

New launches will drive the growth

**CMP: INR 1,526**

**Rating: Buy**

**Target Price: INR 1,868**

**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)  | 5991               |
| Mkt Cap (INR mn)         | 190,3220           |
| 52w H/L (INR)            | 1670/1123          |
| Avg Yearly Vol (in 000') | 2,497              |

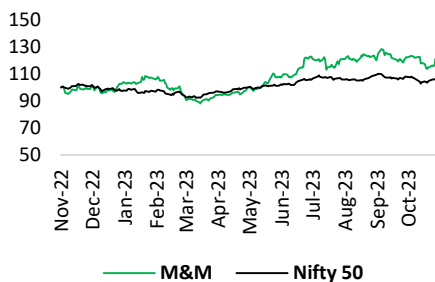
**Shareholding Pattern %**

(As on Sep, 2023)

|                   |       |
|-------------------|-------|
| Promoters         | 19.34 |
| Public and others | 80.66 |

| Stock Performance (%) | 1m    | 3m    | 12m  |
|-----------------------|-------|-------|------|
| M&M                   | -2.12 | -1.11 | 18.8 |
| Nifty                 | -1.55 | 0.09  | 5.97 |

**M&M Vs Nifty**



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Mahindra & Mahindra (M&M) delivered a slightly weaker margin in Q2 led by because of a less favorable combination of segments and the inclusion of a one-time launch cost in the tractor segment. Standalone revenue stood at INR 243,099 Mn (Without Other operating income), against our estimate of INR 248,910 Mn registering a growth 16.6% YoY/5.8% QoQ. EBITDA stood at INR 29,341 Mn, against our estimate of INR 32,002 Mn, Registering a growth of 24.3%YoY/ 23.9%QoQ. On the margins front, EBITDA margin expanded by 12bps YoY/ -14bpsQoQ to 12.1%, below with our estimate of 12.9%. Standalone PAT saw an increase of 26.3%QoQ/66.9%YoY to INR 34,518.8 Mn above our estimate of INR 28,120 Mn.

**Investment Rationale**

**M&M is currently on a strong growth trajectory in the automotive segment led by SUVs:** The demand for premium SUVs like XUV700, Thar, and Scorpio-N is expected to boost net ASP per vehicle and margin expansion. The monthly booking rate exceeds supply, with a rate of 51k per month compared to 38k vehicles. In the LCV segment, market share has increased by 280bps to 49.6%, supported by new launches and entry into the 2-ton volume segment. Further improvement in automotive margins is anticipated for FY24 due to economies of scale. Production capacity has expanded to 42k units per month, with a planned additional capacity of 49k units by Q4FY24. Another capacity addition plan beyond 49k units may be announced soon.

**Steady Volume Outlook and Market Share Expansion in Tractor Segment:** The company anticipates a stable volume growth in FY24. In H1FY24, M&M achieved an 80 basis points increase (150 basis points year-on-year) in market share in the tractor segment, reaching 42.3%. This growth was attributed to new launches and the expansion of the network. M&M has recently introduced OJA, Naya Swaraj, and set Swaraj targets in the tractor segment.

**Outlook and valuation**

Outstanding UV bookings exceed 286K, with XUV700 at 70K and Scorpio-N at 119K. The monthly booking rate is 51k, surpassing the supply of 42k vehicles. Management predicts flat growth in the tractor segment for FY24. We anticipate the stock to trade at a premium due to the company's progress toward its targeted 18% ROE. Another one-time impact is expected in 3Q FY24 due to World Cup sponsorship. UVs display a strong outlook, benefiting from the company's competitive position and industry consolidation. The SUV sector, in particular, thrives on impactful launches and supply chain enhancements. **However, we upgrade our rating to Buy from Accumulate rating on the stock with a SOTP-based target price of INR 1,868 per share.**

**Exhibit 1: Financial Performance**

| INR in Mn (Standalone) | FY23     | FY24E     | FY25E     | FY26E     |
|------------------------|----------|-----------|-----------|-----------|
| Revenue                | 8,49,603 | 10,05,930 | 11,45,154 | 12,99,761 |
| EBITDA                 | 1,04,424 | 1,29,034  | 1,50,987  | 1,74,548  |
| EBITDA margin(%)       | 12.3%    | 12.8%     | 13.2%     | 13.4%     |
| PAT                    | 65,486   | 96,079    | 1,02,490  | 1,20,472  |
| EPS (in INR)           | 54.7     | 80.2      | 85.5      | 100.6     |
| PE(x)                  | 27.9     | 19.0      | 17.8      | 15.2      |
| EV/EBITDA (x)          | 14.4     | 11.2      | 9.2       | 7.6       |
| ROE(%)                 | 16.1%    | 20.4%     | 18.8%     | 19.0%     |

Source: Arihant Research, Company Filings

## Exhibit 2: Quarterly results summary Q2FY24

| Quarterly results summary (MM + MVML) Q2FY24 |          |          |          |        |        |
|--|----------|----------|----------|--------|--------|
| INR Mn                                       | Q2FY24   | Q1FY24   | Q2FY23   | YoY %  | QoQ %  |
| <b>Net Sales</b>                             | 2,43,099 | 2,40,561 | 2,10,101 | 15.7%  | 1.1%   |
| Cost of material consumed                    | 1,83,793 | 1,81,149 | 1,60,768 | 14.3%  | 1.5%   |
| Staff Cost                                   | 11,262   | 10,447   | 9,224    | 22.1%  | 7.8%   |
| Other expenses                               | 18,703   | 16,613   | 15,675   | 19.3%  | 12.6%  |
| Total expenses                               | 2,13,758 | 2,08,209 | 1,85,667 | 15.1%  | 2.7%   |
| <b>EBITDA</b>                                | 29,341   | 32,351   | 24,434   | 20.1%  | -9.3%  |
| Depreciation                                 | 8,158    | 8,281    | 7,913    | 3.1%   | -1.5%  |
| EBIT   | 21,182   | 24,070   | 16,521   | 28.2%  | -12.0% |
| Interest                                     | 329      | 323      | 641      | -48.7% | 1.8%   |
| Other Income                                 | 22,819   | 9,699    | 13,673   | 66.9%  | 135.3% |
| Profit before exceptional items and tax      | 43,672   | 33,445   | 29,553   | 47.8%  | 30.6%  |
| Extraordinary                                | -        | (410)    | (2,479)  |        |        |
| <b>Profit/(loss) before tax</b>              | 43,672   | 33,036   | 27,074   | 61.3%  | 32.2%  |
| Tax  | (9,153)  | (5,708)  | (6,394)  | 43.2%  | 60.4%  |
| <b>Reported PAT</b>                          | 34,518.8 | 27,327.6 | 20,680.0 | 66.9%  | 26.3%  |
| EPS  | 28.80    | 23.15    | 17.28    | 66.7%  | 24.4%  |

| Margins       | Q2FY24 | Q1FY24 | Q2FY23 | YoY % | QoQ %  |
|---------------|--------|--------|--------|-------|--------|
| Gross margins | 24.4%  | 24.7%  | 23.5%  | 9bps  | -3bps  |
| EBITDA        | 12.1%  | 13.4%  | 11.6%  | 12bps | -14bps |
| PAT           | 14.2%  | 11.5%  | 11.0%  | 42bps | 27bps  |
| Tax Rate      | -21.0% | -17.1% | -21.6% | 25bps | -39bps |

| Tractor Segment            | Q2FY24   | Q1FY24   | Q2FY23   | YoY %  | QoQ %  |
|----------------------------|----------|----------|----------|--------|--------|
| Total Tractors Volume      | 86,849   | 1,11,875 | 88,922   | -2.3%  | -22.4% |
| Total Automotive Volume    | 2,12,078 | 1,86,138 | 1,79,683 | 18.0%  | 13.9%  |
| Total Volume (Auto + Farm) | 3,02,139 | 3,01,147 | 2,73,223 | 10.6%  | 0.3%   |
| Aveg Relizations (Auto)    | 3,73,311 | 8,92,940 | 4,40,615 | -15.3% | -58.2% |
| Aveg Relizations (FES)     | 5,44,437 | 6,48,263 | 5,24,188 | 3.9%   | -16.0% |
| Blended realisation        | 4,42,625 | 8,17,296 | 4,89,469 | -9.6%  | -45.8% |

Source: Arianth Research, Company Filings

### Conference call key takeaways

#### Automotive Sector Outlook: Strong Demand and Robust Performance

**Overview:** The automotive segment is witnessing robust demand, driven by a substantial order backlog for new SUV launches and heightened festive season demand. The sector continues to demonstrate strength, particularly in the 13+ lacs category, with notable demand for higher-end variants like XUV 700 and Thar. The Scorpion N and Scorpio classic models are also experiencing strong booking numbers.

#### Performance Highlights:

The company achieved its highest-ever quarterly volume, reaching 114.7k units in Q2.

Dealer stocks are at a comfortable 30-day level.

The current order backlog in the automotive segment stands at 286k units, with a monthly booking run rate of 51k units, outpacing dispatches at 38k units.

Production capacity has increased to 42k/month units, and a further expansion to 49k units by Q4FY24 is on track.

#### Financial Snapshot

SUV revenue market share is at 19.9%, representing a 90 bps increase but a marginal 30 bps decrease QoQ in Q2FY24.

H1FY24 RoE stands at 20.0%.

## Conference call key takeaways

### Tractor Segment Outlook: Flat Growth Expected, Market Share Gains

The tractor industry faced challenges in 1H due to lower monsoon and delayed festive season onset. The company gained 80 bps market share, reaching 42.3% in H1FY24. Farm machinery revenue grew by 35% to INR 2.23 bn, with a significant share in the rotators market at 21.5%.

### Operating Margins

EBIT margin for the automotive division expanded by 40 bps QoQ to 7.9%, excluding the impact of the Jito/assets sale. FES (Farm Equipment and Solutions) contracted by 149 bps QoQ to 16%.

### Export and Capacity Expansion

International markets may face near-term challenges due to high inflation, but the long-term outlook remains positive.

Supply situation improvement: Production capacity increased to 42k/month units, with a planned expansion to 49k units by Q4FY24. Further capacity addition for FY25 is under consideration.

### Electric Vehicles

The company is preparing for increased production, with a focus on upgrading XUV 400. New products on the INGLO platform are under validation, indicating a strategic move toward EVs.

### LCV and 3Ws Performance Highlights: Record Market Share and Billing

In Q2 FY24, the company achieved an all-time high market share of 49.6%, a notable increase of 280 bps. This exceptional performance is attributed to the launch of the All-New BOLERO MAXXPIK-UP Range. The EV penetration in the L5 category reached approximately 10.5% in Q2 FY24, compared to 7.2% in Q2 FY23. Notably, Passenger EVs accounted for 10.1%, while Cargo EVs constituted 12.5%. The TCO benefit for EVs in this category is significant, with INR 3 lacs over CNG and INR 5 lacs over Diesel.

### E3Ws

The company achieved its highest-ever quarterly billing in the E3Ws segment, reaching 18.6k units with a commanding market share of 63%.

### MMFSL

Asset Under Management (AUM) grew by an impressive 27% YoY. However, Profit After Tax (PAT) saw a decline of 48% due to a write-back of the previous year, involving a provision write-back of approximately Rs 3.45 billion. This adjustment was made following a significant reduction in Gross Stage 2 (GS2%) and Gross Stage 3 (GS3%).

Net Interest Margin (NIM) was 30 bps lower than budgeted, influenced by higher borrowing costs and changes in customer mix.

### Cash Generation and Capex:

The company generated INR 48.87 bn in cash during 1H, with a substantial portion allocated to capex of INR 24.7 bn. The capex was distributed across the automotive and farm segments, with an additional INR 9.67 bn dedicated to MEAL (Mahindra Electric and Automobile Lamborghini). The cash balance is robust at INR162 bn.

### Dividend Income Treatment

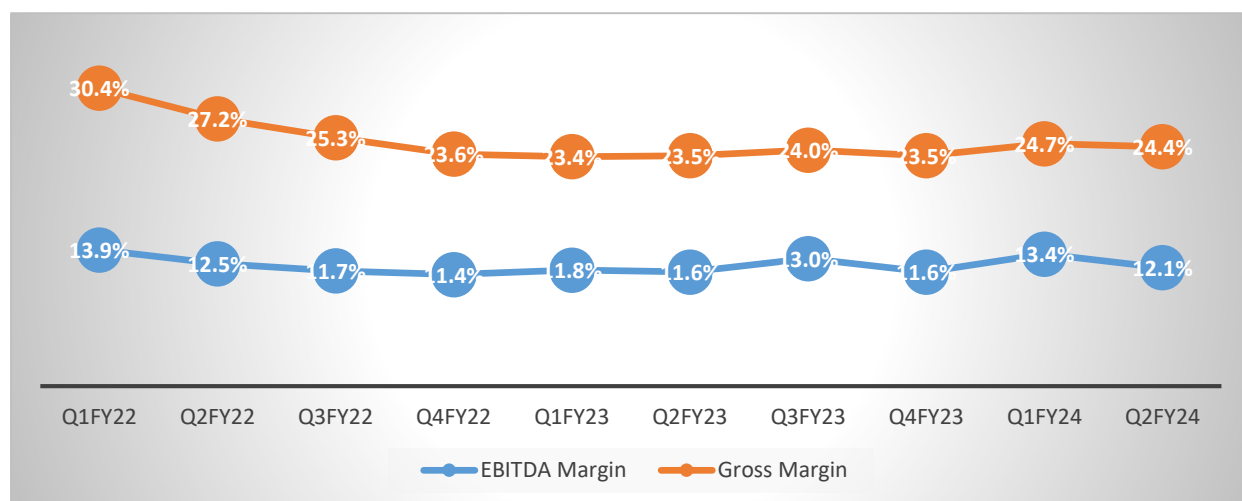
Dividend income will now be classified as other operating income, integrating it into EBITDA, a departure from its previous categorization as other income.

**Exhibit 3: SOTP Valuation**

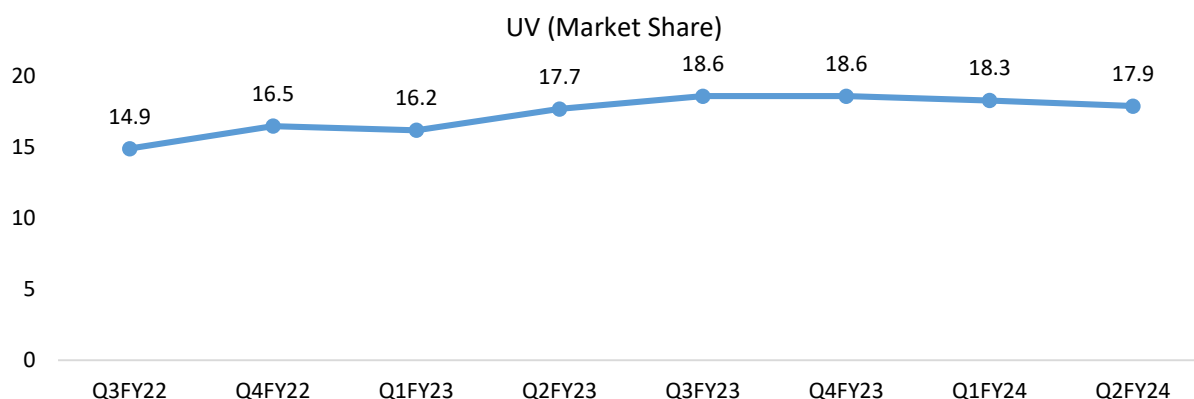
| Listed Subsidiary  | valuation Basis | CMP         | M&M stake       | % Stake     | Mcap (INR Mn) | Value/share  |
|--|-----------------|-------------|-----------------|-------------|---------------|--------------|
| Tech Mahindra Limited  |                 | 1,142       | 24,80,22,598    | 25.5        | 2,83,242      | 237          |
| Mahindra & Mahindra Financial Services   |                 | 272         | 64,43,99,987    | 52.2        | 1,75,277      | 146          |
| Mahindra Holidays & Resorts  |                 | 404         | 13,48,35,922    | 67.0        | 54,433        | 45           |
| Mahindra Lifespace Developers  |                 | 520         | 7,93,19,550     | 51.3        | 41,207        | 34           |
| Mahindra EPC Irrigation  |                 | 117         | 1,51,44,433     | 54.3        | 1,772         | 1            |
| Swaraj Engines   |                 | 2,106       | 63,31,141       | 34.8        | 13,331        | 11           |
| Mahindra Logistics Ltd   |                 | 364         | 4,18,12,257     | 58.1        | 15,226        | 13           |
| <b>EV Business (Invested INR 1925 Cr for 4.76% stake including @30% Holdco discount)</b> |                 |             | <b>2,69,613</b> | <b>4.76</b> |               | <b>217</b>   |
| <i>Listed Subsidiaries (INR mn)</i>  |                 |             |                 |             | 5,84,487      | 488          |
|  |                 |             |                 |             |               | 488          |
| <b>Sub Valuations Post Discount (20%)</b>  |                 |             | <b>20%</b>      |             | <b>-</b>      | <b>397</b>   |
|  |                 |             |                 |             |               | 608          |
| <b>Core auto business EV/EBITDA</b>  | <b>FY26E</b>    | <b>9.7x</b> |                 |             |               | <b>1,261</b> |
| <b>Value/Share</b>   |                 |             |                 |             |               | <b>1868</b>  |
|  |                 |             |                 |             | CMP           | 1526         |
|  |                 |             |                 |             | Upside        | 22.4%        |

\*CMP as on 10th Nov 2023

**Exhibit 4: Steady margin led by better product Mix.**



**Exhibit 5: UV Market share (%)**



Source: Company, Arianth Research

## Standalone Financial

| P&L (INR mn)      | FY23            | FY24E           | FY25E           | FY26E           | B/Sheet (INR mn)                 | FY23            | FY24E           | FY25E           | FY26E           |
|-------------------|-----------------|-----------------|-----------------|-----------------|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net sales         | 8,49,603        | 10,05,930       | 11,45,154       | 12,99,761       | Equity capital                   | 5,991           | 5,991           | 5,991           | 5,991           |
| YoY (%)           | 47.0            | 18.4            | 13.8            | 13.5            | Reserves                         | 4,27,577        | 5,00,496        | 5,79,825        | 6,77,136        |
| Raw material cost | 6,45,582        | 7,53,441        | 8,50,849        | 9,65,722        | Net worth                        | 4,33,567        | 5,06,486        | 5,85,815        | 6,83,127        |
| Employee Cost     | 36,499          | 41,974          | 48,270          | 55,510          | Total Loans                      | 46,437          | 44,438          | 42,440          | 40,443          |
| Admin Expenses    | 63,098          | 81,480          | 95,048          | 1,03,981        | Def Tax Liability                | 14,703          | 14,703          | 14,703          | 14,703          |
| Total expenses    | 7,45,179        | 8,76,895        | 9,94,166        | 11,25,213       | Assets held for sale             |                 |                 |                 |                 |
| <b>EBIDTA</b>     | <b>1,04,424</b> | <b>1,29,034</b> | <b>1,50,987</b> | <b>1,74,548</b> | <b>Total Liabilities</b>         | <b>4,94,708</b> | <b>5,65,627</b> | <b>6,42,959</b> | <b>7,38,273</b> |
| (%)               | 12.3%           | 12.8%           | 13.2%           | 13.4%           | Gross Block                      | 1,40,004        | 1,53,904        | 1,67,804        | 1,81,704        |
| Depreciation      | 31,545          | 35,217          | 49,419          | 52,785          | Less: Acc. depreciation          | 31,545          | 35,217          | 49,419          | 52,785          |
| EBIT              | 72,879          | 93,817          | 1,01,568        | 1,21,762        | Net block                        | 1,08,459        | 1,18,687        | 1,18,384        | 1,28,918        |
| Interest          | 2,728           | 3,181           | 3,475           | 4,144           | Investments                      | 3,28,475        | 3,48,289        | 3,77,920        | 3,78,990        |
| Other income      | 25,452          | 29,926          | 31,578          | 35,406          | Inventories                      | 59,704          | 69,679          | 78,687          | 89,311          |
| <b>PBT</b>        | <b>95,603</b>   | <b>1,20,562</b> | <b>1,29,670</b> | <b>1,53,024</b> | Debtors                          | 40,417          | 41,915          | 47,717          | 54,159          |
| (-) Tax           | -15,821         | -24,483         | -27,181         | -32,552         | Cash                             | 44,817          | 76,441          | 99,579          | 1,55,106        |
| Tax/ PBT          | (16.5)          | (20.3)          | (21.0)          | (21.3)          | Loans and advances               | 73,348          | 1,15,534        | 1,28,064        | 1,41,978        |
| <b>PAT</b>        | <b>65,486</b>   | <b>96,079</b>   | <b>1,02,490</b> | <b>1,20,472</b> | Other Current assets             | 34,997          | 35,487          | 35,984          | 36,487          |
| YoY (%)           | 34.5            | 46.7            | 6.7             | 17.5            | Current assets                   | 2,53,283        | 3,39,055        | 3,90,030        | 4,77,041        |
| PAT(%)            | 7.7%            | 9.6%            | 8.9%            | 9.3%            | Current liabilities              | 2,12,000        | 2,12,000        | 2,12,000        | 2,12,000        |
| Extraordinary     | (14,295)        | -               | -               | -               | Current liabilities & Provisions | 1,95,510        | 2,40,403        | 2,43,376        | 2,46,677        |
| Reported Profit   | 65,486          | 96,079          | 1,02,490        | 1,20,472        | Net current assets               | 57,773          | 98,652          | 1,46,654        | 2,30,364        |
|                   |                 |                 |                 |                 | <b>Total Assets</b>              | <b>4,94,708</b> | <b>5,65,627</b> | <b>6,42,959</b> | <b>7,38,273</b> |

| Cash Flow            | FY23     | FY24E   | FY25E    | FY26E    | Key Ratios           | FY23  | FY24E | FY25E | FY26E |
|----------------------|----------|---------|----------|----------|----------------------|-------|-------|-------|-------|
| Net Profit           | 65,486   | 96,079  | 1,02,490 | 1,20,472 | EPS                  | 54.7  | 80.2  | 85.5  | 100.6 |
| Depreciation         | 31,545   | 35,217  | 49,419   | 52,785   | P/E (Standalone)     | 27.9  | 19.0  | 17.8  | 15.2  |
| Deferred tax         | -15,821  | -24,483 | -27,181  | -32,552  | EV/EBDITA (x)        | 14.4  | 11.2  | 9.2   | 7.6   |
| Change in W/C        | 33,819   | -50,811 | -24,864  | -28,183  | Book value           | 362   | 423   | 489   | 570   |
| Operating cash flow  | 1,15,029 | 56,003  | 99,865   | 1,12,522 | P/B (x)              | 4.2   | 3.6   | 3.1   | 2.7   |
| Change in intangible | 30,692   | 19,447  | 29,260   | 696      | Subsidiary Valuation | 391   | 391   | 391   | 391   |
| Capex                | -1,332   | -13,900 | -13,900  | -13,900  | EPS (Core EPS)       | 53.0  | 67.5  | 72.5  | 86.0  |
| Investments          | -23,435  | -19,814 | -29,631  | -1,070   | P/E (Core)           | 21.4  | 16.8  | 15.7  | 13.2  |
| Investing cash flow  | -71,547  | 3,961   | -48,093  | -27,694  | EV/EBITDA (Core)     | 17.2  | 13.5  | 11.1  | 9.3   |
| Free Cash Flow       | 1,10,969 | 38,922  | 82,490   | 94,478   | ROCE                 | 14.2% | 18.7% | 17.5% | 18.0% |
| Dividend             | -23,161  | -23,161 | -23,161  | -23,161  | ROE                  | 16.1% | 20.4% | 18.8% | 19.0% |
| Equity               | 9,259    | -       | -        | -        | <b>Days</b>          |       |       |       |       |
| 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    | 31,623  | 23,138   | 55,527   | Creditor             | 64.7  | 64.0  | 67.8  | 80.3  |
| Opening cash         | 36,506   | 44,817  | 76,441   | 99,579   |                      |       |       |       |       |
| Closing cash         | 44,817   | 76,441  | 99,579   | 1,55,106 |                      |       |       |       |       |

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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