128	41,128
Deferred tax liabilities	17,622	14,703	14,703	14,703
Current liabilities & Provisions	189,807	260,400	258,268	278,494
<b>Total Liabilities</b>	<b>666,065</b>	<b>757,798</b>	<b>837,999</b>	<b>959,762</b>
<b>Assets</b>				
Fixed assets	201,667	197,608	239,057	279,416
Non current Investments	163,024	175,391	185,391	200,391
Other non current assets	39,115	38,363	38,363	38,363
<b>Current Assets</b>	<b>262,259</b>	<b>346,436</b>	<b>375,189</b>	<b>441,592</b>
Cash and bank(i)	7,172	13,101	20,926	32,538
Bank deposits other than(i)	29,333	31,716	31,716	31,716
Inventories	59,704	88,814	91,930	116,024
Sundry Debtors	30,386	40,417	41,229	46,926
Loan, Advances & others	18,455	21,770	21,770	21,770
Other current assets	146,542	182,334	199,334	224,334
<b>Total Assets</b>	<b>666,065</b>	<b>757,798</b>	<b>837,999</b>	<b>959,762</b>

### Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	63,567	95,603	136,734	167,146
Depreciation	24,984	31,545	33,551	39,641
Interest	2,262	2,728	2,000	1,700
Chng in working capital	3,913	3,871	(4,061)	(8,565)
Tax paid	(5,984)	(19,380)	(24,612)	(30,086)
Other operating activities	(18,973)	(23,074)	0	0
<b>Cash flow from operations (a)</b>	<b>69,768</b>	<b>91,293</b>	<b>143,612</b>	<b>169,836</b>
Capital expenditure	(32,916)	(34,313)	(75,000)	(80,000)
Chng in investments	(37,699)	(43,801)	(27,000)	(40,000)
Other investing activities	30,979	30,579	0	0
<b>Cash flow from investing (b)</b>	<b>(39,636)</b>	<b>(47,535)</b>	<b>(102,000)</b>	<b>(120,000)</b>
Free cash flow (a+b)	30,132	43,758	41,612	49,836
Inc/dec in borrowings	(15,978)	(19,752)	(6,000)	(5,000)
Dividend paid (incl. tax)	(10,891)	(14,359)	(25,788)	(31,524)
Other financing activities	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>(31,659)</b>	<b>(37,838)</b>	<b>(33,788)</b>	<b>(38,224)</b>
<b>Net chng in cash (a+b+c)</b>	<b>(1,527)</b>	<b>5,920</b>	<b>7,824</b>	<b>11,612</b>
<b>Closing cash &amp; cash equivalents</b>	<b>7,173</b>	<b>13,102</b>	<b>20,926</b>	<b>32,538</b>

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