



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**

ESG RISK RATING
Updated Aug 08, 2023 **27.81**

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

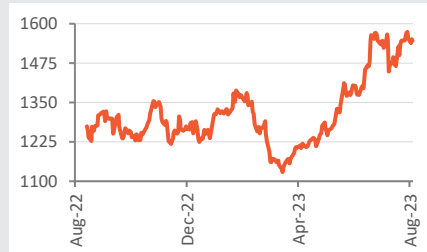
Company details

Market cap:	Rs. 1,92,073 cr
52-week high/low:	Rs. 1,595 / 1,124
NSE volume: (No of shares)	25.0 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	100.8 cr

Shareholding (%)

Promoters	18.9
FII	40.1
DII	26.9
Others	14.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	21.8	13.1	21.2
Relative to Sensex	3.3	16.2	5.3	12.7

Sharekhan Research, Bloomberg

Automobiles	Sharekhan code: M&M		
Reco/View: Buy	↔	CMP: Rs. 1,545	Price Target: Rs. 1,736 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Mahindra & Mahindra Limited (M&M) is strategically aiming to strengthen positioning in the overseas market via the introduction of global products.
- The company unveiled OJA (tractor platform), Thar.e (electric SUV) and Global PikUp (pick up vehicle) to cater to domestic as well as export markets.
- We continue to maintain our Buy rating on M&M with a revised SOTP-based PT of Rs. 1,736 due to a healthy order book in the PV segment, market leadership in the tractor segment, opportunity to grow in the farm machinery segment, and its road map to play in the EV space.
- The stock trades at a P/E multiple of 17.1x and EV/EBITDA multiple of 10.6x its FY2025E estimates.

Given its dominant position in the domestic automotive and tractor market, Mahindra & Mahindra Limited (M&M) is now aiming to strengthen its international product portfolio and, hence, launching global products, which can cater both domestic as well as international markets. Post launching XUV 700 in Australia, M&M has introduced multiple concept vehicle at a global stage to cater to domestic as well as international markets in the tractor, E-SUV, and pick-up vehicle segment. Key introductions were: (1) Mahindra OJA platform in the lightweight tractor segment. OJA would cater to domestic as well as overseas markets. This would help M&M in strengthening its leadership position in the domestic market and would help it in improving its space in the international market; (2) The company has also unveiled born electric concept Thar.e from INGLO platform; and (3) Global PikUp (pick up vehicle) concept vehicle to cater to the overseas market. We maintain our Buy rating with a revised SOTP-based PT of Rs. 1,736 (16.5x its FY2025E core EPS + Rs. 356 for listed subsidiaries + Rs. 208 for the EV business).

- Lightweight tractor segment is on the radar:** While M&M has been a market leader in the domestic tractor segment, it has been continuously making efforts to maintain its leadership position and gain market share. Though the tractor industry is showing slow growth due to a high base, M&M's market share has expanded to 42.9% in Q1FY2024 from 40.7% in Q4FY2023. Along with its pan-India presence and strong distribution system, a regular product intervention in niche areas is boosting M&M's performance in the farm equipment segment. Post the launch of Swaraj, M&M has also unveiled OJA platform at the global stage to cater to the lightweight tractor segment. The lightweight tractor segment offers a market size of 50,000 units in domestic market, where M&M's market share is relatively weak compared to its overall market share in the domestic tractor segment. Further, M&M is targeting its farm implements business to grow by 40% in FY2024.
- OJA – A global platform:** With OJA, M&M is targeting both domestic as well as overseas markets. The company plans to start domestic deliveries by October 2023 and international deliveries from January 2024. OJA platforms would help M&M to address 25% of the global tractor industry, while opening new markets like Europe and ASEAN. In overseas markets, it is aiming to focus on the U.S., India, and ASEAN regions, including Thailand, Indonesia, and the Philippines. The company exported 18,014 tractors in FY2023. With the launch of the OJA platform, the company expects to double its tractor export volume in three years. M&M's market share in the lightweight tractor segment stands at ~30%. We believe strategic placement of products in relatively niche areas would help M&M to sustain its leadership position, as gaining additional market share on the top of over 40% market share in the existing segment is difficult.
- New introduction in the EV and pick-up segments:** M&M has unveiled its electric SUV – Thar.e concept, which would be developed as part of the born electric range and would not be an electric conversion of the ICs Thar. Thar.e will be based on its new platform called the INGLO platform. Thar.e will have a new Mahindra Logo as copper twin peak will be used only on one EV – XUV400. The timeline to launch Thar.e is yet to be decided. Broadly, M&M has a healthy pipeline to introduce five products on the INGLO platform from December 2024. Along with OJA, tractor platform and Thar.e, M&M has also unveiled Global PikUp concept at the global stage to penetrate new overseas markets. Global PikUp is part of Mahindra's go global strategy, and the company believes this new pick-up vehicle would help it to enhance its penetration in its existing markets like South Africa and Australia and would make inroads for it in new territories.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,736: Along with a strong order book in the SUV segment and leading position in the domestic tractor segment, M&M is now gradually introducing its global portfolio to expand its addressable market. While M&M has acquired a 3.5% stake in RBL Bank as part of its long-term strategy related to its financial business (Mahindra Finance), it maintains its commitment for a disciplined capital allocation and maintain its policy of not to invest in non-core areas in normal situations. M&M is consistently focusing on improvement in its operating profitability. Its EV projects are on track. Historically M&M's operating performance has largely depended on the tractor segment; however, we believe the auto segment is expected to drive its operating performance in the coming years due to increasing volumes going ahead. We maintain our Buy rating on the stock with a revised PT of Rs. 1,736 due to a healthy robust order book in the PV segment, market leadership in the tractor segment, opportunity to grow in the farm machinery segment, and its road map to play in the EV space.

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 also impact our projection adversely. Any deviation from capital-allocation strategy would raise concerns on its return ratios.

Valuation (Standalone)

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue	44,630	57,787	84,960	94,180	1,06,056
Growth (%)	-0.5	29.5	47.0	10.9	12.6
AEBITDA	6,957	7,027	10,442	13,091	15,272
AEBITDA margin (%)	15.6	12.2	12.3	13.9	14.4
APAT (Rs cr)	2,303	5,035	7,700	9,428	11,250
Growth (%)	49.3	118.6	52.9	22.4	19.3
AEPS (Rs.)	19	40	62	76	90
P/E (x)	83.4	38.2	25.0	20.4	17.1
P/B (x)	5.5	4.9	4.4	3.8	3.3
EV/EBITDA (x)	24.7	24.2	15.8	12.5	10.6
ROE (%)	6.6	12.9	17.8	18.9	19.5
ROCE (%)	5.8	11.5	16.5	17.6	18.3

Source: Company; Sharekhan estimates

Strategically invested in RBL Bank, capital allocation strategy is intact

- ◆ While M&M has acquired a 3.53% stake in RBL Bank at Rs. 417 crore, it believes its overall capital allocation principal has not changed, given it considers automobiles, farm, IT, financials as its key core areas.
- ◆ The company's key objective for an investment in RBL Bank is to understand banking operations as it already owns an NBFC – Mahindra Finance.
- ◆ M&M is not expecting any immediate tangible benefit from investment in RBL Bank but assumes that it would help it in expanding its understanding in the financial system in the long run.
- ◆ Largely, the capital allocation principal is intact, and it is committed to not to use cash generated from farm and auto business to invest in other service areas.

SUV segment: Enjoying a strong order book

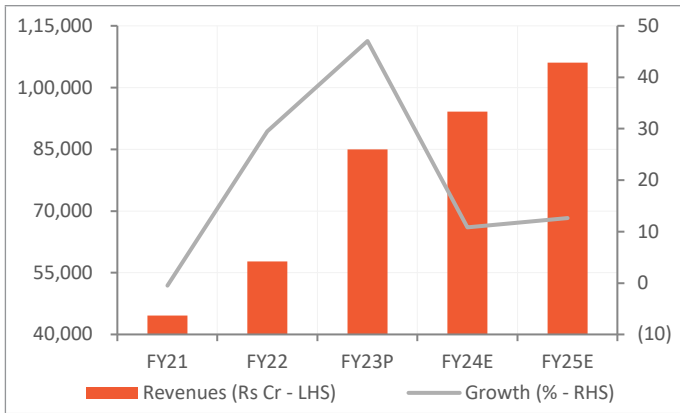
- ◆ M&M continues to enjoy healthy demand in the SUV segment as it enjoys a strong order book.
- ◆ In Q1FY2024, its order book position stood at 281,000 units compared with 292,000 units in Q4FY2023 and cancellation rate stood below 8%.
- ◆ Model-wise order book is as follows: XUV300 and XUV400 : 11K, XUV700 : 77K, THAR : 68K, Bolero: 8.4K, Scorpio: 117K. In the PV segment, demand for products above Rs. 10 lakh is high compared to products with a price tag below Rs. 10 lakh.

EV business is on track

- ◆ M&M is expected to invest Rs. 10,000 crore in the EV business (MEAL) by 2027. Temasek will invest Rs. 1,200 crore in one or more tranches of its EV business for: 1.49% to 2.97% and valued MEAL at Rs. 80,580 crore compared with Rs. 70,070 crore during earlier investment by BII.
- ◆ Management is selling stake in the EV business not only for funding but for strategic reasons.
- ◆ Along with funding, global investors are coming with an experience and relationship, which would guide the company in taking its business decision.
- ◆ The company assumes that EVs would have 20-30% penetration in the SUV portfolio by 2027. The company is targeting to sell 18,000 XUV 400s in FY2024 and has been looking to a higher monthly run rate from H2FY2024 compared with H1FY2024, as it is looking to stabilise the quality of product.
- ◆ The company assumes that EVs would have 20-30% penetration in the SUV portfolio by 2027.

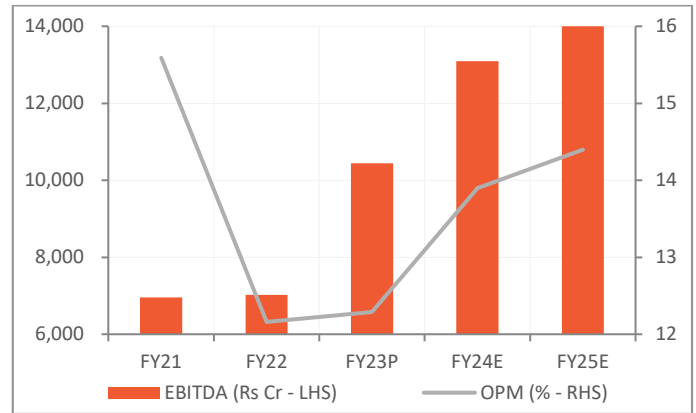
Financials in charts

Revenue trend



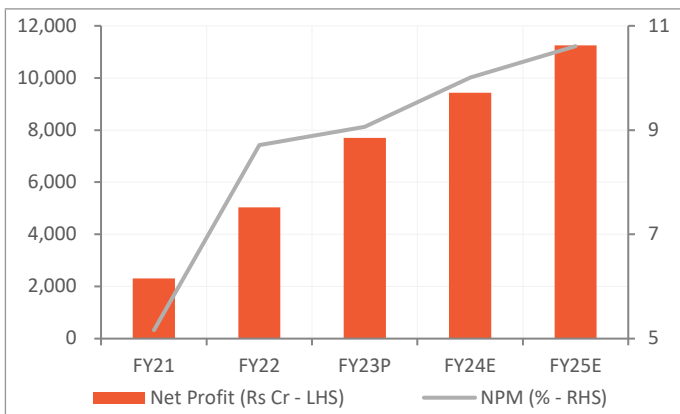
Source: Company, Sharekhan Research

EBITDA and OPM trend



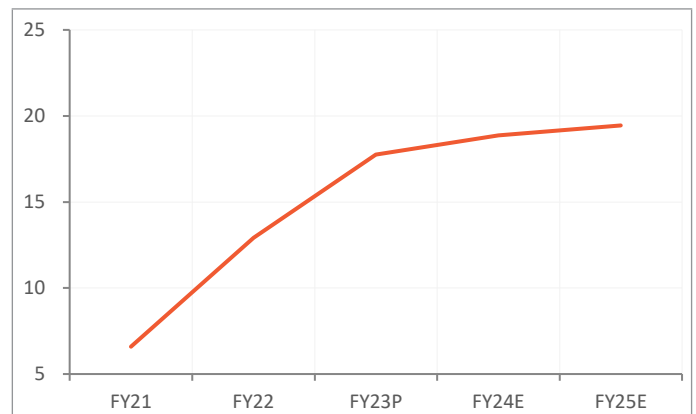
Source: Company, Sharekhan Research

Profitability trend



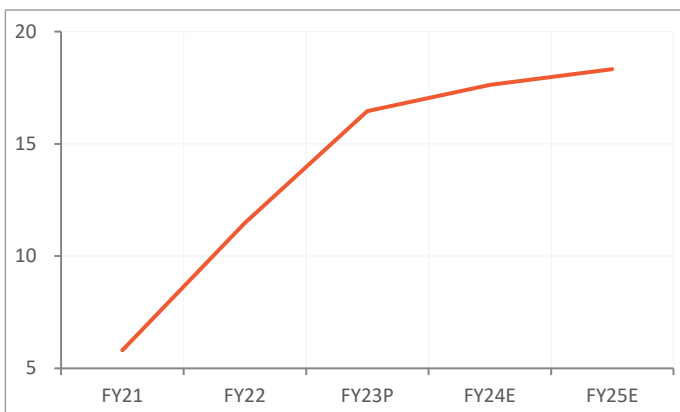
Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

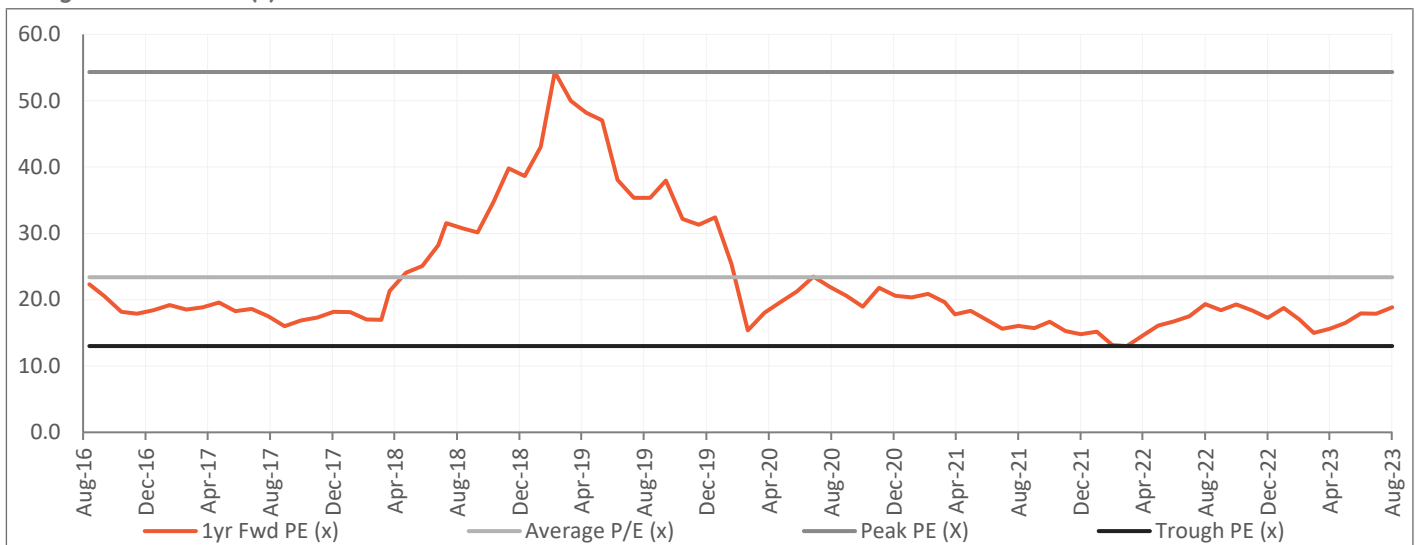
Outlook and Valuation

■ **Sector Outlook – Demand likely to pick up in automotive and farm equipment:** 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 high base. We expect the rural economy to recover with healthy rate on back of government’s grounded initiatives for agriculture and farming sector, higher grain prices in Mandis than MSPs, and healthy reservoir levels. Further PV segment is expected to register single digit volume growth in FY24 on the back of robust volume performance in FY24. However, we believe that PV cycle is on structural uptick phase. The shift in demand from cars segment to SUVs would help OEMs to generate healthy operating performance. Along with that MHCV cycle would continue to follow the macro uptrend. The revival in bus segment and rise in replacement demand would support the growth in CV segment.

■ **Company Outlook – Healthy traction continues:** 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 FY2027E, while strengthening its SUV segment via new launches. M&M is timely addressing capacity constraints in the PV segment. Given the high exposure towards rural economy, M&M is expected to do well on recovery in rural areas. M&M generates 65% of its volumes from the rural segment. The company 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 due to its market leadership position and deep penetration in the rural market. Besides its core tractor business, the company has been focussing on the 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 a revised PT of Rs. 1,736:** Along with a strong order book in the SUV segment and leading position in the domestic tractor segment, M&M is now gradually introducing its global portfolio to expand its addressable market. While M&M has acquired a 3.5% stake in RBL Bank as part of its long-term strategy related to its financial business (Mahindra Finance), it maintains its commitment for a disciplined capital allocation and maintain its policy of not to invest in non-core areas in normal situations. M&M is consistently focusing on improvement in its operating profitability. Its EV projects are on track. Historically M&M’s operating performance has largely depended on the tractor segment; however, we believe the auto segment is expected to drive its operating performance in the coming years due to increasing volumes going ahead. We maintain our Buy rating on the stock with a revised PT of Rs. 1,736 due to a healthy robust order book in the PV segment, market leadership in the tractor segment, opportunity to grow in the farm machinery segment, and its road map to play in the EV space.

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 a 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 ground water 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 Website

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	5.54
4	First State Investments ICVC	4.58
5	SBI Funds Management Ltd	3.82
6	M&M EMP STK OP Trust	3.63
7	First Sentier Investors LLC	3.17
8	BlackRock Inc.	3.13
9	Vanguard Group Inc.	2.56
10	Vanguard Emerging Markets Stock Index Fund	2.04

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

Sharekhan

by BNP PARIBAS

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