FIRST LIGHT

16 February 2024

RESEARCH

MAHINDRA & MAHINDRA | TARGET: Rs 2,077 | +18% | BUY

Healthy volume-led growth

CROMPTON GREAVES | TARGET: Rs 330 | +16% | BUY

Slowdown at BGAL weighs on quarter

SUMMARY

MAHINDRA & MAHINDRA

- 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

Click here for the full report.

CROMPTON GREAVES

- Strong Q3 topline from higher fan, lighting and pump sales, but EBITDA margin fell 120bps YoY on ad expenses and weakness in BGAL
- Premiumisation and buildout of presence across alternate channels on track; e-commerce sales doubled YoY
- We cut FY24/FY25/FY26 EPS estimates by 13%/5%/1% post Q3; TP unchanged at Rs 330 upon rollover – maintain BUY

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Daily macro indicators

Indicator	13-Feb	14-Feb	Chg (%)
US 10Y yield (%)	4.31	4.26	(6bps)
India 10Y yield (%)	7.10	7.11	1bps
USD/INR	83.01	83.03	0.0
Brent Crude (US$/bbl)	82.8	81.6	(1.4)
Dow	38,273	38,424	0.4
Hang Seng	15,747	15,879	0.8
Sensex	71,555	71,823	0.4
India FII (US$ mn)	**12-Feb**	**13-Feb**	**Chg ($ mn)**
FII-D	87.8	83.3	(4.5)
FII-E	26.6	28.1	1.6

Source: Bank of Baroda Economics Research

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RESULT REVIEW

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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**
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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.

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%

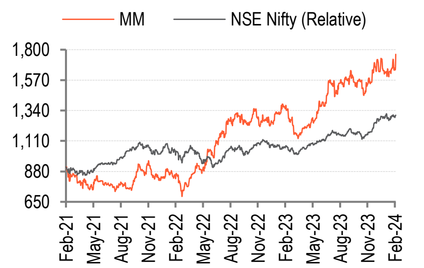
Source: NSE | Price as of 15 Feb 2024

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

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 330 | 16%

CROMPTON GREAVES | Consumer Durables | 15 February 2024

Slowdown at BGAL weighs on quarter

- **Strong Q3 topline from higher fan, lighting and pump sales, but EBITDA margin fell 120bps YoY on ad expenses and weakness in BGAL**
- **Premiumisation and buildout of presence across alternate channels on track; e-commerce sales doubled YoY**
- **We cut FY24/FY25/FY26 EPS estimates by 13%/5%/1% post Q3; TP unchanged at Rs 330 upon rollover – maintain BUY**

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Strong topline, margin falls on high A&P: Crompton posted a strong topline of Rs 16.9bn, growing 12% YoY in Q3FY24. Gross margin was flat YoY at 32.5%, but EBITDA margin slipped 120bps to 8.8%. Adj. PAT dipped slightly by 3% YoY to Rs 855mn. Electrical consumer durables (ECD: above peers) and lighting (in line) fared well, but kitchen appliances subsidiary BGAL pulled the overall performance down. This apart, Crompton invested heavily in A&P company-wide, with incremental promotional expenses of Rs 350mn over the year-ago quarter in the ECD segment.

ECD and lighting shine…: Crompton saw strong revenue growth of 18.5% YoY in ECD and volume growth of 5% in LED lighting. The revenue uptick in ECD was stronger than peers like ORIENTEL (-0.7% YoY), VGRD (+11.1%), POLYCAB (-13.4%), and HAVL (+2.8%). However, the ECD operating margin was sapped by high promotional expenses despite strong gains in fans and pumps. The lighting segment exhibited healthy margin expansion of 90bps YoY to 11.2%, midway between peers such as ORIENTEL (-140bps) and HAVL (+150bps).

…but BGAL a dampener: BGAL continued to underperform, with revenue down 6% YoY (vs. 2% growth for rival Sunflame), largely due to soft institutional demand amid a slowdown in the kitchen appliances industry. Management indicated strong growth in the core categories of mixer grinders, LPG stoves and pressure cookers. EBIT margin plunged 810bps YoY to -0.8% due to higher A&P and wage costs.

New strategies on track: Premiumisation in fans and lighting continues, with both segments yielding healthy results for the company. Sales from alternate channels (+38% YoY) are also exhibiting healthy growth, with e-commerce doubling in Q3.

Maintain BUY: Crompton is a market leader in fans and has tackled the ongoing pricing pressure in the lighting industry well. BGAL, however, is facing industry-related and internal impediments, causing a string of poor quarterly performances. We cut FY24/FY25/FY26 EPS estimates by 13%/5%/1% on continued weakness at BGAL and higher advertising expenses. On rolling valuations to Dec'25E, our TP stays at Rs 330, set at an unchanged 30x P/E – a 15% discount to the 5Y mean. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CROMPTON IN/Rs 285
Market cap	US$ 2.2bn
Free float	100%
3M ADV	US$ 8.5mn
52wk high/low	Rs 328/Rs 251
Promoter/FPI/DII	0%/40%/44%

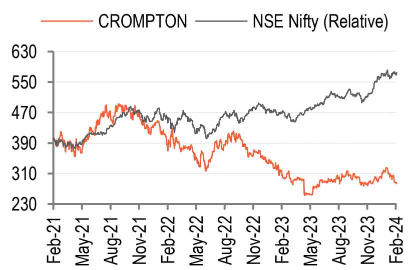
Source: NSE | Price as of 14 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	68,696	74,722	86,690
EBITDA (Rs mn)	7,705	7,684	9,325
Adj. net profit (Rs mn)	4,632	4,729	6,179
Adj. EPS (Rs)	7.3	7.4	9.7
Consensus EPS (Rs)	7.3	8.0	10.0
Adj. ROAE (%)	18.1	16.6	18.8
Adj. P/E (x)	39.2	38.4	29.4
EV/EBITDA (x)	24.2	23.0	18.7
Adj. EPS growth (%)	(21.7)	2.1	30.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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