

**CMP: INR 2,372**

**Rating: Accumulate**

**Target Price: INR 2,731**

**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)	3147,993
52w H/L (INR)	2338/1237
Avg Yearly Vol (in 000')	20

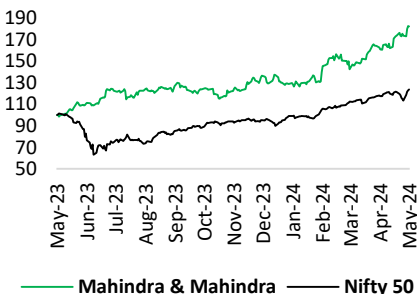
**Shareholding Pattern %**

(As on March, 2024)

Promoters	19.32
Public and others	80.68

Stock Performance (%)	1m	3m	12m
M&M	3.6	24.9	81.7
Nifty	21.6	12.1	21.6

**M&M Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Mahindra & Mahindra (M&M) standalone revenue stood at INR 251,090 Mn, against our estimate of INR 243,512 Mn registering a growth 11.2% YoY/-0.7% QoQ. The auto and farm sectors showed strong performance but Q4 Tractor MS at 39.4%, down 130 bps. EBITDA stood at INR 31,188 Mn, against our estimate of INR 30,514 Mn, Registering a growth of 9%YoY/ -3.3%QoQ. On the margins front, EBITDA margin is flat to 1bps YoY/ down 4bps QoQ to 12.4%, in line with our estimate of 12.5% led by Automotive and Farm businesses. Standalone PAT de-grew by 16.9%QoQ/ up 31.6% YoY to INR 20,382 Mn above our estimate of INR 21,812 Mn. EPS stood at INR 17.0 in Q4FY24 against INR 20.47 in Q3FY24. Final dividend of INR 21.10 per share. EV company approved INR 120Bn. investment in Mahindra Electric to fund their EV journey over the next 3 years. The company and British International Investment Plc have mutually agreed to extend the timeframe for the final tranche of BII's planned investment. Temasek will be investing the balance INR 9 Bn as per the agreed timelines. Auto, Q4 volumes at 215k, up 14%; highest ever UV volumes at 126k. Open bookings of SUVs at 220k (as on 1st May'24, includes 50k of XUV 3XO as on 15th May24 11:00 AM) Q4 revenue SUV market share at 20.4%, up 80 bps and LCV < 3.5T market share at 47.5%, up 310 bps. Farm Q4 Tractor market share at 39.4%, down 130 bps. Farm machinery Q4 revenue INR 225 cr., up 44%; in Rotavators, MS for FY24 at 20.3%

**Investment Rationale**

**XUV3XO: Driving Towards Segment Leadership:** The current booking number stands at 220,000, with an additional 50,000 XUV3XO bookings in the first hour, reflecting a positive response. Although the company aims to secure a leading position in the SUV segment, considering the potential market size of INR6-9 lakhs per year, where they currently rank fifth or sixth with the XUV300 but envision a strong position with the 3XO. Auto segment continue to drive growth with the existing product as well as new launches.

**Traction in farm segment:** Tractor sales in India achieved a 17.6% margin despite volume reduction, signaling positive margin trends. A separate INR 50,000 Mn investment plan underscores the robust performance of the farm sector. Tractor sales are expected to grow significantly in the North and West regions, while the South region continues to face negative growth, with the new product, OJA, contributing to market share gains. We expect company to continue to outperform the domestic industry's growth, driven by newer launches (Oja platform and strengthening of the Swaraj brand)

**Outlook and valuation**

The company posted an EBITDA margin in line with our estimate of 12.4% in Q4FY24 led by better-than-expected ASPs and gross margins. M&M regained the first position in the SUV category, in terms of revenue market share, which improved by 130 bps yoy in FY24. The company has outstanding open bookings of ~221K, 86k open bookings for Scorpio-N (including Classic) 17k average monthly bookings. 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. Also expecting a strong recovery in the tractor segment led by strong rural demand. However, **we maintain our Accumulate rating on the stock with a revised SOTP-based target price of INR 2,731 per share (Previous TP INR 2,143).**

Exhibit 2: Quarterly results summary Q4FY24

Quarterly results summary (MM + MVML) Q4FY24

INR Mn	Q4FY24	Q3FY24	Q4FY23	QoQ %	YoY %
<b>Net Sales</b>	251,090	252,885	225,714	-0.7%	11.2%
Cost of material consumed	184,462	190,660	169,219	-3.3%	9.0%
Staff Cost	11,112	11,343	9,490	-2.0%	17.1%
Other expenses	24,328	18,518	19,121	31.4%	27.2%
Total expenses	219,902	220,521	197,831	-0.3%	11.2%
<b>EBITDA</b>	31,188	32,364	27,883	-3.6%	11.9%
Depreciation	9,770	8,179	8,385	19.5%	16.5%
EBIT	21,418	24,186	19,498	-11.4%	9.8%
Interest	387	348	698	11.1%	-44.6%
Other Income	5,474	7,370	3,429	-25.7%	59.6%
Profit before exceptional items and tax	26,505	31,207	22,229	-15.1%	19.2%
Extraordinary	-	-	(5,118)	#DIV/0!	-100.0%
<b>Profit/(loss) before tax</b>	26,505	31,207	17,111	-15.1%	54.9%
Tax	(6,123)	(6,668)	(1,621)	-8.2%	277.7%
<b>Reported PAT</b>	20,382.1	24,539.8	15,489.7	-16.9%	31.6%
EPS	17.00	20.47	12.93	-17.0%	31.5%

Margins	Q4FY24	Q3FY24	Q4FY23	QoQ %	YoY %
Gross margins	26.5%	24.61%	25.03%	19bps	15bps
EBITDA	12.4%	12.8%	12.4%	-4bps	1bps
PAT	8.1%	9.7%	9.1%	-16bps	-10bps
Tax Rate	-23.1%	-21.4%	-7.3%	-17bps	-158bps

Volume	FY18	FY19	FY20	FY21	FY22	FY23	FY24
<b>Passenger Vehicles</b>	<b>249505</b>	<b>254701</b>	<b>186978</b>	<b>157216</b>	<b>225895</b>	<b>359253</b>	<b>459877</b>
Utility Vehicles	233915	235362	179405	155530	223682	356961	459864
Cars* + Vans	15590	19339	7573	1686	2213	2292	13
Commercial Vehicles	<b>216802</b>	<b>248601</b>	<b>199135</b>	<b>177117</b>	<b>177117</b>	<b>248576</b>	<b>262810</b>
LCV < 3.5T	199574	229352	187859	170682	32339	40419	44093
LCV > 3.5T	7744	8411	6179	6435	138343	198121	191603
MHCV	9484	10838	5097		6435	10036	27114
3W	54625	66699	62187	30079	30076	58520	77589
Total Domestic Sales	<b>520932</b>	<b>570001</b>	<b>448300</b>	<b>364412</b>	<b>433088</b>	<b>666349</b>	<b>800276</b>
Yoy		9%	-21%	-19%	19%	54%	20%
Total Exports	28221	38595	27743	32510	32510	32107	24663
Yoy		37%	-28%	17%	0%	-1%	-23%
Total Sales (Domestic + Export)	<b>549153</b>	<b>608596</b>	<b>476043</b>	<b>396922</b>	<b>465598</b>	<b>698456</b>	<b>824939</b>
Yoy		11%	-22%	-17%	17%	50%	18%

Source: Arianth Research, Company Filings

## Conference call key takeaways

The company maintains its 18% ROE commitment and targets 15%-20% EPS growth. With strong execution, brand, and momentum, it's well-positioned for the next three years. Company confident of mid to high teen growth rate in FY25. The FY25-FY27 guidance was reaffirmed, foreseeing substantial volume growth alongside a moderation in market share.

### Segments

Auto and Farm sectors are key drivers of growth, up 54%, with Farm business maintaining margins and increasing market share despite industry challenges. Auto segment planned of 23 product launches by 2030

#### Domestic tractor industry's volume growth of 5% YoY in FY2025E

- All exports and domestic sales of tractors from India are included, achieving a 17.6% margin despite a significant volume reduction, indicating a positive trend in tractor margins.
- The farm sector also shows strong performance with a separate INR 50,000 Mn investment plan.
- Progress on commitments is on track, with favorable factors expected for the farm sector in FY25, including favorable monsoons, improved farmer terms of trade, rising investments in agriculture and rural sectors, and the Navaratra Festival shift. Anticipated growth for the year is pegged at plus 5%, subject to review in July.
- Tractor sales are forecasted to see significant growth in North and West regions, while the South region is expected to continue facing negative growth.
- The company has launched a new product, OJA, which has been well received in the market and has helped the company gain market share

#### Energy productivity (EP)

The Auto and Farm business have collectively achieved EP 100, with Auto at 120 and Farm slightly below 100, surpassing the 2030 target by six years, resulting in halved energy consumption for vehicle production compared to 2009 baseline levels.

#### Gen AI

GenAI applications across industries have reduced costs and improved customer experience.

#### Standalone

Standalone financial performance saw a one-time impairment for trucks and buses FY23, impacting figures; standalone would have been up 64% instead of 48%. Consolidated side gains from Swaraj engines and sustainable business, excluding impairments, show a 25% increase.

#### Tech Mahindra

Tech Mahindra's weak performance requires a turnaround over two to three years, with profits down 52% from the prior year.

#### Mahindra Finance

- Mahindra Finance foresees a robust recovery over the next few years despite a setback from a fraud incident at its Aizawl Mizoram branch. Despite this, proactive measures including a comprehensive portfolio review and strengthened control mechanisms have been implemented to address the issue.
- Despite overshadowing positive highlights, such as reaching INR1 lakh crore in assets under management with a 24% growth rate, the company has shown resilience.
- Asset quality has significantly improved, evidenced by a decrease in GS3 numbers to 3.4%. Credit losses remained within the anticipated range, affirming a strong performance for Mahindra Finance overall.
- Mahindra Finance will deploy INR 370 Bn over the next 5 years.

#### Mahindra logistics

- Despite a loss of INR 550 Mn in logistics for the year, which has been effectively managed, execution has significantly improved, paving the way for a stronger year in logistics for FY25.
- Additionally, Susten has secured bids for 2 GW, marking a substantial increase from the 1.6 GW achieved over 14 years prior, setting the stage for ambitious growth with discussions on potentially achieving 7x to 10x growth over the next five years.

**M&M intends to deploy a total capex of INR 370 bn across its various business segments. This investment will be spread over the period of FY2025-27E and will cover M&M's standalone entity, including M&M, MEAL, and LMM Co.**

-Auto ICE: INR 140 bn

- Auto EV (MEAL): INR 120 bn

- Farm: INR 50 bn

- Investments in Auto and growth gems: INR 60 bn

Considering that M&M's auto division is expected to generate sufficient operating cash to meet its capital investment requirements, M&M and BII have mutually agreed to extend the timeframe for the final tranche of BII's planned investment of INR 7.3 bn. They will jointly assess whether additional investment is necessary by December 31, 2024.

So far, BII has invested INR 12 bn, and Temasek has invested INR 3 bn in MEAL. Temasek will invest the remaining INR 9 bn according to the agreed timelines. The company has reiterated its commitment to utilize the cash flow generated from the auto and tractor businesses to reinvest in their respective sectors over the coming years.

#### Acquisition

The company will do it in a way where they can deliver on what they said in that acquisition and be able to deliver the returns from that acquisition.

### Hybrid

There will be no GST reduction for hybrids, aligning with the government's focus on driving EV penetration in India.

### EV

- Sales growth will drive expansion of charging infrastructure.
- Emphasis on offering captivating EVs similar to the successful Thar.
- EVs provide a unique driving experience, with hybrids considered as an optionality.
- Company remains committed to the electric path, viewing hybrids as supplementary rather than primary due to evolving customer preferences.

### LCV

- Market share expansion 350bps to 49% in LCV (<3.5T), with the last mile Mobility business selling over 100,000 vehicles.
- EV 3w witnessed a fourfold increase in the last two years, maintaining a strong market share.
- Plans to launch nine ICE SUVs and seven electric vehicles by 2030, including two electric LCVs.
- Capacity plans indicate an increase to 64,000 by the end of FY25, with 15,000 additional capacity allocated for Thar five-door and XUV 3XO models and the first batch of EV capacity.
- Exit capacity in March stood at 49,000, set to increase to 64,000 by the end of FY25.

### Mahindra Holidays

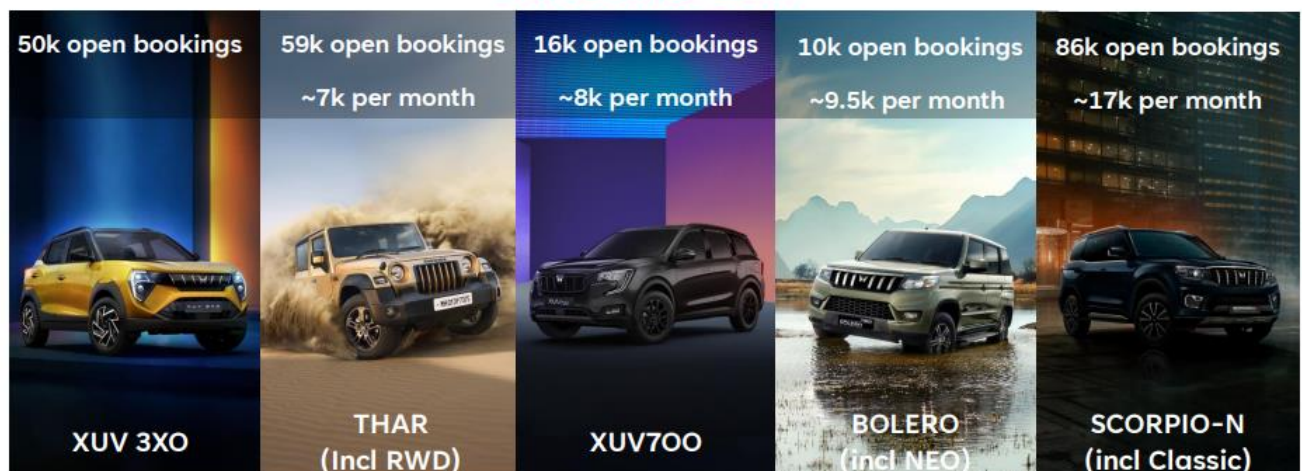
The company is prioritizing investment in its holiday business, particularly focusing on family vacations, foreseeing substantial growth. It envisions a 5x growth path for services investment driven by high occupancy rates and customer demand. Sustaining demand momentum is crucial, given the potentially static customer list, with a target audience seeking unique experiences and the latest technology.

### PV segments

As of May 15, 2024, M&M has an available inventory of 221,000 units. This includes: 86,000 units for Scorpio-N (including Classic) with an average monthly booking of 17,000 in the last quarter of FY24; 50,000 units for XUV3XO and XUV400; 16,000 units for XUV700 with an average monthly booking of 8,000 in the Q4FY24; 59,000 units for Thar with an average monthly booking of 7,000 in the last quarter of FY24; and 10,000 units for Bolero.

After adjusting for the bookings of XUV3XO, the total order backlog decreased by 46,000 QoQ. This decrease reflects a deliberate effort by the company to reduce the outstanding order book.

### Open Bookings: ~220k\*



~48k new bookings p.m.

~42k billings p.m.

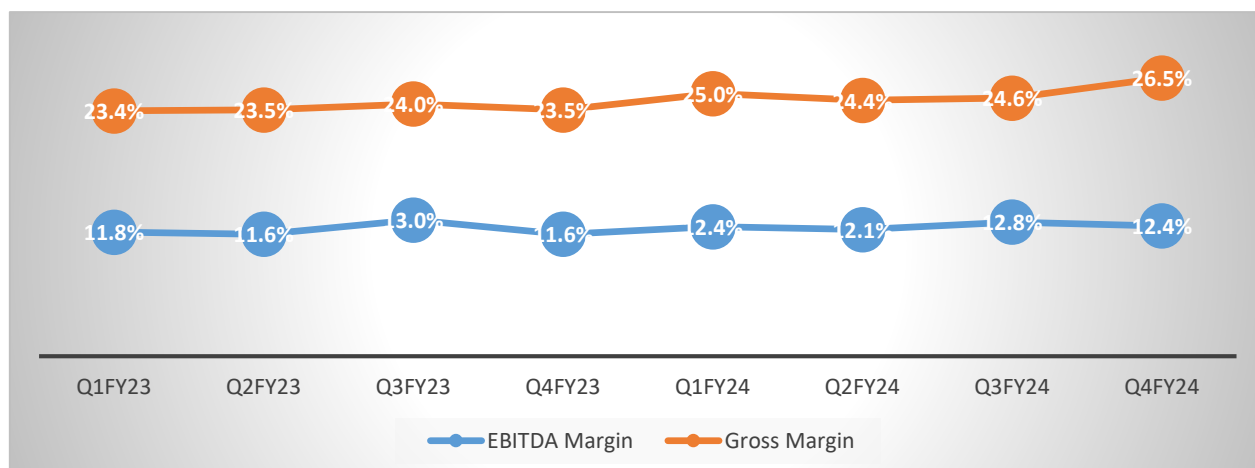
Cancellations ~10% p.m.

**Exhibit 3: SOTP Valuation**

Listed Subsidiary	Valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,308	248,022,598	25.5	324,401	271
Mahindra & Mahindra Financial Services		267	644,399,987	52.2	171,829	143
Mahindra Holidays & Resorts		401	134,835,922	67.0	54,083	45
Mahindra Lifespace Developers		615	79,319,550	51.3	48,785	41
Mahindra EPC Irrigation		140	15,144,433	54.3	2,121	2
Swaraj Engines		2,460	6,331,141	34.8	15,571	13
Mahindra Logistics Ltd		430	41,812,257	58.1	17,988	15
<b>EV Business (30% Holdco discount)</b>			<b>200,284</b>	<b>4.76</b>		<b>161</b>
<i>Listed Subsidiaries (INR mn)</i>					634,779	529
						529
<b>Sub Valuations Post Discount (20%)</b>			<b>20%</b>		-	<b>423</b>
						585
<b>Core auto business EV/EBITDA</b>	<b>FY27E</b>	<b>13x</b>				<b>2,147</b>
<b>Value/Share</b>						<b>2731</b>
					CMP	2372
					Upside	15.2%

CMP as on 17th May 2024

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



**Exhibit 5: Investment**

**Auto: Investment Plan for F25 – F27 Cycle**

Auto	FY25-27
SUV ICE	8,500
CV (incl. EV & MTBD)	4,000
Sustenance	1,500
<b>Auto Total</b>	<b>14,000</b>
Investment in MEAL	12,000
Investments for New Products & Capacity (Auto + MEAL)	26,000
Investment in other Subs	1,000
<b>Total Auto investment plan</b>	<b>27,000</b>

Source: Company, Arianth Research

## Standalone Financial

P&L (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	849,603	987,634	1,188,433	1,303,445	1,432,355
YoY (%)	47.0	16.2	20.3	9.7	9.9
Raw material cost	645,582	740,064	879,441	964,550	1,059,943
Employee Cost	36,499	44,164	50,347	57,899	66,584
Admin Expenses	63,098	76,745	98,640	104,276	114,588
Total expenses	745,179	860,973	1,028,428	1,126,725	1,241,115
<b>EBIDTA</b>	<b>104,424</b>	<b>126,662</b>	<b>160,005</b>	<b>176,721</b>	<b>191,240</b>
(%)	12.3%	12.8%	13.5%	13.6%	13.4%
Depreciation	31,545	34,389	37,011	39,585	42,159
EBIT	72,879	116,833	122,994	137,136	149,081
Interest	2,728	1,388	1,411	1,414	1,411
Other income	25,452	19,384	22,051	25,734	26,000
<b>PBT</b>	<b>95,603</b>	<b>134,830</b>	<b>143,635</b>	<b>161,456</b>	<b>173,669</b>
(-) Tax	(15,821)	(27,652)	(33,448)	(37,546)	(40,355)
Tax/ PBT	(16.5)	(20.5)	(23.3)	(23.3)	(23.2)
<b>PAT</b>	<b>65,486</b>	<b>107,178</b>	<b>110,187</b>	<b>123,909</b>	<b>133,314</b>
YoY (%)	34.5	63.7	2.8	12.5	7.6
PAT(%)	7.7%	10.9%	9.3%	9.5%	9.3%
Extraordinary	(14,295)	-	-	-	-
Reported Profit	65,486	107,178	110,187	123,909	133,314
B/Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	5,991	5,996	5,996	5,996	5,996
Reserves	427,577	516,769	596,934	690,820	794,111
Net worth	433,567	522,766	602,930	696,816	800,107
Total Loans	46,437	15,849	13,851	11,854	9,858
Def Tax Liability	14,703	15,551	15,551	15,551	15,551
Assets held for sale					
<b>Total Liabilities</b>	<b>494,708</b>	<b>554,165</b>	<b>632,331</b>	<b>724,221</b>	<b>825,516</b>
Gross Block	140,004	155,860	169,760	183,660	197,560
Less: Acc. depreciation	31,545	34,389	37,011	39,585	42,159
Net block	108,459	121,472	132,749	144,075	155,401
Investments	328,475	356,932	376,063	379,097	379,888
Inventories	88,814	95,048	101,158	110,948	121,921
Debtors	40,417	45,495	49,520	54,312	59,684
Cash	44,817	55,259	64,382	118,972	182,487
Loans and advances	73,348	97,021	131,959	142,310	153,913
Other Current assets	34,997	32,498	32,953	33,415	33,882
Current assets	282,393	325,322	379,972	459,957	551,887
Current liabilities	212,000	231,080	231,080	231,080	231,080
Current liabilities & Provisions	217,693	249,560	256,453	258,909	261,661
Net current assets	64,700	75,761	123,519	201,048	290,226
<b>Total Assets</b>	<b>501,634</b>	<b>554,165</b>	<b>632,331</b>	<b>724,221</b>	<b>825,516</b>

Source: Company, Arianth Research

## Standalone Financial

Cash Flow	FY23	FY24	FY25E	FY26E	FY27E
Net Profit	65,486	107,178	110,187	123,909	133,314
Depreciation	31,545	34,389	37,011	39,585	42,159
Deferred tax	(15,821)	(27,652)	(33,448)	(37,546)	(40,355)
Change in W/C	4,709	(13,680)	(38,869)	(22,939)	(25,663)
Operating cash flow	85,919	100,234	74,882	103,009	109,455
Change in intangible	30,692	(2,135)	18,749	2,648	402
Capex	(1,332)	(15,856)	(13,900)	(13,900)	(13,900)
Investments	(23,435)	(28,457)	(19,131)	(3,034)	(791)
Investing cash flow	(42,438)	(39,837)	(32,328)	(14,985)	(12,510)
Free Cash Flow	81,859	82,990	59,571	87,695	94,144
Dividend	(23,232)	(30,023)	(30,023)	(30,023)	(30,023)
Equity	9,331	12,043.40	-	-	-
Debt	(18,540)	(30,588)	(1,998)	(1,997)	(1,996)
Financing cash flow	(32,442)	(48,568)	(32,021)	(32,020)	(32,019)
Net change in cash	8,312	10,442	9,122	54,590	63,515
Opening cash	36,506	44,817	55,259	64,382	118,972
Closing cash	44,817	55,259	64,382	118,972	182,487

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EPS	54.7	89.4	91.9	103.3	111.2
		64%	3%	12%	8%
P/E (Standalone)	43.4	26.5	25.8	23.0	21.3
EV/EBDITA (x)	24.1	19.3	15.1	13.3	12.0
Book value	362	436	503	581	667
P/B (x)	6.6	5.4	4.7	4.1	3.6
Subsidiary Valuation	423	423	423	423	423
EPS (Core EPS)	53.0	76.0	80.8	91.0	97.7
P/E (Core)	36.8	25.6	24.1	21.4	19.9
EV/EBITDA (Core)	26.9	21.8	17.1	15.2	13.7
ROCE	14.2%	20.7%	18.8%	18.5%	17.4%
ROE	16.1%	22.4%	19.6%	19.1%	17.8%
<b>Days</b>					
Inventory	42.0	42.0	42.0	42.0	42.0
Debtor	15.2	15.2	15.2	15.2	15.2
Creditor	64.7	66.0	55.7	45.7	35.4

Source: Company, Aриhant Research

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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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INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880