

BUY

TP: Rs 2,077 | ▲ 18%

MAHINDRA & MAHINDRA | Automobiles

15 February 2024

Healthy volume-led growth

- Q3 revenue grew 17% YoY led by 11% blended volume growth and supported by 5% higher realisations
- Gross/EBITDA margins stayed stable YoY at 24.6%/12.8% as lower input costs offset higher A&P spend
- We raise FY24/FY25 EPS by 15%/3% and maintain BUY with TP revised to Rs 2,077 (vs. Rs 1,849) on rollover

Healthy topline growth: MM's Q3FY24 revenue grew 17% YoY (+4% QoQ) to Rs 252.9bn driven by blended volume gains of 11% YoY (+4% QoQ) to ~313k units. Net blended realisation per vehicle stood at Rs 807.6k, up 5% YoY (flat QoQ).

Margins maintained: Inventory-adjusted raw material cost softened to 75.4% of sales from 76% in Q3FY23 (flat QoQ), yielding nominal gross margin gains of 55bps YoY to 24.6% (flat QoQ). EBITDA grew 15% YoY (+10% QoQ) to Rs 32.3bn, accompanied by a flat margin YoY at 12.8% (+75bps QoQ). Other expenses increased 27% YoY to Rs 18.5bn owing to a one-off impact from Cricket World Cup sponsorships.

FES slow-moving amidst weak market: MM's automotive business continued to dominate revenue, growing by 24% YoY (flat QoQ), while the farm equipment segment (FES) stayed flat YoY (+14% QoQ) as tractor volumes fell 4% YoY (+13% QoQ). FES EBIT improved sequentially but remained under pressure YoY.

Launches, capacity ramp-up on the cards: MM expects SUV production capacity to reach 49k units/month in Q4FY24, which should help the company achieve its volume growth target of 15-19% in FY25. Debottlenecking for *Scorpio-N* and capacity addition for *Scorpio Classic* are also underway. The company expects to launch the *Thar 5-Door* SUV in mid-CY24 and a mid-cycle refresher model for *XUV300* in FY25.

Focused on volumes, maintain BUY: Given the strong 9MFY24 result, we raise our FY24/FY25 EPS estimates by 15%/3%. Upon introducing FY26 forecasts for MM in this report, we bake in a 3Y EBITDA/PAT CAGR of 17%/24%. Though FES remains slow amid uneven monsoons, the automotive segment maintains strong momentum and will benefit from management's focus on driving volumes and market share. We value MM's core business at 17x P/E (unchanged) – at par with its LT average – and roll valuations over to FY26E, resulting in a revised SOTP-based TP of Rs 2,077 (vs. Rs 1,849). This includes Rs 319/sh as the value of subsidiaries. BUY.

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Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 1,765
Market cap	US\$ 26.9bn
Free float	81%
3M ADV	US\$ 51.8mn
52wk high/low	Rs 1,785/Rs 1,123
Promoter/FPI/DII	19%/37%/29%

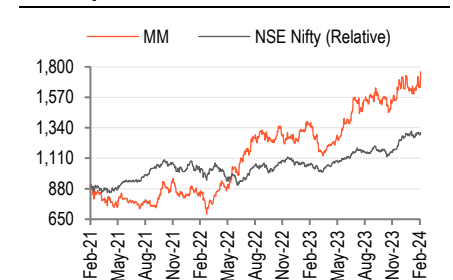
Source: NSE | Price as of 15 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	8,49,603	9,79,859	11,20,889
EBITDA (Rs mn)	1,04,424	1,34,122	1,55,648
Adj. net profit (Rs mn)	65,486	1,07,604	1,13,327
Adj. EPS (Rs)	54.7	89.8	94.6
Consensus EPS (Rs)	54.7	85.9	91.5
Adj. ROAE (%)	15.9	22.0	19.0
Adj. P/E (x)	32.3	19.7	18.7
EV/EBITDA (x)	20.6	16.2	13.8
Adj. EPS growth (%)	37.6	64.3	5.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Market share	MM's SUV revenue market share grew 40bps YoY to 21% in Q3FY24, LCV share grew 310bps to 49.6%, and FES share increased 80bps to 41.8%.	MM's SUV revenue market share grew 90bps YoY to 19.9% in Q2FY24, LCV share grew 280bps to 49.6%, and FES share increased 150bps to 41.6% (highest ever) despite the industry decline.	The revival in the LCV segment seen during H1FY24 continues. MM's FES segment, however, is likely to stay sluggish in the near term.
Order book	The company's order book as on 1 Feb 2024 stands at ~226k units, led by the <i>Scorpio</i> family (~101k open bookings), followed by the <i>Thar</i> series (~71k), <i>XUV700</i> (~35k), <i>Bolero</i> (~10k), and <i>XUV300/400</i> (~8.8k). MM has a cancellation rate of ~10% per month.	The company's order book as on 1 Nov 2023 stands at ~286k units, mainly led by the <i>Scorpio</i> family (~119k open bookings) followed by <i>Thar</i> (~76k), <i>XUV700</i> (~70k), <i>Bolero</i> (~11k), and <i>XUV300/400</i> (~10k). MM has a cancellation rate of less than 8% per month.	The company's focus on lowering the wait period will bolster growth. We note that cancellations have returned to normal levels of 8% in Jan'24.
Electric vehicles	MM's EV penetration in the three-wheeler (3W) L5 category was ~11.6% in Q3FY24. As per management, EV industry penetration in India is currently at 1.5% and the charging ecosystem remains weak with an average wait time of ~30 minutes to charge an EV car.	MM's EV penetration in the 3W L5 category was ~10.5% in Q2FY24. Management is considering partnerships – and not joint ventures/investments – with EV charging companies to set up charging infrastructure.	Management maintains plans for a steady stream of EV launches to expand its reach in the segment.
FES	FES volumes fell 4% YoY to ~101k units in Q3FY24 (industry volumes down 5%). MM continues to be the #2 player in rotavators with 21.9% market share as on FY24 YTD. Management expects tractor industry volumes to fall 5-6% YoY in FY24. Exports of <i>Oja</i> tractors to North America have been delayed by 4-5 weeks due to the Red Sea crisis.	FES volumes fell 3.8% YoY to ~89k units in Q2FY24 (industry volumes down 5.6%). MM is #2 in rotavators with 21.5% market share as on H1FY24. Tractor growth during the first few days of the Navratri festival in October was in line with management estimates and the momentum is expected to continue in November. Overall, MM sees flattish growth in tractors for FY24. The company launched the <i>Oja</i> tractor series (in collaboration with Mitsubishi) and the <i>Swaraj 8200</i> wheel harvester in Q2FY24.	The FES segment is weak owing to the patchy monsoon. Low water levels in reservoirs can act as a further dampener till the onset of the next monsoon season.
Margins	EBIT margin in the auto segment expanded 170bps YoY to 8.3% in Q3FY24, while FES saw a decline of 80bps YoY to 15.5% that included a 70bps one-time impact from Cricket World Cup sponsorship. Management indicated that the government's tractor subsidies have reduced which will restrict the preponement of sales at lower margins.	EBIT margin in the auto segment increased 200bps YoY to 7.9% in Q2FY24 driven by operating leverage, despite major cost additions from the transition to BSVI norms. EBIT margin in FES slipped 30bps to 16% due to weaker operating leverage and one-off launch expenses on the <i>Oja</i> , <i>Nasaraj</i> and <i>Swaraj</i> tractors. Management expects a further one-off impact on auto and tractor margins due to Cricket World Cup sponsorship campaigns.	We expect MM's automotive segment to offset the impact of FES weakness and higher pricing pressure in EVs over the medium term.
Balance sheet information	MM's operating income includes dividend income of ~Rs 360mn in Q3FY24 from investment in Zoomcar. Impairment loss reversed during Q3 amounted to ~Rs 360mn. Other income includes	Net consolidated cash generated in H1FY24 was ~Rs 49bn, of which the auto segment generated ~Rs 23bn, farm ~Rs 5.5bn and services ~Rs 20.4bn.	We see no concerns on the balance sheet given a prudent capital allocation policy.

Parameter	Q3FY24	Q2FY24	Our view
	MTM gains of Rs 896mn on certain non-current investments (including in KG Mobility & RBL Bank).	MM has repaid debt of ~Rs 34bn. Consolidated gross debt as on H1FY24 stood at ~Rs 15bn.	
	Consolidated cash balance at the end of Q3FY24 stood at ~Rs 150bn. Management aims to invest the cash in identified growth gems and the Classic Legends brand.	Consolidated cash balance at the end of Q2FY24 was ~Rs 162bn and management aims to return some portion to shareholders and deploy the balance into the business.	
Other key points	MM is currently waiting for the Ministry of Heavy Industries (MHI) to release the final SOPs for the 3W business. The company expects to meet the value addition norm for its XUV400 by Q2FY25, after which it will apply for the PLI for the same.	MM has received PLI certifications for the 3W business. It expects to apply for certification of the SUV400 series by Q3FY24 and is optimistic of securing the same.	Overall growth will be strengthened by PLI certifications.

Source: Company, BOBCAPS Research | PLI: Production Linked Incentive; SOP: Standard Operating Procedures

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Volume	313,115	281,859	11.1	302,139	3.6	916,401	827,023	10.8
Avg. Realisation per Vehicle	807,643	768,247	5.1	804,593	0.4	803,736	750,954	7.0
Net Revenues	252,885	216,537	16.8	243,099	4.0	736,545	621,057	18.6
Total Income (A)	252,885	216,537	16.8	243,099	4.0	736,545	621,057	18.6
Operating Expenses:								
Raw materials consumed	190,660	164,471	15.9	183,793	3.7	555,601	474,200	17.2
Employee Expenses	11,343	9,342	21.4	11,262	0.7	33,052	26,833	23.2
Other Expenses	18,518	14,583	27.0	18,703	(1.0)	53,835	43,508	23.7
Total Expenditure (B)	220,521	188,395	17.1	213,758	3.2	642,489	544,541	18.0
EBITDA (A-B)	32,364	28,142	15.0	29,341	10.3	94,056	76,516	22.9
Other Income	7,370	6,700	10.0	22,819	(67.7)	39,888	22,345	78.5
Depreciation	8,179	8,292	(1.4)	8,158	0.3	24,618	22,854	7.7
EBIT	31,556	26,551	18.9	44,001	(28.3)	109,326	76,007	43.8
Finance Costs	348	686	(49.2)	329	5.7	1,001	2,020	(50.5)
PBT after excep items	31,207	19,576	59.4	43,672	(28.5)	108,325	64,810	67.1
Tax expense	6,668	4,296	55.2	9,153	(27.2)	21,529	14,328	50.3
Reported PAT	24,540	15,281	60.6	34,519	(28.9)	86,796	50,481	71.9
Adjusted PAT	24,540	21,569	13.8	34,519	(28.9)	86,796	59,658	45.5
EPS (Rs)	20.5	12.3	66.4	28.8	(28.9)	72.4	41.3	75.4
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	24.6	24.0	56	24.4	21	24.6	23.6	92
EBITDA Margin	12.8	13.0	(20)	12.1	73	12.8	12.3	45
EBIT Margin	12.5	12.3	22	18.1	(562)	14.8	12.2	260
PBT Margin	12.3	11.9	40	18.0	(562)	14.7	11.9	279
Tax Rate	21.4	21.9	(58)	21.0	41	19.9	22.1	(223)
Adj PAT Margin	9.7	10.0	(26)	14.2	(450)	11.8	9.6	218

Source: Company, BOBCAPS Research

Valuation methodology

Given the strong 9MFY24 performance, we raise our FY24/FY25 EPS estimates for MM by 15%/3%. Upon introducing FY26 forecasts in this report, we bake in a 3Y EBITDA/PAT CAGR of 17%/24% for the company. Though MM's FES business remains slow amid uneven monsoons in key markets, the automotive segment maintains strong growth momentum and will continue to benefit from management's focus on driving volumes and market share.

We value MM's core business at 17x P/E (unchanged) –at par with its LT average– and roll valuations over to FY26E, resulting in a revised SOTP-based TP of Rs 2,077 (vs. Rs 1,849). This includes Rs 319/sh as the value of subsidiaries. Maintain BUY.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	979,859	1,120,889	1,223,495	979,859	1,145,327	NA	0.0	(2.1)	NA
EBITDA	134,122	155,648	165,851	134,122	160,695	NA	0.0	(3.1)	NA
Adj PAT	107,604	113,327	123,912	93,635	110,368	NA	14.9	2.7	NA
Adj EPS (Rs)	89.8	94.6	103.4	78.2	92.1	NA	14.8	2.7	NA

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY24E	FY25E	FY26E
Volume (units)	1,243,896	1,391,291	1,494,716
Revenues (Rs mn)	979,859	1,120,889	1,223,495
EBITDA (Rs mn)	134,122	155,648	165,851
EBITDA margin (%)	13.7	13.9	13.6
Adj. PAT (Rs mn)	107,604	113,327	123,912
EPS (Rs)	89.8	94.6	103.4

Source: Company, BOBCAPS Research

Fig 5 – Valuation summary

Business	Value (Rs/sh)	Valuation basis
Core Business	1,758	17x FY26E EPS
Subsidiaries	319	30% holding company discount
Total	2,077	-

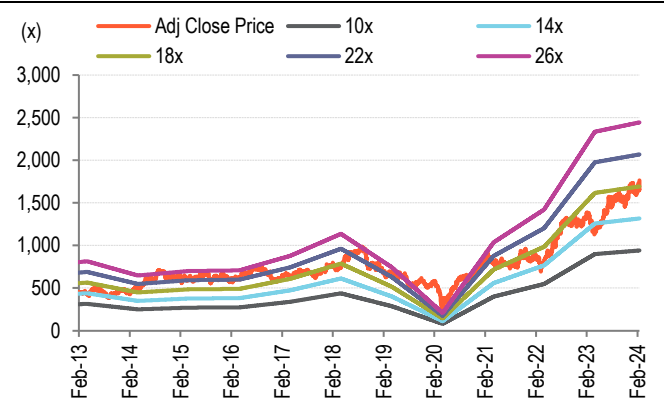
Source: BOBCAPS Research

Fig 6 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Mahindra & Mahindra	MM IN	BUY	2,077	89.8	94.6	22.0	19.0
Maruti Suzuki	MSIL IN	BUY	12,234	394.4	447.6	17.0	16.7
Tata Motors	TTMT IN	NOT RATED	-	51.9	64.3	33.8	29.6

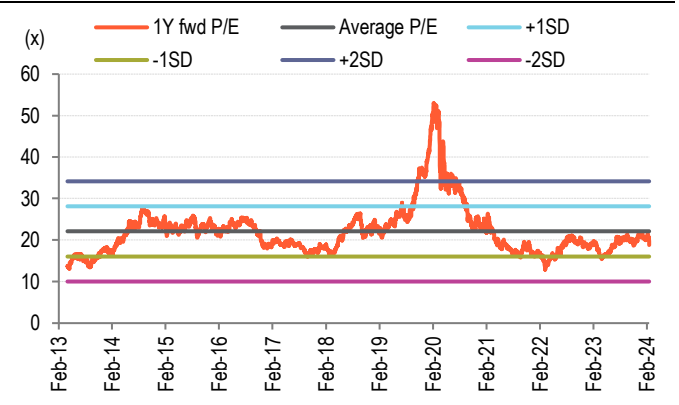
Source: BOBCAPS Research

Fig 7 – P/E band: We value MM at 17x FY26E core business EPS



Source: Company, Bloomberg, BOBCAPS Research

Fig 8 – P/E 1Y fwd



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- accelerated launches by competitors the high-end automotive segment,
- further slowdown in the farm equipment segment, and
- commodity inflation sustaining for longer than expected in the high-end segment.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.2	175	226	BUY
Bajaj Auto	BJAUT IN	28.6	8,123	6,272	SELL
Eicher Motors	EIM IN	13.0	3,917	4,045	HOLD
Escorts	ESCORTS IN	4.7	2,905	2,389	SELL
Hero MotoCorp	HMCL IN	11.7	4,817	4,671	HOLD
Mahindra & Mahindra	MM IN	26.9	1,765	2,077	BUY
Maruti Suzuki	MSIL IN	40.8	11,090	12,234	BUY
TVS Motor	TVSL IN	12.1	2,093	2,242	BUY
VST Tillers Tractors	VSTT IN	0.3	3,237	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 15 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	5,74,460	8,49,603	9,79,859	11,20,889	12,23,495
EBITDA	68,963	1,04,424	1,34,122	1,55,648	1,65,851
Depreciation	24,511	31,545	32,580	37,553	40,254
EBIT	66,671	98,331	1,42,955	1,52,302	1,65,382
Net interest inc./(exp.)	(2,230)	(2,728)	(1,091)	(1,200)	(1,260)
Other inc./(exp.)	20,759	25,452	41,413	34,207	39,785
Exceptional items	(2,087)	(14,295)	0	0	0
EBT	62,355	81,308	1,41,864	1,51,102	1,64,122
Income taxes	13,002	15,821	34,260	37,776	40,210
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	47,266	51,191	1,07,604	1,13,327	1,23,912
Adjustments	2,087	14,295	0	0	0
Adjusted net profit	49,352	65,486	1,07,604	1,13,327	1,23,912

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,37,389	1,81,336	1,76,375	1,92,064	2,11,053
Other current liabilities	46,298	59,797	83,005	86,374	94,858
Provisions	13,663	18,139	1,490	1,638	1,802
Debt funds	67,336	50,255	47,156	45,217	38,702
Other liabilities	0	0	0	0	0
Equity capital	5,983	5,991	5,991	5,991	5,991
Reserves & surplus	3,83,627	4,27,577	5,39,984	6,42,528	7,55,058
Shareholders' fund	3,89,609	4,33,567	5,45,975	6,48,518	7,61,049
Total liab. and equities	6,54,295	7,43,095	8,54,001	9,73,812	11,07,464
Cash and cash eq.	36,505	44,818	58,440	71,189	86,941
Accounts receivables	30,351	40,417	48,993	67,253	74,633
Inventories	58,829	88,814	97,986	1,12,089	1,28,467
Other current assets	98,852	1,15,271	1,51,878	1,79,342	1,95,759
Investments	2,51,098	2,70,871	3,11,826	3,54,719	4,07,698
Net fixed assets	1,80,453	1,88,106	1,85,525	1,87,972	2,07,718
CWIP	15,215	9,503	14,056	15,950	20,950
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(17,008)	(14,703)	(14,703)	(14,703)	(14,703)
Other assets	0	0	0	0	0
Total assets	6,54,295	7,43,095	8,54,001	9,73,812	11,07,464

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	38,916	74,304	44,921	74,852	1,10,582
Capital expenditures	(38,811)	(33,485)	(34,553)	(41,894)	(65,000)
Change in investments	(33,272)	(19,773)	(40,955)	(42,893)	(52,980)
Other investing cash flows	20,759	25,452	41,413	34,207	39,785
Cash flow from investing	(51,324)	(27,806)	(34,095)	(50,580)	(78,194)
Equities issued/Others	1,153	968	(2,104)	0	0
Debt raised/repaid	(10,528)	(17,080)	(3,099)	(1,940)	(6,514)
Interest expenses	(2,230)	(2,728)	(1,091)	(1,200)	(1,260)
Dividends paid	(9,315)	(8,986)	(9,585)	(10,783)	(11,382)
Other financing cash flows	3,508	(1,520)	16,492	0	0
Cash flow from financing	(17,412)	(29,346)	613	(13,923)	(19,157)
Chg in cash & cash eq.	(29,820)	17,152	11,440	10,349	13,231
Closing cash & cash eq.	36,505	44,818	58,440	71,189	86,941

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	39.7	54.7	89.8	94.6	103.4
Adjusted EPS	39.7	54.7	89.8	94.6	103.4
Dividend per share	7.5	7.5	8.0	9.0	9.5
Book value per share	313.7	361.9	455.7	541.3	635.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.7	2.5	2.2	1.9	1.7
EV/EBITDA	30.7	20.6	16.2	13.8	12.9
Adjusted P/E	44.4	32.3	19.7	18.7	17.1
P/BV	5.6	4.9	3.9	3.3	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	75.8	63.0	75.9	75.0	75.5
Interest burden (PBT/EBIT)	93.5	82.7	99.2	99.2	99.2
EBIT margin (EBIT/Revenue)	11.6	11.6	14.6	13.6	13.5
Asset turnover (Rev./Avg TA)	129.9	180.6	182.0	174.2	163.8
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	12.8	12.4	22.0	19.0	17.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	28.7	47.9	15.3	14.4	9.2
EBITDA	0.9	51.4	28.4	16.0	6.6
Adjusted EPS	401.5	37.6	64.3	5.3	9.3
Profitability & Return ratios (%)					
EBITDA margin	12.0	12.3	13.7	13.9	13.6
EBIT margin	11.6	11.6	14.6	13.6	13.5
Adjusted profit margin	8.6	7.7	11.0	10.1	10.1
Adjusted ROAE	13.4	15.9	22.0	19.0	17.6
ROCE	11.8	16.9	20.1	17.7	16.7
Working capital days (days)					
Receivables	17	15	17	19	21
Inventory	34	32	35	34	36
Payables	108	90	89	80	80
Ratios (x)					
Gross asset turnover	0.6	0.5	0.5	0.4	0.4
Current ratio	1.1	1.1	1.4	1.5	1.6
Net interest coverage ratio	(29.9)	(36.0)	(131.0)	(126.9)	(131.2)
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

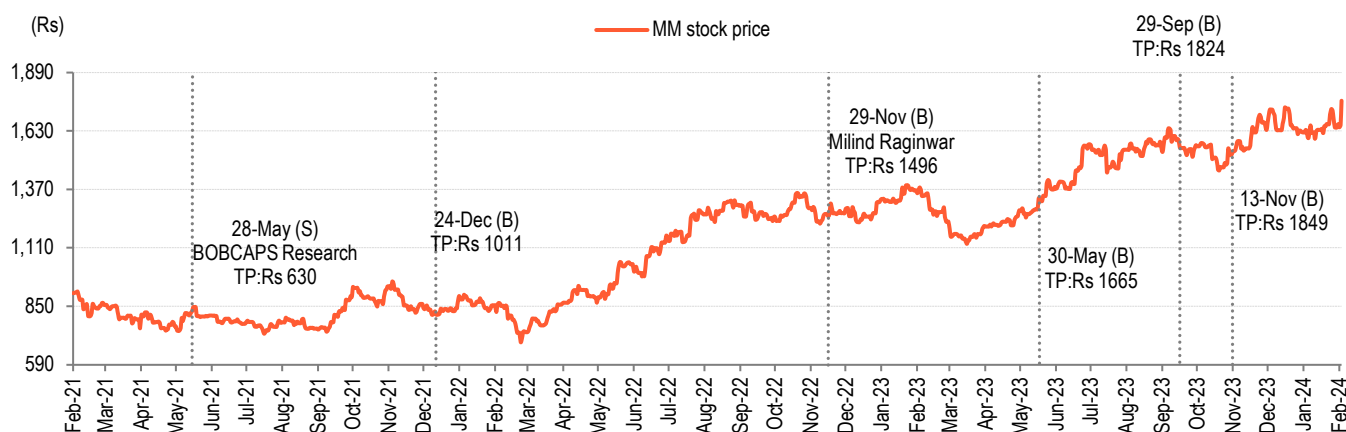
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MAHINDRA & MAHINDRA (MM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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