

CMP: INR 1,464

Rating: Accumulate

Target Price: INR 1,668

Stock Info

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (INR)	5
Equity Capital (INR mn)	5985
Mkt Cap (INR mn)	182,1831
52w H/L (INR)	1487/1457
Avg Yearly Vol (in 000')	3,012

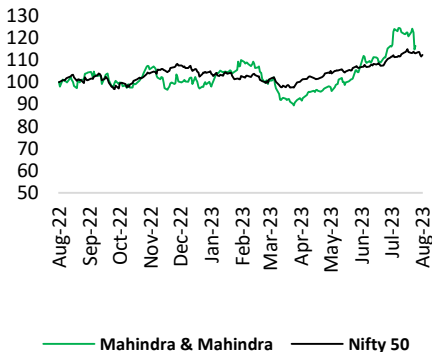
Shareholding Pattern %

(As on June, 2023)

Promoters	19.73
Public and others	80.27

Stock Performance (%)	1m	3m	12m
M&M	0.67	19.7	16.84
Nifty	0.28	6.34	12.63

M&M Vs Nifty



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Mahindra & Mahindra (M&M) delivered a good set of numbers in the Q1FY24, above our estimate.

Standalone revenue stood at INR 243,683 Mn, against our estimate of INR 242,640 Mn registering a growth 23% YoY/16% QoQ. EBITDA stood at INR 35,474 Mn, against our estimate of INR 31,518 Mn, Registering a growth of 46.5%YoY/ 42%QoQ. On the margins front, EBITDA margin expansion by 23bps YoY/ 27bpsQoQ to 14.6%, above with our estimate of 13% led by Automotive and Farm businesses. Operating leverage boosted profits 2.2x in Auto, and 21% in Farm. Standalone PAT saw an increase of 32.1%QoQ/89.2%YoY to INR 27,327.6 Mn above our estimate of INR 19,100 Mn. EPS stood at INR 23.15 in Q1FY24 against INR 17.28 in Q4FY23.

Strong and sustained demand for its SUVs despite Macro challenges: M&M aims to strengthen its position in the ICE SUV market by diversifying its product portfolio and offering a range of exciting vehicles to cater to customer preferences. Additionally, the company plans to expand its presence in the 3.5-ton LCV segment with new pickup models, while also focusing on 2.5x international growth by FY26. Very good growth in SUV volumes crossed 100,000 numbers in the quarter, very good growth in the revenue market share. The company is operating at nearly maximum capacity, producing 39,000 units, which includes SUV exports.

The Nascent farm equipment business is expected to experience significant and rapid growth: Amidst positives like favorable weather and improved farmer terms, the FES industry's FY24 outlook is uncertain due to a high base and reduced festive season; management's revised view awaits festive season demand. Despite a dip in farm volumes, the company achieved the second-highest ever quarter volume with a 42.9% MS. They anticipate growth in the Orchard and lightweight tractor segment with a 30% MS, boosted by the Swaraj and Wujiang launches. Q1 core tractor margin at 18.6% shows a positive trajectory toward the FY19 average of 19.8%.

Outlook and valuation

M&M being a prime representation of rural markets, company excels with two out of three core businesses performing strongly. With significant exposure to rural markets (~65% of volumes), M&M is poised for recovery due to improved rural cash flows. Categorizing its core operations into Tractors, Pickup UVs, and Passenger UVs, stable growth is anticipated for tractors while UVs show a robust outlook, aided by company's competitive stance and industry consolidation; the SUV sector particularly thrives through impactful launches and supply chain enhancements. **However, we upgrade our rating to Accumulate from Hold rating on the stock with a SOTP-based target price of INR 1,668 per share.**

Exhibit 1: Financial Performance

INR in Mn (Standalone)	FY23	FY24E	FY25E	FY26E
Revenue	8,49,603	9,98,301	11,02,017	11,80,334
EBITDA	1,04,424	1,33,727	1,50,093	1,61,671
EBITDA margin(%)	12.3%	13.4%	13.6%	13.7%
PAT	65,486	1,01,415	1,11,699	1,18,988
EPS (in INR)	54.7	84.6	93.2	99.3
PE(x)	26.8	17.3	15.7	14.7
EV/EBITDA (X)	13.7	10.2	8.7	7.6
ROE(%)	16.1%	21.5%	20.1%	18.4%

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly results summary Q1FY24

Quarterly results summary (MM + MVML) Q1FY24

INR Mn	Q1FY24	Q4FY23	Q1FY23	YoY %	QoQ %
Net Sales	243,683	210,101	198,130	23.0%	16.0%
Cost of material consumed	181,149	160,768	151,125	19.9%	12.7%
Staff Cost	10,447	9,224	8,442	23.7%	13.3%
Other expenses	16,613	15,137	14,348	15.8%	9.8%
Total expenses	208,209	185,128	173,915	19.7%	12.5%
EBITDA	35,474	24,973	24,215	46.5%	42.0%
Depreciation	8,281	7,913	6,955	19.1%	4.7%
EBIT	27,193	17,060	17,261	57.5%	59.4%
Interest	323	641	703	-54.0%	-49.6%
Other Income	6,576	13,134	1,399	370.2%	-49.9%
Profit before exceptional items and tax	33,445	29,553	17,956	86.3%	13.2%
Extraordinary	(410)	(2,479)	(410)		
Profit/(loss) before tax	33,036	27,074	17,547	88.3%	22.0%
Tax	(5,708)	(6,394)	(3,511)	62.6%	-10.7%
Reported PAT	27,327.6	20,680.0	14,446	89.2%	32.1%
EPS	23.15	17.28	11.69	98.0%	34.0%

Margins	Q1FY24	Q4FY23	Q1FY23	YoY %	QoQ %
Gross margins	25.7%	23.5%	23.7%	19bps	22bps
EBITDA	14.6%	11.9%	12.2%	23bps	27bps
PAT	11.4%	11.0%	7.3%	41bps	4bps
Tax Rate	-17.1%	-21.6%	-19.6%	25bps	46bps
Tractor Segment	Q1FY24	Q4FY23	Q1FY23	YoY %	QoQ %
Total Tractors Volume	111,875	85,867	113,383	-1.3%	30.3%
Total Automotive Volume	186,138	189,227	153,462	21.3%	-1.6%
Total Volume (Auto + Farm)	301,147	278,958	271,971	10.7%	8.0%
Aveg Relizations (Auto)	892,940	504,565	52,857	-	77.0%
Aveg Relizations (FES)	648,263	581,500	445,674	45.5%	11.5%
Blended realisation	817,296	548,777	243,732	235.3%	48.9%

Source: Arianth Research, Company Filings



Open Bookings as on 1st August 2023
Avg Monthly booking of Q1 F24

Conference call key takeaways

The goal is to achieve a minimum 18% ROE, with the core tractor margin aiming to reach the average of 19.8%, and target an EPS growth of 15-20%.

The FY24 outlook for the FES industry remains uncertain, with positives like good rains and improved terms of trade, countered by a high base and one fewer Navratri. The management will reassess after gauging festive season demand.

The company has invested INR 417 cr in RBL for a 3.5% stake in RBL Bank

Mahindra Finance's Financial Services division has a valuation of INR 40,000 crores. They plan to invest with a long-term view (7-10 years) to understand banking better and enhance their financial services business. They found an appealing opportunity with a solid bank at a valuation of less than 1x P/B, and they may increase their stake to 9.9% if there's compelling strategic value in the future.

The company is currently observing a decrease in demand for its range of products priced <INR 1 mn, specifically the Bolero and XUV300 models.

The farm business generated INR4,000 Cr, the services businesses generated INR4,574 Cr, and an additional INR5,106 Cr, making a total of INR5,000 Cr from services, excluding category C investments and ongoing INR415 Cr.

Revenue increased by 19%, profit surged by 60% (including INR870 Cr from services, comprising INR405 Cr MTM value change for SsangYong).

Continuing strategy: Auto and farm capitalize on market leadership, services unlock potential in Mahindra Finance and Tech Mahindra; growth gems target 5X challenge.

Farm machinery revenue up 24%, PAT for Farm at INR11.98 cr, up 21%, Mahindra Finance unlocking full potential after successful turnaround.

Bookings: Revenue market share remains strong with 280,000 open bookings; Thar at 10,000/month, Scorpio and 15000 combined at 8,000/month; cancellation rates less than 8%.

Semicon: Capacity reached 39k by March, faced challenges in engine block parts (not semiconductors), now close to full capacity including SUV exports. The company is on track to achieve the Q4FY24 capacity of 49k per month.

Strong global reception for the new pickup portfolio; Mobility achieves record 3w electric volumes, market leadership, and progresses with global EV programs (XUV 8 and XUV 9).

Farm

Farm volumes down but second-highest ever; market share up at 42.9%; Swaraj and Wujiang launches expected to boost segment and overall tractor market share; farm PBIT shows 22% growth on a consolidated level.

Core tractor margin in Q1 at 18.6%, aiming to reach average 19.8%, demonstrating a positive trajectory. Despite facing material cost increases after implementing 6.2, the company achieved a 7.5% margin on Auto and 18.6% on core tractors, while core commodities remain 15% to 25% higher than 2019 levels.

Price : The company implemented a price increase of around 5% to counter the challenges posed by BS 6.2 and ongoing cost management, which impacts margin improvement opportunities.

The dividend distribution has risen within the range of 30-40%. The company will hold off for a more substantial increase as it requires significant investment in electric vehicles. The detailed capital expenditure, including investments, for the FY25-27, will be concluded by the end of the estimated FY24.

Exhibit 3: SOTP Valuation

Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,173	24,80,22,598	25.5	2,90,943	243
Mahindra & Mahindra Financial Services		290	64,43,99,987	52.2	1,86,876	156
Mahindra Holidays & Resorts		340	13,48,35,922	67.0	45,844	38
Mahindra Lifespace Developers		507	7,93,19,550	51.3	40,215	34
Mahindra EPC Irrigation		107	1,51,44,433	54.3	1,613	1
Swaraj Engines		2,040	63,31,141	34.8	12,916	11
Mahindra Logistics Ltd		362	4,18,12,257	58.1	15,136	13
EV Business (Invested INR 1925 Cr for 4.76% stake including @30% Holdco discount)			2,69,613	4.76		217
<i>Listed Subsidiaries (INR mn)</i>					5,93,543	496
						496
Sub Valuations Post Discount (20%)			20%		-	397
						614
Core auto business EV/EBITDA	FY26E	8x				1,055
Value/Share						1668
					CMP	1464
					Upside	14.0%

*CMP as on 4th August 2023

Exhibit 4: Steady margin led by better product Mix.

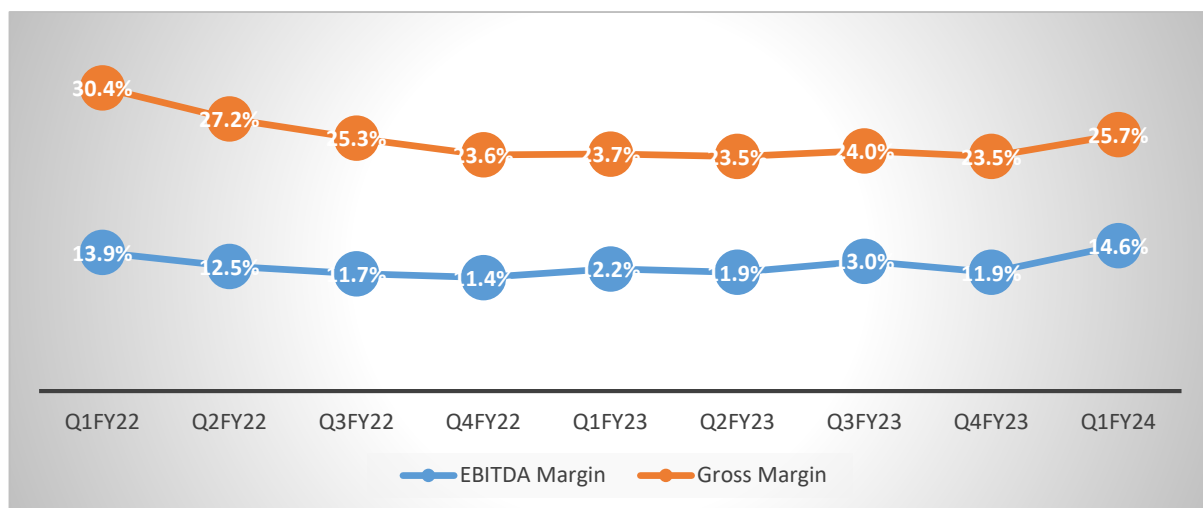
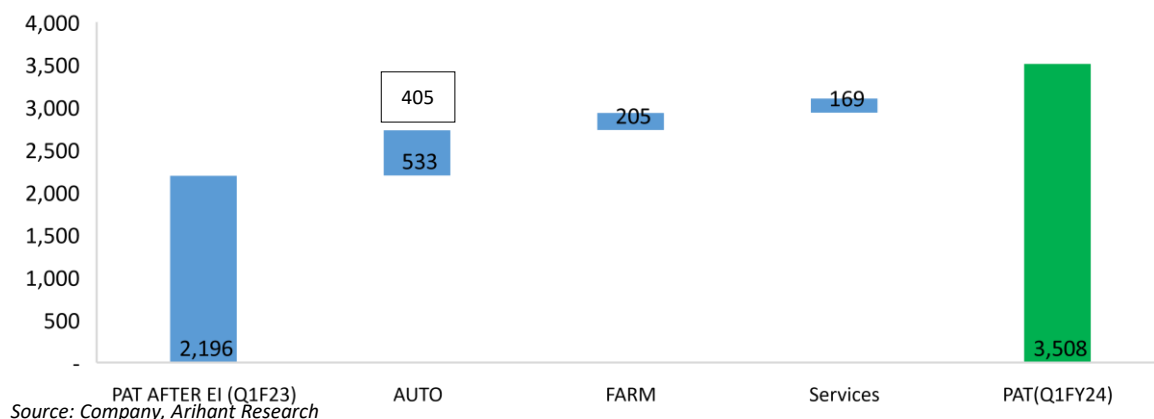


Exhibit 5: Capacity Expansion



Source: Company, Arihant Research

Standalone Financial

P&L (INR mn)	FY23	FY24E	FY25E	FY26E	B/Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Net sales	8,49,603	9,98,301	11,02,017	11,80,334	Equity capital	5,991	5,991	5,991	5,991
YoY (%)	47.0	17.5	10.4	7.1	Reserves	4,27,577	5,05,831	5,94,369	6,90,196
Raw material cost	6,45,582	7,47,727	8,18,799	8,76,988	Net worth	4,33,567	5,11,821	6,00,359	6,96,187
Employee Cost	36,499	41,974	48,270	55,510	Total Loans	46,437	44,438	42,440	40,443
Admin Expenses	63,098	74,873	84,855	86,164	Def Tax Liability	14,703	14,703	14,703	14,703
Total expenses	7,45,179	8,64,573	9,51,924	10,18,663	Assets held for sale				
EBIDTA	1,04,424	1,33,727	1,50,093	1,61,671	Total Liabilities	4,94,708	5,70,963	6,57,502	7,51,333
(%)	12.3%	13.4%	13.6%	13.7%	Gross Block	1,40,004	1,53,904	1,67,804	1,81,704
Depreciation	31,545	33,863	38,227	45,023	Less: Acc. depreciation	31,545	33,863	38,227	45,023
EBIT	72,879	99,864	1,11,866	1,16,649	Net block	1,08,459	1,20,041	1,29,577	1,36,681
Interest	2,728	2,545	2,389	2,279	Investments	3,28,475	3,48,289	3,77,920	3,78,990
Other income	25,452	30,126	32,153	36,727	Inventories	59,704	69,150	75,723	81,104
PBT	95,603	1,27,446	1,41,630	1,51,096	Debtors	40,417	41,597	45,919	49,183
(-) Tax	-15,821	-26,032	-29,931	-32,108	Cash	44,817	81,791	1,10,654	1,81,784
Tax/ PBT	(16.5)	(20.4)	(21.1)	(21.3)	Loans and advances	73,348	1,14,847	1,24,182	1,31,230
PAT	65,486	1,01,415	1,11,699	1,18,988	Other Current assets	34,997	35,487	35,984	36,487
YoY (%)	34.5	54.9	10.1	6.5	Current assets	2,53,283	3,42,873	3,92,461	4,79,788
PAT(%)	7.7%	10.2%	10.1%	10.1%	Current liabilities	2,12,000	2,12,000	2,12,000	2,12,000
Extraordinary	(14,295)	-	-	-	Current liabilities & Provisions	1,95,510	2,40,241	2,42,455	2,44,127
Reported Profit	65,486	1,01,415	1,11,699	1,18,988	Net current assets	57,773	1,02,633	1,50,006	2,35,661
					Total Assets	4,94,708	5,70,963	6,57,502	7,51,333

Cash Flow	FY23	FY24E	FY25E	FY26E	Key Ratios	FY23	FY24E	FY25E	FY26E
Net Profit	65,486	1,01,415	1,11,699	1,18,988	EPS	54.7	84.6	93.2	99.3
Depreciation	31,545	33,863	38,227	45,023	P/E (Standalone)	26.8	17.3	15.7	14.7
Deferred tax	-15,821	-26,032	-29,931	-32,108	EV/EBDITA (x)	13.7	10.2	8.7	7.6
Change in W/C	33,819	-49,441	-18,511	-14,525	Book value	362	427	501	581
Operating cash flow	1,15,029	59,804	1,01,483	1,17,377	P/B (x)	4.0	3.4	2.9	2.5
Change in intangible	30,692	19,447	29,260	696	Subsidiary Valuation	397	397	397	397
Capex	-1,332	-13,900	-13,900	-13,900	EPS (Core EPS)	53.0	71.7	79.7	84.9
Investments	-23,435	-19,814	-29,631	-1,070	P/E (Core)	20.1	14.9	13.4	12.6
Investing cash flow	-71,547	4,874	-45,073	-18,810	EV/EBITDA (Core)	16.4	12.4	10.6	9.4
Free Cash Flow	1,10,969	43,360	85,194	1,01,198	ROCE	14.2%	19.5%	18.6%	17.2%
Dividend	-23,161	-23,161	-23,161	-23,161	ROE	16.1%	21.5%	20.1%	18.4%
Equity	9,259	-	-	-	Days				
Debt	-18,540	-1,999	-1,998	-1,997	Inventory	33.8	33.8	33.8	33.8
Financing cash flow	-32,442	-25,160	-25,159	-25,158	Debtor	15.2	15.2	15.2	15.2
Net change in cash	8,312	36,974	28,862	71,130	Creditor	64.7	64.5	70.4	88.5
Opening cash	36,506	44,817	81,791	1,10,654					
Closing cash	44,817	81,791	1,10,654	1,81,784					

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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