

**CMP: INR 1,657**

**Rating: Accumulate**

**Target Price: INR 1,877**

**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)	1758/1124
Avg Yearly Vol (in 000')	2,550

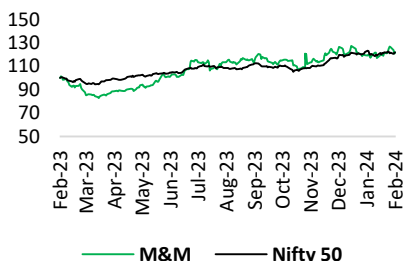
**Shareholding Pattern %**

(As on Dec, 2023)

Promoters	19.32
Public and others	80.68

Stock Performance (%)	1m	3m	12m
M&M	0.23	5.7	19.4
Nifty	21.6	12.1	21.6

**M&M Vs Nifty**



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**Mahindra & Mahindra (M&M) Standalone revenue stood at INR 252,885 Mn, against our estimate of INR 248,120 Mn registering a growth 16.8% YoY/4% QoQ. EBITDA stood at INR 32,364 Mn, against our estimate of INR 31,300 Mn, Registering a growth of 15%YoY/ 10%QoQ. On the margins front, EBITDA margin expansion by 7bps YoY/ down 2bps QoQ to 12.8%, above with our estimate of 12.6% led by Automotive and Farm businesses. Standalone PAT de-grew by 29%QoQ/60.6% YoY to INR 24,539.9 Mn above our estimate of INR 21,529 Mn. EPS stood at INR 20.47 in Q3FY24 against INR 28.80 in Q2FY24. Volumes stood at 211k, grew by 20% and strong UV volumes at 119k Open bookings of SUV at 226k (as on 1st February FY24).**

**Investment Rationale**

**Strategic Repositioning of XUV700:** Shifting Focus and Expanding Market Presence. With a current emphasis on AX7 and AX7L models, constituting 80-85% of orders, there's a need to overcome the perception of XUV700 as solely a INR25 lakh product. Despite competitive offerings in the INR14-15 lakhs range, targeted marketing is crucial for broader market penetration. This strategic shift aims to unlock untapped segments, avoiding fixation on a specific booking mindset and enhancing overall market competitiveness for the XUV700.

**Strong Orders Book:** Thar and Scorpio classic exhibit robust order books, while Bolero has minimal waiting period. The Scorpio-N is also strong. Notably, the 300 model is currently not open for bookings, awaiting a mid-cycle refresh. Addressing XUV700 concerns, efforts are made to reduce waiting times, especially with the introduction of new models. However, the challenge is to shift the perception from a predominantly higher-end product (INR25 lakh) to highlight competitive offerings in the INR14-15 lakhs range, necessitating a strategic marketing shift.

**Outlook and valuation**

The company posted strong set of number with outstanding open bookings of ~226K, with XUV700 at 35K and Scorpio-N at 101K. The monthly booking rate is 50k, surpassing the supply of 40k billing per month. Despite a decline in tractor subsidies, the industry may witness a temporary spike in sales. Anticipating a stock premium due to favorable FY25 prospects, the company aims for an 80 bps market share increase amid a 5-6% industry decline. While volume targets face challenges from product phase-outs and refreshes, the company is committed to capitalizing on profit opportunities. Optimistic about the structural growth of SUVs in India, we believe Mahindra & Mahindra's robust SUV/EV model cycle and a 5-6 month order book provide a promising outlook. **However, we revised our rating to an Accumulate on the stock with a SOTP-based target price of INR 1,877 per share(Previous TP INR 1868).**

**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	1,33,058	1,54,423	1,78,447
EBITDA margin(%)	12.3%	13.2%	13.5%	13.7%
PAT	65,486	1,15,439	1,27,135	1,50,674
EPS (in INR)	54.7	96.4	106.1	125.8
PE(x)	30.3	17.2	15.6	13.2
EV/EBITDA (X)	15.9	11.9	9.8	7.9
ROE(%)	16.1%	24.1%	22.0%	21.7%

Source: Arihant Research, Company Filings

## Exhibit 2: Quarterly results summary Q3FY24

## Quarterly results summary (MM + MVML) Q3FY24

INR Mn	Q3FY24	Q2FY24	QoQ %	Q3FY23	YoY %
Net Sales	252,885	243,099	4.0%	216,537	16.8%
Cost of material consumed	190,660	183,793	3.7%	164,471	15.9%
Staff Cost	11,343	11,262	0.7%	9,342	21.4%
Other expenses	18,518	18,703	-1.0%	14,583	27.0%
Total expenses	220,521	213,758	3.2%	188,395	17.1%
EBITDA	32,364	29,341	10.3%	28,142	15.0%
Depreciation	8,179	8,158	0.3%	8,292	-1.4%
EBIT	24,186	21,182	14.2%	19,851	21.8%
Interest	348	329	5.7%	686	-49.2%
Other Income	7,370	22,819	-67.7%	6,700	10.0%
Profit before exceptional items and tax	31,207	43,672	-28.5%	25,865	20.7%
Extraordinary	-	-		(6,289)	
Profit/(loss) before tax	31,207	43,672	-28.5%	19,576	59.4%
Tax	(6,668)	(9,153)	-27.2%	(4,296)	55.2%
Reported PAT	24,539.8	34,518.8	-28.9%	15,280.6	60.6%
EPS	20.47	28.80	-28.9%	12.76	60.4%
Margins	Q3FY24	Q2FY24	QoQ %	Q3FY23	YoY %
Gross margins	24.7%	24.4%	3bps	24.0%	7bps
EBITDA	13.4%	12.1%	14bps	13.0%	5bps
PAT	11.5%	14.2%	-27bps	10.0%	16bps
Tax Rate	-17.1%	-21.0%	39bps	-16.6%	-5bps

Source: Arianth Research, Company Filings

	FY18	FY19	FY20	FY21	FY22	FY23
Passenger Vehicles	249505	254701	186978	157216	225895	359253
Utility Vehicles	233915	235362	179405	155530	223682	356961
Cars* + Vans	15590	19339	7573	1686	2213	2292
Commercial Vehicles	216802	248601	199135	177117	177117	248576
LCV < 3.5T	199574	229352	187859	170682	32339	40419
LCV > 3.5T	7744	8411	6179	6435	138343	198121
MHCV	9484	10838	5097		6435	10036
3W	54625	66699	62187	30079	30076	58520
Total Domestic Sales	520932	570001	448300	364412	433088	666349
Yoy		9%	-21%	-19%	19%	54%
Total Exports	28221	38595	27743	32510	32510	32107
Yoy		37%	-28%	17%	0%	-1%
Total Sales (Domestic + Export)	549153	608596	476043	396922	465598	698456
Yoy		11%	-22%	-17%	17%	50%

**Q3FY24 Updates**

In the automotive sector, achieved a 20% volume growth, with SUVs contributing 30% (211,000 units), securing the top revenue market share position at 21% for the quarter and YTD; LCV maintains strength with a 49.6% market share for vehicles less than 3.5 tons, earning the title of automaker of the year at the Auto Car awards for six consecutive quarters of being the second-highest volume contributor in a category where the products command higher prices than the competition.

**New bookings** remain robust at around 50,000 per month, but the daily supply average has increased to 40,000, resulting in a correction of bookings through improved delivery; cancellations have risen, partly due to the win number. The strategic goal is to bring down bookings for sustained business growth, recognizing the current market dynamics where prolonged waiting periods deter customers, emphasizing the importance of growth over impressive booking numbers.

## Conference call key takeaways

FY25 industry is expected to decline by 5-6%, but the company aims to gain an 80 bps market share. Volume targets may be missed due to product phase-outs and a refresh, but the company sees profit opportunities beyond a certain threshold, committing to making it a top-line and bottom-line driver.

### Agricultural

Positive news as terms of trade improve with 6% output inflation and 3% input inflation, resulting in a 3% positive terms of trade, indicating favorable farmer sentiment in the rural sector; farm machinery market share trend shows a consistent 29% growth, aiming for 40% by year-end and currently on track at 30% plus, with expectations of greater growth as signs of rural economic improvement emerge.

### Favorable monsoon

Normal monsoon expected, benefiting the economy and replenishing reservoir levels below the long-term average. Skymet and IMD forecast a positive monsoon this year, offering optimism for reservoir replenishment and uplifting sentiment, potentially stimulating economic activity in the rural sector.

### Strategic government approach

Limited political swaps to ensure long-term economic setup.

### Tractor

The substantial reduction in tractor subsidies is beneficial for the industry, likely leading to temporary spikes in sales due to preponement at lower margins.

### Economic stability

Lower variability due to the government's focus on long-term goals over short-term political gains.

### World cup spend

The company invested in a World Cup promotion in Q3FY24.

### XUV700

Need to open the funnel for the INR25 lakh rupee XUV700, as demand remains high for the higher-end version. The move aims to enhance competitiveness and broaden the appeal of the XUV700. A crucial step towards a more versatile market presence.

### Order book

Strong Orders for Thar and Scorpio Classic, Minimal Waiting for Bolero, Scorpio-N Remains Strong. 300 Model on Hold for Mid-Cycle Refresh. XUV700 Faces Perception Challenge, Strategically Aiming to Reduce Waiting Times and Highlight Competitive Offerings in Lower Price Range.

### Segmented consumer demand

Wealth-based segmentation with affluent consumers opting for luxury vehicles, while smaller businesses delay purchases.

### Competitive price point

The company has successfully established an INR 11 lakh to INR 12 lakh price point, driving exponential growth in that category. While the product lineup strategically aligns with competitive price points across various segments, there's an untapped opportunity with the XUV700. Unfortunately, the overwhelming demand for higher-end variants has hindered the production and promotion of the lower-priced products, which were momentarily overlooked by both the teams and the market for the past one-and-a-half years.

**Demand dynamics:** Inability to leverage lower-priced products due to overwhelming demand for higher-end models. Strategic investment in product development, emphasizing the SUV segment.

### Dynamics in SUV Portfolio

SUV 300 launch delay due to mid-cycle refresh affects near-term bookings; Scorpio classic sees sustained growth in higher-end rural market; Scorpio-N faces variant mix issue favoring mid to lower-end versions; upcoming launches include Thar 5-door and mid-cycle refresh for SUV 300.

Cautious approach in sharing ICE plans due to potential cannibalization effects on current products.

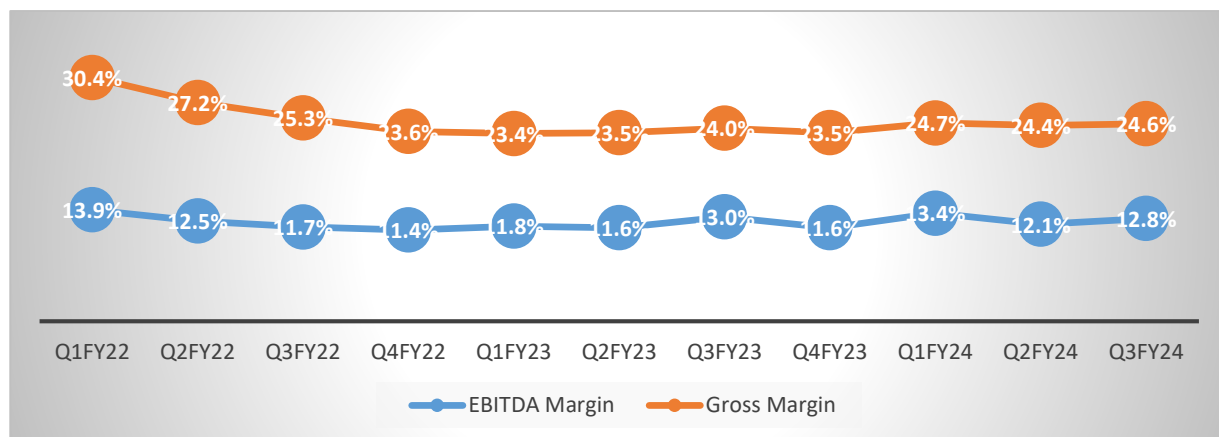
Awaiting final sops release from MHI for LMM; planning to initiate the process and secure the first disbursement in quarter one.

**Exhibit 3: SOTP Valuation**

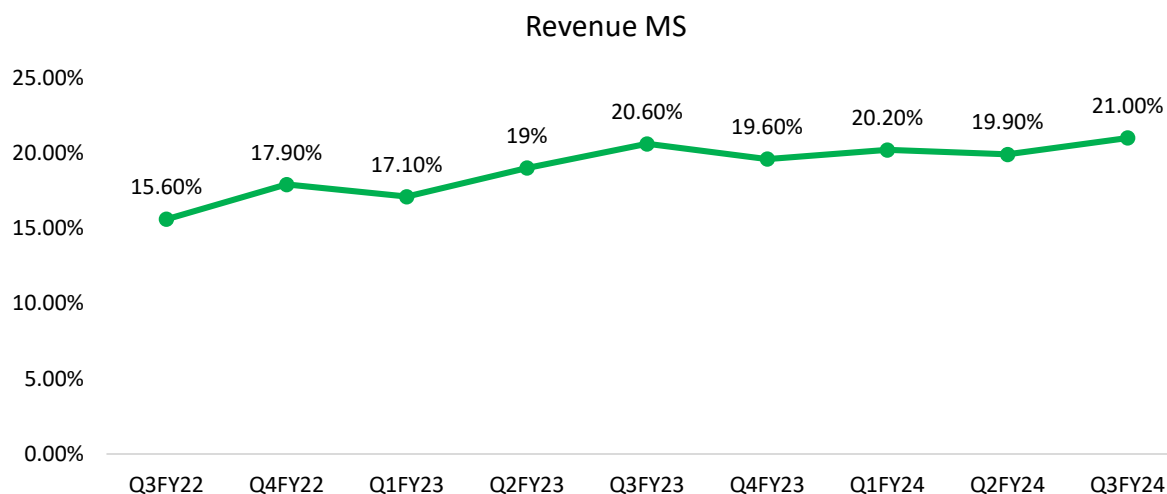
Listed Subsidiary	valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,293	24,80,22,598	25.5	3,20,668	268
Mahindra & Mahindra Financial Services		289	64,43,99,987	52.2	1,86,232	156
Mahindra Holidays & Resorts		404	13,48,35,922	67.0	54,474	46
Mahindra Lifespace Developers		558	7,93,19,550	51.3	44,260	37
Mahindra EPC Irrigation		140	1,51,44,433	54.3	2,120	2
Swaraj Engines		2,415	63,31,141	34.8	15,288	13
Mahindra Logistics Ltd		375	4,18,12,257	58.1	15,680	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>					6,38,722	534
						534
<b>Sub Valuations Post Discount (20%)</b>			<b>20%</b>		-	<b>427</b>
						644
<b>Core auto business EV/EBITDA</b>	<b>FY26E</b>	<b>9x</b>				<b>1,234</b>
<b>Value/Share</b>						<b>1877</b>
					CMP	1657
					Upside	13.3%

CMP as on 14th Feb 2024

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



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



Source: Company, Arianth Research

**Standalone Financial**

<b>P&amp;L (INR mn)</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>B/Sheet (INR mn)</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
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	5,19,856	6,23,830	7,51,343
Raw material cost	6,45,582	7,49,418	8,47,414	9,61,823	Net worth	4,33,567	5,25,846	6,29,820	7,57,334
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	8,72,872	9,90,731	11,21,314	Assets held for sale				
<b>EBIDTA</b>	<b>1,04,424</b>	<b>1,33,058</b>	<b>1,54,423</b>	<b>1,78,447</b>	<b>Total Liabilities</b>	<b>4,94,708</b>	<b>5,84,987</b>	<b>6,86,964</b>	<b>8,12,480</b>
(%)	12.3%	13.2%	13.5%	13.7%	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	97,841	1,05,003	1,25,661	Net block	1,08,459	1,18,687	1,18,384	1,28,918
Interest	2,728	1,363	1,303	1,243	Investments	3,28,475	3,48,289	3,77,920	3,78,990
Other income	25,452	49,065	57,977	67,829	Inventories	59,704	69,307	78,369	88,950
<b>PBT</b>	<b>95,603</b>	<b>1,45,543</b>	<b>1,61,677</b>	<b>1,92,247</b>	Debtors	40,417	41,915	47,717	54,159
(-) Tax	-15,821	-30,103	-34,542	-41,573	Cash	44,817	96,173	1,43,902	2,29,673
Tax/ PBT	(16.5)	(20.7)	(21.4)	(21.6)	Loans and advances	73,348	1,15,534	1,28,064	1,41,978
<b>PAT</b>	<b>65,486</b>	<b>1,15,439</b>	<b>1,27,135</b>	<b>1,50,674</b>	Other Current assets	34,997	35,487	35,984	36,487
YoY (%)	34.5	76.3	10.1	18.5	Current assets	2,53,283	3,58,415	4,34,035	5,51,248
PAT(%)	7.7%	11.5%	11.1%	11.6%	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	1,15,439	1,27,135	1,50,674	Net current assets	57,773	1,18,012	1,90,659	3,04,571
					<b>Total Assets</b>	<b>4,94,708</b>	<b>5,84,987</b>	<b>6,86,964</b>	<b>8,12,480</b>
<b>Cash Flow</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>	<b>Key Ratios</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Net Profit	65,486	1,15,439	1,27,135	1,50,674	EPS	54.7	96.4	106.1	125.8
Depreciation	31,545	35,217	49,419	52,785	P/E (Standalone)	30.3	17.2	15.6	13.2
Deferred tax	-15,821	-30,103	-34,542	-41,573	EV/EBDITA (x)	15.9	11.9	9.8	7.9
Change in W/C	33,819	-50,439	-24,918	-28,140	Book value	362	439	526	632
Operating cash flow	1,15,029	70,114	1,17,094	1,33,746	P/B (x)	4.6	3.8	3.2	2.6
Change in intangible	30,692	19,447	29,260	696	Subsidiary Valuation	427	427	427	427
Capex	-1,332	-13,900	-13,900	-13,900	EPS (Core EPS)	53.0	82.6	91.8	109.6
Investments	-23,435	-19,814	-29,631	-1,070	P/E (Core)	23.2	14.9	13.4	11.2
Investing cash flow	-71,547	7,764	-42,903	-21,573	EV/EBITDA (Core)	18.7	14.1	11.6	9.6
Free Cash Flow	1,10,969	54,851	1,01,891	1,18,603	ROCE	14.2%	21.6%	20.2%	20.3%
Dividend	-23,161	-23,161	-23,161	-23,161	ROE	16.1%	24.1%	22.0%	21.7%
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	51,355	47,729	85,772	Creditor	64.7	64.0	67.8	80.3
Opening cash	36,506	44,817	96,173	1,43,902					
Closing cash	44,817	96,173	1,43,902	2,29,673					

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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