FIRST LIGHT

15 November 2023

RESEARCH

BOB ECONOMICS RESEARCH | CPI

Inflation eased marginally; food remains sticky

MAHINDRA & MAHINDRA | TARGET: Rs 1,849 | +20% | BUY

Auto segment continues to rev up

EICHER MOTORS | TARGET: Rs 3,601 | -1% | HOLD

striving to fend off competition

SUMMARY

INDIA ECONOMICS: CPI

CPI print came in slightly higher than our estimate at 4.9% (BoB estimate: 4.7%). This is attributable to stickiness in food inflation. The sequential data on food shows discomfort due rising vegetable prices. The correction in tomato prices and recent surge in onion prices are posing transient shock to inflation. The question is how long it will persist. We believe since it coincide with the Oct-Dec'23 arrival of harvest, prices will be in check. Further Government's policies such as increasing buffer stock of perishables will provide some temporary relief going forward. Notably, CPI excluding vegetables and pulses is lower at 4.7% in Oct'23.

Click here for the full report.

MAHINDRA & MAHINDRA

- Net blended realisation per vehicle grew 6% YoY in Q2 and volumes increased 11%
- Margins remained range-bound with gross margin at 24.4% and EBITDA margin at 12%
- Maintain BUY with revised SOTP-based TP of Rs 1,849 (vs. Rs 1,824) as we tweak estimates

Click here for the full report.

Daily macro indicators

Indicator	9-Nov	10-Nov	Chg (%)
US 10Y yield (%)	4.62	4.65	3bps
India 10Y yield (%)	7.28	7.30	2bps
USD/INR	83.29	83.34	(0.1)
Brent Crude (US$/bbl)	80.0	81.4	1.8
Dow	33,892	34,283	1.2
Hang Seng	17,511	17,203	(1.8)
Sensex	64,832	64,905	0.1
India FII (US$ mn)	**8-Nov**	**9-Nov**	**Chg ($ mn)**
FII-D	141.2	102.2	(39.0)
FII-E	(107.3)	(175.6)	(68.3)

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

EICHER MOTORS

- Q2 revenue grew 16% YoY backed by double-digit volume uptick (+11%) and 5% higher realisations
- Softening input costs and inventory adjustment of Rs 2.5bn led to 530bps YoY gross margin accretion
- Maintain HOLD with TP of Rs 3,601 (unchanged), based on 25x FY25E EPS

Click here for the full report.

CPI

13 November 2023

Inflation eased marginally; food remains sticky

Dipanwita Mazumdar
Economist

CPI print came in slightly higher than our estimate at 4.9% (BoB estimate: 4.7%). This is attributable to stickiness in food inflation. The sequential data on food shows discomfort due rising vegetable prices. The correction in tomato prices and recent surge in onion prices are posing transient shock to inflation. The question is how long it will persist. We believe since it coincide with the Oct-Dec'23 arrival of harvest, prices will be in check. Further Government's policies such as increasing buffer stock of perishables will provide some temporary relief going forward. Notably, CPI excluding vegetables and pulses is lower at 4.7% in Oct'23.

Comforting core on the other hand would keep headline CPI within RBI's targeted level. We believe that despite some bumpy ride with regard to food inflation, CPI will slowly crawl towards the 4% target level. Some moderation in demand conditions due to the result of past rate hikes will help in taming inflation. However, RBI will be mindful of the evolution of food trajectory and will be in a 'wait and watch' data dependent mode.

CPI inflation edged down slightly

Food has been sticky: CPI inflation came in at 4.9%, slightly higher than our estimate of 4.7%. The print is marginally lower compared to previous month's level of 5%. Food inflation was sticky at 6.6% in Oct'23. 5 out of 12 broad categories of food inflation witnessed an increase in inflation in Oct'23 compared to Sep'23. Among them, the sharpest increase was visible in case of pulses (18.8% in Oct'23 from 16.3% in Sep'23), fruits (9.3% from 7.3%), and eggs (9.3% from 6.5%). Double digit inflation still persist for cereals and products, pulses and spices.

On sequential basis, food inflation has risen by 1.1% in Oct'23 from -2.1% in Sep'23. The sequential increase is not attributable to any seasonal increase as on a seasonally adjusted basis, food inflation has risen by 1.2%, almost at the same level as the unadjusted series. The biggest sequential jump was visible in case of vegetables, attributed to onion price shock. Apart from this, fruits and eggs also posted sequential increase.

Going forward, food inflation is clouded by uncertainty. Lower than previous year's level of Khariff output as also lower reservoir levels till data, pose risk to Rabi sowing. Generally, protein based items also see an upside shoch in this quarter, more of a seasonal nature. Thus, evolution of food inflation holds the key to any future decision by RBI.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,849 | ⮝ 20%

MAHINDRA & MAHINDRA | Automobiles | 13 November 2023

Auto segment continues to rev up

- **Net blended realisation per vehicle grew 6% YoY in Q2 and volumes increased 11%**
- **Margins remained range-bound with gross margin at 24.4% and EBITDA margin at 12%**
- **Maintain BUY with revised SOTP-based TP of Rs 1,849 (vs. Rs 1,824) as we tweak estimates**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Healthy YoY topline growth: MM's Q2FY24 revenue grew 17% YoY (flat QoQ) to Rs 243bn driven by blended volume gains of 11% (flat QoQ). Net blended realisation per vehicle stood at Rs 805k, up 6% YoY (flat QoQ), helped by price hikes taken in Q1FY24.

Margins intact: Raw material cost softened to 75.6% of sales from 76.5% in Q2FY23, resulting in 100bps YoY gross margin expansion to 24.4% (flat QoQ). EBITDA margin was flat YoY at 12% but slid 140bps QoQ. MM is able to pass through cost increases (raw material or regulatory) and indicated that it will continue to do so in pursuit of growth.

FES weak: The automotive segment continued to dominate revenue, growing by 25% YoY (+11% QoQ), whereas MM's farm equipment segment (FES) at 7% YoY (-21% QoQ) was impacted by a 4% YoY drop in volumes (-22% QoQ). FES EBIT margin also remained under pressure. Volume pickup in H1 has been disappointing.

EV penetration on the rise: Per management, EV penetration in the 3W L5 segment is ~10.5% (vs. ~7.2% in Q2FY23), with the passenger segment at ~10.1% and the cargo segment at ~12.5%. MM is considering partnerships with EV charging companies, rather than joint ventures or investments, to set up charging infrastructure.

New launches: The company's *Oja* tractor series (in collaboration with Mitsubishi) and *Swaraj 8200* wheel harvester were rolled out during Q2. It also relaunched motorcycle brands under subsidiary Classic Legends to better market acceptance.

Maintain BUY: MM's auto segment continues its strong growth momentum, and we expect FES to regain ground after a seasonally weak Q2FY24. We lower our FY24 EBITDA estimates by 3% to factor in the FES slowdown but our EPS stays broadly unchanged on lower interest cost post debt repayment. For FY25, we raise EBITDA and EPS estimates by 1-2% and continue to value MM's core business at 17x FY25E P/E. Our revised estimates yield a new SOTP-based TP of Rs 1,849 (from Rs 1,824) that includes Rs 283 as the value of subsidiaries. Maintain BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	MM IN/Rs 1,540
Market cap	US$ 23.5bn
Free float	81%
3M ADV	US$ 44.6mn
52wk high/low	Rs 1,670/Rs 1,123
Promoter/FPI/DII	19%/37%/29%

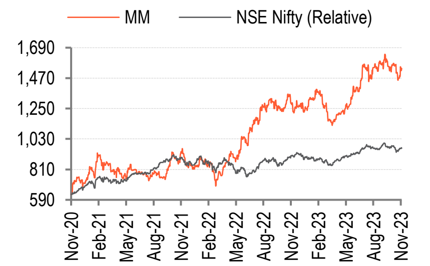
Source: NSE | Price as of 13 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	8,49,603	9,79,859	11,45,327
EBITDA (Rs mn)	1,04,424	1,34,122	1,60,695
Adj. net profit (Rs mn)	65,486	93,635	1,10,368
Adj. EPS (Rs)	54.7	78.2	92.1
Consensus EPS (Rs)	54.7	81.0	89.0
Adj. ROAE (%)	15.9	19.4	19.0
Adj. P/E (x)	28.2	19.7	16.7
EV/EBITDA (x)	17.9	14.1	11.7
Adj. EPS growth (%)	37.6	43.0	17.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 3,601 | ∀ 1%

EICHER MOTORS | Automobiles | 13 November 2023

Solid quarter; striving to fend off competition

- **Q2 revenue grew 16% YoY backed by double-digit volume uptick (+11%) and 5% higher realisations**
- **Softening input costs and inventory adjustment of Rs 2.5bn led to 530bps YoY gross margin accretion**
- **Maintain HOLD with TP of Rs 3,601 (unchanged), based on 25x FY25E EPS**

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Healthy double-digit revenue uptick: EIM's Q2FY24 revenue grew 16% YoY (flat QoQ) to Rs 39.3bn as volumes increased 11% (flat QoQ) and net realisation per vehicle grew 5% (flat QoQ) to Rs 171k/unit. The company benefited from price hikes taken last quarter along with a favourable product mix.

Material cost reduces; better product mix enhances margins: Gross margin expanded by a strong 530bps YoY (+350bps QoQ) to 46.8% owing to lower raw material cost at 53.2% of sales (-350bps YoY, -350bps QoQ) and a better mix. However, margins also benefitted from a Rs 2.5bn inventory adjustment which may not continue into H2. EBITDA grew 37% YoY (+8% QoQ) to Rs 11bn with a 28% margin.

CV segment revival continues: CV volumes climbed 20% YoY (flat QoQ) and the segment's contribution to EIM's total sales improved to ~8% from 7.3% in the year-ago quarter. The CV revival was largely contributed by the bus segment, apart from LCVs and MHCVs, owing to government initiatives to address the financial troubles of state transport corporations and replace their fleets.

New launches to counter competition: In the Royal Enfield business, EIM launched the *Bullet 350* during the quarter, while the upgraded *Himalayan* powered by a 452cc Sherpa engine was unveiled early November at EICMA (Milan Motorcycle Shows) and will be launched in the domestic market shortly. Competitors have introduced a flurry of higher-end motorcycle models and EIM indicated that it will be bringing out new products to maintain its leadership

Maintain HOLD: We expect EIM to fend off competition via launches and continue to model for a revenue/EBITDA/PAT CAGR of 12%/16%/20% over FY23-FY25, with EBITDA margins of 27-28%. Our estimates factor in the introduction of high-end variants, a better product mix and easing costs. We value EIM at an unchanged P/E multiple of 25x on FY25E EPS, applying a marginal 5% discount to its LT average to factor in the rising competition in the high-end bike segment (pricing pressure) denting margins. We continue to assign Rs 150/sh to VECV. Our SOTP-based TP remains at Rs 3,601 and carries 1% downside to the current price, Retain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	EIM IN/Rs 3,645
Market cap	US$ 12.1bn
Free float	51%
3M ADV	US$ 21.1mn
52wk high/low	Rs 3,748/Rs 2,836
Promoter/FPI/DII	49%/30%/9%

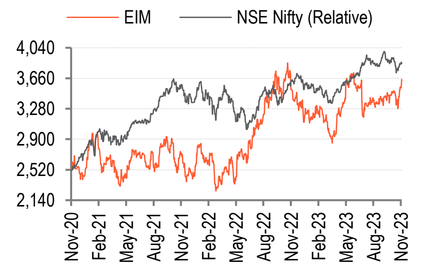
Source: NSE | Price as of 13 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,40,666	1,57,097	1,75,538
EBITDA (Rs mn)	33,935	39,771	45,735
Adj. net profit (Rs mn)	26,388	32,880	37,858
Adj. EPS (Rs)	96.1	119.9	138.1
Consensus EPS (Rs)	96.1	118.8	137.7
Adj. ROAE (%)	20.5	21.2	20.4
Adj. P/E (x)	37.9	30.4	26.4
EV/EBITDA (x)	28.1	25.2	21.8
Adj. EPS growth (%)	65.3	24.7	15.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "**Losses**") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.