

BUY Mahindra & Mahindra**In-line results; valuation support continues**

Auto & Auto Ancillaries ▶ Result Update ▶ August 5, 2023

TARGET PRICE (Rs): 1,590

M&M reported in-line results in terms of revenue and margin, though Company logged a ~42% beat at the PAT level due to higher 'other income'. While we are unenthused about the recent RBL Bank investment amid appreciable capital allocation focus over the past few years, current valuations (~14x core FY25E PER) remain supportive amid relatively limited volume growth prospects in base businesses (we build ~8%/~5% volume CAGR in Auto and Farm segments). We introduce FY26 estimates and upgrade FY24E/FY25E EPS by ~9%/~7% to reflect the Q1 margin performance and outlook (FY23E-25E Core EPS CAGR: ~14%); we maintain BUY on M&M, given the undemanding valuations (~14x FY25E standalone core PER). Our SOTP-based TP stands at Rs1,590/share (Rs1,500 earlier; incl. Rs470/sh for subsidiaries/investments).

Mahindra & Mahindra: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,77,869	8,49,603	9,97,257	10,66,242	11,36,076
EBITDA	70,275	1,03,795	1,29,744	1,38,694	1,50,076
Adj. PAT	50,786	79,782	93,667	99,206	1,07,229
Adj. EPS (Rs)	40.9	64.2	75.3	79.8	86.3
EBITDA margin (%)	12.2	12.2	13.0	13.0	13.2
EBITDA growth (%)	1.0	47.7	25.0	6.9	8.2
Adj. EPS growth (%)	394.8	34.5	43.0	5.9	8.1
RoE (%)	13.9	19.6	20.0	18.3	17.3
RoIC (%)	29.7	41.0	53.0	59.8	60.8
P/E (x)	35.9	22.8	19.4	18.4	17.0
EV/EBITDA (x)	25.3	16.7	13.1	11.8	10.5
P/B (x)	4.8	4.2	3.6	3.1	2.8
FCFF yield (%)	2.1	4.0	3.6	6.0	6.1

Source: Company, Emkay Research

In-line operating performance

Standalone revenue rose 22% YoY to Rs240.6bn (in-line), led by ~11% volume growth, with realization up 10% YoY (-1% QoQ). Auto revenue grew 32% YoY to Rs166bn, while Farm segment revenue grew 5% to Rs74.6bn. Sequential EBITDA margins were higher by 110bps to 13.4% (in-line), led by operating leverage gains (volume up 28% in Farm and down 2% in Auto), with gross margin dipping by 30bps. EBIT margin in the Auto segment expanded by 40bps QoQ to 7.5% and by 110bps QoQ to 17.5% in the Farm segment. Adj. PAT rose 92% to Rs27.7bn (~42% above Consensus/our est.), chiefly driven by higher-than-expected 'other income' (>325% YoY/>183% QoQ to Rs9.7bn).

Earnings Call KTAs

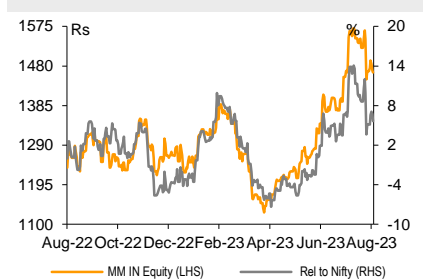
i) Mgmt explained that focus continues on capital allocation and cash-flows from the Auto/Farm segments would not be utilized for other areas. ii) Primary reason for the RBL Bank investment (~Rs4.1bn for 3.5% stake) is for M&M to understand the banking space in the next 2-3yrs, post which it may increase stake to 9.9% with a Board seat, if Company believes there is strategic benefit/enhancement in existing financial-services business (Mahindra Finance) — investment helps M&M evaluate whether Mahindra Finance could enter banking if the future regulatory climate allows. iii) As per Mgmt, M&M has no intention to become a bank; the investment should be viewed as an option value for now (with the worst-case scenario being exit in some years with good returns). iv) Auto supplies have largely stabilized; M&M is on track for 49K units/mth capacity by Q4FY24; the sub-Rs1mn market continues to throw up challenges for the industry and M&M (*XUV300*, *Bolero*); these models make up bulk of the overall ~30-day inventory levels; retails are lagging dispatches by ~10%; however, the SUV order book remains strong at 281K units (vs. ~290K in Apr-23). v) Mgmt did not provide volume growth guidance for the tractor industry; but factors like monsoons, *Kharif* sowing and terms of trade are better than the 3-month-ago expectations. vi) Commodities would be largely benign. vii) M&M is looking to on-board investors and tech partners for battery spends

Target Price – 12M	Jun-24
Change in TP (%)	6.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	8.6
CMP (04-Aug-23) (Rs)	1,464.7

Stock Data	Ticker
52-week High (Rs)	1,595
52-week Low (Rs)	1,123
Shares outstanding (mn)	1,243.5
Market-cap (Rs bn)	1,821
Market-cap (USD mn)	21,986
Net-debt, FY24E (Rs mn)	-1,21,037
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	3,788.9
ADTV-3M (USD mn)	45.7
Free float (%)	76.8
Nifty-50	19,517
INR/USD	82.8
Shareholding, Jun-23	
Promoters (%)	18.9
FPIs/MFs (%)	39.1/26.2

Price Performance

(%)	1M	3M	12M
Absolute	-	18.9	16.1
Rel. to Nifty	(0.6)	11.2	3.4

1-Year share price trend (Rs)**Chirag Jain**

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Exhibit 1: Actual vs Estimates (Q1FY24)

(Rs mn)	Actual	Emkay Est	Variance (%)	Consensus	Var. (%)
Net sales	2,40,561	2,42,357	(0.7)	2,36,438	1.7
EBITDA	32,351	32,201	0.5	31,084	4.1
EBITDA Margin (%)	13.4	13.3	16 bps	13.1	30 bps
Adj net income	27,737	19,608	41.5	19,496	42.3
FDEPS (Rs)	22.3	15.8	41.5	15.7	42.3

Source: Company, Emkay Research

Exhibit 2: Q1FY24 result snapshot – Margin expansion QoQ due to higher volumes

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue	1,97,250	2,10,101	2,16,537	2,25,714	2,40,561	22.0	6.6
Expenditure	1,73,915	1,85,128	1,88,395	1,97,831	2,08,209	19.7	5.2
as % of sales	88.2	88.1	87.0	87.6	86.6		
Consumption of RM	1,51,125	1,60,768	1,64,471	1,69,219	1,81,149	19.9	7.0
as % of sales	76.6	76.5	76.0	75.0	75.3		
Employee Cost	8,442	9,224	9,342	9,490	10,447	23.7	10.1
as % of sales	4.3	4.4	4.3	4.2	4.3		
Other expenditure	14,348	15,137	14,583	19,121	16,613	15.8	(13.1)
as % of sales	7.3	7.2	6.7	8.5	6.9		
EBITDA	23,335	24,973	28,142	27,883	32,351	38.6	16.0
Depreciation	6,955	7,913	8,292	8,385	8,281	12.7	(1.2)
EBIT	16,381	17,060	19,851	19,498	24,070	46.9	23.4
Other Income	2,279	13,134	6,700	3,429	9,699	325.7	182.9
Interest	703	641	686	698	323	(54.0)	(53.7)
PBT	17,956	29,553	25,865	22,229	33,445	86.3	50.5
Total Tax	3,511	6,394	5,575	1,621	5,708	62.6	252.1
Adjusted PAT	14,446	23,159	20,290	20,608	27,737	92.0	34.6
Extra ordinary items	(410)	(2,479)	(5,009)	(5,118)	-		
Reported PAT	14,036	20,680	15,281	15,490	27,737	97.6	79.1
(%)						(bps)	(bps)
EBITDAM	11.8	11.9	13.0	12.4	13.4	162	109
EBITM	8.3	8.1	9.2	8.6	10.0	170	137
EBTM	9.1	14.1	11.9	9.8	13.9	480	405
PATM	7.3	11.0	9.4	9.1	11.5	421	240
Effective Tax rate	19.6	21.6	21.6	7.3	17.1	-248	977

Source: Company, Emkay Research

Exhibit 3: Segmental results

Segmental details (Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Farm Equipment							
Tractor (Units)	1,18,509	93,540	1,05,765	89,731	1,15,009	(3.0)	28.2
Net Sales (Rs mn)	70,872	55,381	62,777	60,117	74,556	5.2	24.0
Avg realizations	5,98,034	5,92,060	5,93,549	6,69,969	6,48,263	8.4	(3.2)
EBIT (Rs mn)	11,245	9,085	10,393	9,848	13,027	15.8	32.3
Margins (%)	15.9	16.4	16.6	16.4	17.5	161 bps	109 bps
Automotive (Incl MVML)							
Auto (units)	1,53,462	1,79,683	1,76,094	1,89,227	1,86,138	21.3	(1.6)
Net Sales (Rs mn)	1,26,531	1,48,958	1,47,965	1,65,876	1,66,210	31.4	0.2
Avg realizations (Rs)	8,24,513	8,29,006	8,40,263	8,76,600	8,92,940	8.3	1.9
EBIT (Rs mn)	6,721	8,886	9,896	11,761	12,524	86.3	6.5
Margins (%)	5.3	6.0	6.7	7.1	7.5	222 bps	6 bps

Source: Company, Emkay Research

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Exhibit 4: Change in estimates

(Rs mn)	FY24E				FY25E				FY26E	
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Introducing	%YoY
Volume (units)	12,19,083	12,16,978	(0.2)	10.0	12,83,186	12,86,953	0.3	5.7	13,55,371	5.3
Revenue	9,85,912	9,97,257	1.2	17.4	10,58,750	10,66,242	0.7	6.9	11,36,076	6.5
EBIDTA	1,21,905	1,29,744	6.4	25.0	1,31,688	1,38,694	5.3	6.9	1,50,076	8.2
EBIDTA margin (%)	12.4	13.0	65 bps	79 bps	12.4	13.0	57 bps	(0) bps	13.2	20 bps
Adj. PAT	85,700	93,667	9.3	17.4	92,666	99,206	7.1	5.9	1,07,229	8.1
EPS (Rs)	68.9	75.3	9.3	17.4	74.5	79.8	7.1	5.9	86.3	8.1

Source: Company, Emkay Research

Exhibit 5: SOTP-based target price at Rs1,590/share

Components (Rs bn)	Basis of Valuation	Mar-25E Implied P/E (x)	Equity value	M&M stake (%)	Pro-rata value	Hold-co discount (%)	Contr. To SOTP	SOTP (Rs/share)	SOTP breakdown (%)
Tractor division	DCF	15	565		565		565	455	29
CV and 3W divisions	DCF	13	269		269		269	216	14
PV-ICE division	DCF	9	231		231		231	186	12
PV-EV division	50% discount to Transaction value		324		324		324	261	16
Standalone business		14	1,065		1,065		1,065	1,117	54
Tech Mahindra	TP (Emkay)		1,169	25.5	298	20	238	192	12
M&M Financial Services	TP (Emkay)		389	52.2	203	20	162	131	8
Other Subs/investments	Current m-cap/ investment value						183	147	9
Total							1,973	1,587	100
Total (Rounded off)								1,590	

Source: Company, Emkay Research

Exhibit 6: Revenue model – Expect 10% EPS CAGR over FY23-26E

Revenue Model (M&M + MVML)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Volumes (units)	7,73,094	7,03,119	8,20,299	11,06,001	12,16,978	12,86,953	13,55,371
Growth (%)	-17.6	-9.1	16.7	34.8	10.0	5.7	5.3
Segmental volumes							
Automotive	4,71,179	3,48,621	4,65,601	6,98,456	7,85,340	8,33,734	8,84,023
Growth (%)	(22)	(26)	34	50	12	6	6
SUVs	1,89,758	1,61,457	2,33,400	3,67,474	4,24,063	4,54,379	4,93,227
Growth (%)	(23)	(15)	45	57	15	7	9
Tractors	3,01,915	3,54,498	3,54,698	4,07,545	4,31,637	4,53,219	4,71,348
Growth (%)	(9)	17	0	15	6	5	4
Volume mix (%)							
Automotive	61	50	57	63	65	65	65
Tractors	39	50	43	37	35	35	35
ASP (Rs/unit)	5,80,337	6,34,741	7,04,462	7,68,175	8,19,454	8,28,501	8,38,203
Growth (%)	3	9	11	9	7	1	1
Revenues	4,48,655	4,46,299	5,77,869	8,49,603	9,97,257	10,66,242	11,36,076
Growth (%)	(15.1)	(0.5)	29.5	47.0	17.4	6.9	6.5
Revenue mix (%)							
Automotive	61.6	54.8	61.9	67.8	69.5	69.7	70.0
Tractors	34.1	41.1	34.1	29.4	27.9	27.6	27.2
EBITDA	63,506	69,575	70,275	1,03,795	1,29,744	1,38,694	1,50,076
EBITDA margin (%)	14.2	15.6	12.2	12.2	13.0	13.0	13.2
EBITDA growth (%)	(15.7)	9.6	1.0	47.7	25.0	6.9	8.2
EBITDA/vehicle (%)	82,145	98,952	85,670	93,847	1,06,612	1,07,769	1,10,727
EBIT	42,226	48,214	48,319	76,702	1,01,724	1,08,518	1,12,856
EBIT margin (%)	9.4	10.8	8.4	9.0	10.2	10.2	9.9
Segmental margins (%)							
Automotive	6.1	3.4	3.6	4.8	8.0	8.5	9.0
Tractors	19.0	22.7	18.1	16.2	17.5	17.8	18.0
EBIT mix (%)							
Automotive	35.9	16.5	25.6	36.1	52.3	53.7	55.3
Tractors	62.5	83.0	71.7	53.4	45.9	44.6	43.0
Core EPS (excl. dividend income) (Rs)	20.5	28.2	29.9	51.2	62.4	66.9	73.3

Source: Company, Emkay Research

Mahindra & Mahindra: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,77,869	8,49,603	9,97,257	10,66,242	11,36,076
Revenue growth (%)	29.5	47.0	17.4	6.9	6.5
EBITDA	70,275	1,03,795	1,29,744	1,38,694	1,50,076
EBITDA growth (%)	1.0	47.7	25.0	6.9	8.2
Depreciation & Amortization	24,984	31,545	33,245	35,763	37,653
EBIT	45,291	72,250	96,499	1,02,931	1,12,423
EBIT growth (%)	(1.3)	59.5	33.6	6.7	9.2
Other operating income	0	0	0	0	0
Other income	20,538	26,081	26,701	27,383	28,133
Financial expense	2,262	2,728	2,338	2,306	2,196
PBT	63,567	95,603	1,20,861	1,28,008	1,38,360
Extraordinary items	(2,087)	(14,295)	0	0	0
Taxes	12,781	15,821	27,194	28,802	31,131
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	48,699	65,486	93,667	99,206	1,07,229
PAT growth (%)	394.8	34.5	43.0	5.9	8.1
Adjusted PAT	50,786	79,782	93,667	99,206	1,07,229
Diluted EPS (Rs)	40.9	64.2	75.3	79.8	86.3
Diluted EPS growth (%)	394.8	34.5	43.0	5.9	8.1
DPS (Rs)	11.1	15.9	18.8	19.9	21.6
Dividend payout (%)	28.4	30.2	25.0	25.0	25.0
EBITDA margin (%)	12.2	12.2	13.0	13.0	13.2
EBIT margin (%)	7.8	8.5	9.7	9.7	9.9
Effective tax rate (%)	20.1	16.5	22.5	22.5	22.5
NOPLAT (pre-IndAS)	36,184	60,293	74,786	79,772	87,128
Shares outstanding (mn)	1,243.2	1,243.2	1,243.2	1,243.2	1,243.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	63,567	95,603	1,20,861	1,28,008	1,38,360
Others (non-cash items)	8,273	19,194	40,623	42,561	44,639
Taxes paid	(5,984)	(19,380)	(30,536)	(32,342)	(34,957)
Change in NWC	3,913	(4,125)	(5,347)	14,280	2,902
Operating cash flow	69,767	91,293	1,25,602	1,52,508	1,50,944
Capital expenditure	(32,916)	(21,597)	(65,000)	(55,000)	(55,000)
Acquisition of business	(23,968)	(32,350)	(50,000)	(65,000)	(65,000)
Interest & dividend income	17,248	2,747	0	0	0
Investing cash flow	(39,636)	(34,819)	(1,15,000)	(1,20,000)	(1,20,000)
Equity raised/(repaid)	33	8	0	0	0
Debt raised/(repaid)	(15,978)	(20,330)	3,412	(86)	(62)
Payment of lease liabilities	(497)	(1,138)	0	0	0
Interest paid	(4,824)	(2,728)	(2,338)	(2,306)	(2,196)
Dividend paid (incl tax)	(10,891)	(19,769)	(23,417)	(24,802)	(26,807)
Others	(25,421)	8,510	3,648	1,385	2,006
Financing cash flow	(57,578)	(35,446)	(18,695)	(25,809)	(27,060)
Net chg in Cash	(27,446)	21,028	(8,093)	6,699	3,885
OCF	69,767	91,293	1,25,602	1,52,508	1,50,944
Adj. OCF (w/o NWC chg.)	65,855	95,418	1,30,949	1,38,228	1,48,042
FCFF	36,852	69,696	60,602	97,508	95,944
FCFE	51,838	69,716	58,264	95,202	93,749
OCF/EBITDA (%)	99.3	88.0	96.8	110.0	100.6
FCFE/PAT (%)	106.4	106.5	62.2	96.0	87.4
FCFF/NOPLAT (%)	101.8	115.6	81.0	122.2	110.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,983	5,991	5,991	5,991	5,991
Reserves & Surplus	3,75,998	4,27,577	4,97,827	5,72,232	6,52,654
Net worth	3,81,981	4,33,567	5,03,818	5,78,223	6,58,644
Minority interests	0	0	0	0	0
Deferred tax liability (net)	17,622	14,703	11,361	7,821	3,995
Total debt	70,585	50,255	53,667	53,581	53,519
Total liabilities & equity	4,70,187	4,98,525	5,68,846	6,39,625	7,16,158
Net tangible fixed assets	1,12,881	1,30,501	1,06,293	1,38,424	1,55,771
Net intangible assets	26,610	39,261	39,261	39,261	39,261
Net ROU assets	0	0	0	0	0
Capital WIP	52,627	27,846	83,809	70,916	70,916
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,63,024	1,75,391	1,82,891	1,90,391	1,97,891
Cash & equivalents	1,15,526	1,40,298	1,74,704	2,38,904	3,00,288
Current assets (ex-cash)	1,85,848	2,44,502	2,87,219	3,07,088	3,27,201
Current Liab. & Prov.	1,95,878	2,59,273	3,05,332	3,45,357	3,75,168
NWC (ex-cash)	(10,030)	(14,771)	(18,112)	(38,270)	(47,968)
Total assets	4,70,187	4,98,525	5,68,846	6,39,625	7,16,158
Net debt	(44,941)	(90,042)	(1,21,037)	(1,85,323)	(2,46,770)
Capital employed	4,70,187	4,98,525	5,68,846	6,39,625	7,16,158
Invested capital	1,39,010	1,54,991	1,27,441	1,39,415	1,47,064
BVPS (Rs)	307.3	348.8	405.3	465.1	529.8
Net Debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.6)	(0.9)	(0.9)	(1.3)	(1.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	10.8	15.2	17.3	16.2	15.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	35.9	22.8	19.4	18.4	17.0
P/CE(x)	24.0	16.4	14.3	13.5	12.6
P/B (x)	4.8	4.2	3.6	3.1	2.8
EV/Sales (x)	3.1	2.0	1.7	1.5	1.4
EV/EBITDA (x)	25.3	16.7	13.1	11.8	10.5
EV/EBIT(x)	39.2	24.0	17.6	15.9	14.0
EV/IC (x)	12.8	11.2	13.3	11.7	10.7
FCFF yield (%)	2.1	4.0	3.6	6.0	6.1
FCFE yield (%)	2.8	3.8	3.2	5.2	5.1
Dividend yield (%)	0.8	1.1	1.3	1.4	1.5
DuPont-RoE split					
Net profit margin (%)	8.8	9.4	9.4	9.3	9.4
Total asset turnover (x)	1.3	1.8	1.9	1.8	1.7
Assets/Equity (x)	1.3	1.2	1.1	1.1	1.1
RoE (%)	13.9	19.6	20.0	18.3	17.3
DuPont-RoIC					
NOPLAT margin (%)	6.3	7.1	7.5	7.5	7.7
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	29.7	41.0	53.0	59.8	60.8
Operating metrics					
Core NWC days	(6.3)	(6.3)	(6.6)	(13.1)	(15.4)
Total NWC days	(6.3)	(6.3)	(6.6)	(13.1)	(15.4)
Fixed asset turnover	2.0	2.5	2.7	2.6	2.4
Opex-to-revenue (%)	14.2	11.8	12.1	12.2	12.0

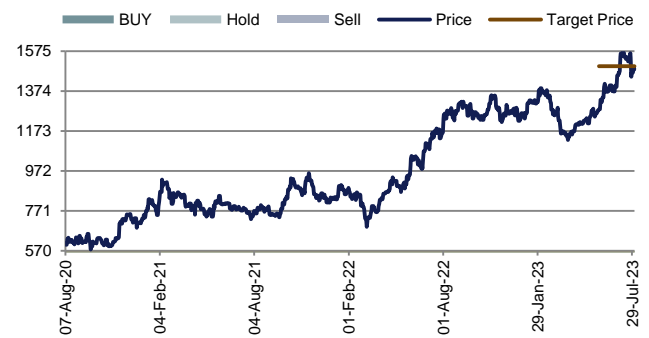
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
26-May-23	1,282	1,500	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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