

Mahindra & Mahindra

Performance continues to improve across segments

M&M Q1 adjusted PAT came in at INR 21.2 bn, ahead of our estimate of INR 19.3bn, led by better-than-expected margins. The margin surprise was driven by improved performance from the tractor segment. On the back of strong demand for its models, M&M has gained a 200bps share to 18.3% in UVs as of Q1FY24. Also, while industry demand is slowly decelerating, M&M continues to enjoy a healthy order backlog at 281k units. In the upto 3.5T LCV segment, while demand is subdued, M&M has further strengthened its market share to 49% (+480bps YoY). Even in tractors, M&M has been able to gain 20bps share to 42.9% in Q1 with improved profitability. We continue to remain positive on the business momentum, given: (1) a strong order backlog for UVs will help further gain market share; (2) the target to further increase its market share in tractors on the back of new launches; (3) focused strides taken to achieve a strong position in EVs; (4) challenge set for growth gems to grow 5x. While the recent stake buy of RBL posed serious concerns around capital allocation, we believe as long as they continue to focus on their core business segments and work towards achieving their long-term targets, investors should not be too concerned. Maintain BUY, with a revised TP of INR1,674/sh (earlier at INR1,617/share) as we roll forward to June'25 EPS.

- **Q1 PAT beats estimates:** M&M Q1 adjusted PAT came in at INR 21.2 bn, ahead of our estimate of INR 19.3bn, led by better-than-expected margins at 13.4%. Margin surprise was driven by tractor segment margins improving 160bps YoY to 17.5% (Vs estimate of 16.7%) while auto segment margin came in line with our estimate at 7.5%. M&M has reported exceptional gain in Q1 worth INR8.7bn which includes (1) relisting gains of KG Mobility (SYMC, INR 4bn) and (2) profit from stake sale in its investments (INR2.3bn).
- **Clarification on RBL stake buy:** (1) Management has indicated that the 3.5% stake buy in RBL is primarily to understand the banking space in detail. Given that financial services are a strategic focus area and as and when MMFS gains a large scale, one may need to evaluate whether it makes strategic sense for them to convert it into a bank, and hence the investment. (2) RBL was shortlisted as they think it is a well-performing bank with a strong management team, strong growth prospects, small in size and available at 0.9x Book. Even if they don't succeed in their plans, they will look to exit this stake with treasury gains at a later date. (3) Once they have a fair understanding of banking over the next 2-3 years, and only if there is any merit in investing further in banking, they may look to go up to a 9.9% stake at RBL. Further, once MMFS gains large scale and if there is a compelling strategic reason to get into banking, they would look to further raise their stake at a much later stage (say 5-7 years), subject to regulatory approvals. (4) Management has clarified that they would not invest cash flows from auto and farm businesses into services at any point in the future.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY23	FY24	FY25E	FY26E
Net Sales	2,40,561	1,97,250	22.0	2,25,714	6.6	8,49,603	9,62,564	10,68,992	12,15,935
EBITDA	32,351	23,335	38.6	27,974	15.6	1,04,424	1,25,133	1,38,969	1,51,992
APAT	21,170	14,446	46.5	19,397	9.1	74,778	83,946	90,538	98,367
Diluted EPS (INR)	17.6	12.0	46.5	16.2	9.1	62.3	70.0	75.5	82.0
P/E (x)						23.5	20.9	19.4	17.9
EV / EBITDA (x)						16.8	14.0	12.5	11.4
RoCE (%)						19.9	19.5	19.2	18.7

Source: Company, HSIE Research

BUY

CMP (on 04 Aug 2023)	INR 1,465
Target Price	INR 1,674
NIFTY	19,517

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,617	INR 1,674
EPS %	FY24E	FY25E
	2.1%	0.8%

KEY STOCK DATA

Bloomberg code	MM IN
No. of Shares (mn)	1,244
MCap (INR bn) / (\$ mn)	1,821/22,271
6m avg traded value (INR mn)	3,429
52 Week high / low	INR 1,595/1,123

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.9	5.5	16.1
Relative (%)	12.5	(2.5)	3.3

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	19.37	18.88
FIs & Local MFs	27.66	26.87
FPIs	39.24	40.14
Public & Others	13.73	14.11
Pledged Shares	0.01	0.01

Source : BSE

Pledged shares as % of total shares

Aniket Mhatre

aniket.mhatre@hdfcsec.com

+91-22-6171-7357

Sonaal Sharma

sonaal.sharma@hdfcsec.com

+91-22-6171-7307

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com