

HOLD

TP: Rs 3,210 | ▲ 13%

MAHINDRA & MAHINDRA | Automobiles

21 June 2024

Investor day takeaways: Poised to tap growth opportunities

- Shifts gears to tap auto segment growth with planned capex to increase capacity by 3.5x in FY26 (vs FY20) with focus on SUVs (ICE + EV)
- MM to focus on farm equipment segment and priorities tractor growth in domestic and exports markets to grow past 15-year CAGR of 7.5%
- We raise FY25E/FY26E EPS by ~2%/5% and TP to Rs 3,210 (vs Rs 2,572) as we now value MM's core business at 24x FY26E P/E. Maintain HOLD

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Auto segment growth charted clearly: MM plans to enhance capacity to 72k/m by FY26E, implying CAGR of 25% over FY20-FY26E. The exit capacity of 64k/m in FY25E is an addition of 15k (49k/m in FY24), including 5k/m dedicated to ICE models and 10k/m to EVs. This growth will be due to MM's focus on margins.

Well-balanced growth between ICE and electric vehicle segment: MM has earmarked Rs 270bn for auto segment capex over FY25e-FY27e. The capex is well balanced for the internal combustion engine (ICE) segment at Rs 140bn, with 80% of the investments dedicated to product development. MM will invest Rs 120bn in the EV segment (additional Rs 10bn investments for cell localisation).

Strong launch pipeline: MM has plans for a strong launch pipeline, including nine ICE SUVs (six new launches), seven light commercial vehicles (five ICE + two EV) and seven EVs categorised as Born EV (BEV) spread over the next six years. The spread of the new launches will be broadly in two tranches, FY25-FY27 and FY28-FY30 cycles, ensuring well spread launches over the next 60-72 months.

Farm equipment segment to provide strong support: Strong tractor volumes in domestic and export markets, farm machinery and better technology use will potentially drive FES for MM. This will drive margins and help MM beat 7.5% growth CAGR of the past 15 years. MM has set aside Rs 50bn as capex with Rs 28bn for new products, Rs 7bn for capacity, Rs 15bn for sustenance (Rs 6bn expenses for TREM V regulations).

Last mile mobility (LMM) and other key segments: MM will focus on exploring the underpenetrated EV space in LMM (~11%) for growth. MM expects all the other major subsidiaries to be focused on growth and margin delivery.

Valuations and rating: We raise FY25E/FY26E EPS by ~2%/5% and TP to Rs 3,210 (from Rs 2,572). We value MM's core business at 24x FY26E P/E (Rs 2,848) and other businesses at Rs362/share. We maintain our HOLD rating. Further details are provided in the Valuation Methodology page.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 2,840
Market cap	US\$ 43.2bn
Free float	81%
3M ADV	US\$ 103.5mn
52wk high/low	Rs 3,014/Rs 1,369
Promoter/FPI/DII	19%/37%/29%

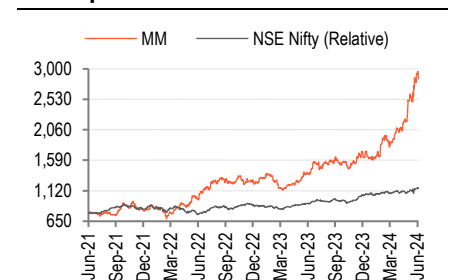
Source: NSE | Price as of 21 Jun 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	9,87,634	11,32,898	12,84,925
EBITDA (Rs mn)	1,26,662	1,59,261	1,89,763
Adj. net profit (Rs mn)	1,07,178	1,16,835	1,42,164
Adj. EPS (Rs)	89.5	97.5	118.7
Consensus EPS (Rs)	89.5	99.9	115.4
Adj. ROAE (%)	22.4	19.9	19.8
Adj. P/E (x)	31.7	29.1	23.9
EV/EBITDA (x)	27.8	21.9	18.3
Adj. EPS growth (%)	63.7	9.0	21.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



All major segments geared to tap growth

Auto business remains key focus area

The auto and farm segments are the key drivers of growth for MM. However, given the farm industry’s current phase of performance lull, the automotive business remains MM’s key growth driver. MM expects the farm business to catch up following a lull in the past couple of years and will be a key focus area in the near term.

Strong response to XUV 3XO launched recently, more in the wings

- MM launched the XUV 3XO in 4QFY24 with very encouraging bookings in the initial phase.
- MM plans to phase out the XUV 300 as overall volume numbers have not shown an uptick in the recent past. MM has indicated this is a part of its strategy (to clear old channel inventories and replace them with a new brand).
- MM plans to keep the overall waiting period to near nil or adopt the policy of filling channels for new products, as the wait period beyond permissible limits will be more costly (compared to holding inventory) in the case of newly-launched brands. The volume for Thar is encouraging at 6k nearly two years after its launch.
- MM plans to ramp up production from 49k/m (FY24 exit capacity) to 72k/m by FY26-end and 64k/m by FY25-end. The additional 15k/m by FY25-end will be used for the ICE (5k/m) and EV segments (10k/m).
- MM has an aggressive capex plan for the automotive segment with investments of ~Rs 270bn in the next three years (FY25-FY27). This includes Rs 85bn for SUV ICE, Rs 40bn for CVs (including EV + Mahindra Truck & Bus Division), Rs 15bn for sustenance, totaling Rs 140bn for the auto division. Additionally, Rs 120bn will be invested in Mahindra Electric Automobile (MEAL) and Rs 10bn in other subsidiaries. MM management indicated 80% of the cumulative investment will be in product development.

Fig 1 – Planned capacity expansion in the next two years in the automotive division

Per Month Capacity	F20 Exit	F23 Exit	F24 Exit	F25 Exit	F26 Exit
Overall SUVs Capacity	19K	39k	49k	64k	72k

- **F25 Exit capacity includes:**
 - Increase in SUV capacity (THAR 5D, XUV3XO/4OO) : 5K
 - EV capacity : 10K
- **Additional 8k EV capacity by F26 end**
- **3.5X+ expected capacity in F26 over F20**

Source: Company

- The above investment will enable MM to aggressively launch 16 new products, including three mid-cycle enhancements in the SUV and BEV segment.
- MM has aggressive plans for the commercial vehicle segment too. The current market share in the Truck & Bus (T&B) segment is 3.5% with a revenue share of ~Rs 30bn (in the segment operated by MM). The company plans to ramp up market share to 10% with a Rs 100bn revenue target. MM will replicate the ICE/EV brands in the T&B segment.

- MM continues to lead the market in the <3.5MT light commercial vehicle segment with a market share of 49% (3.5% gain in FY24 over FY23). The company plans to continue the same with seven new launches in the LCV segment by 2030. MM will significantly increase leverage of the internal talent development at Tech-Mahindra.

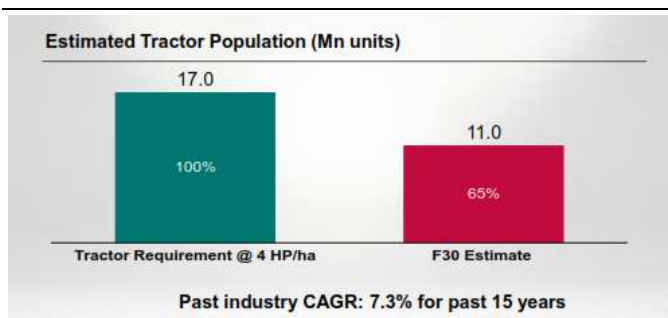
Farm machinery segment to recover strongly

Following a lull in the FES segment (tractor volume) in the recent past, management expects this segment to recover strongly following a normal monsoon forecast and continued policy framework following the re-election of the incumbent government in the general elections.

India & export market (US) are key for Oja, Target & Naya Swaraj

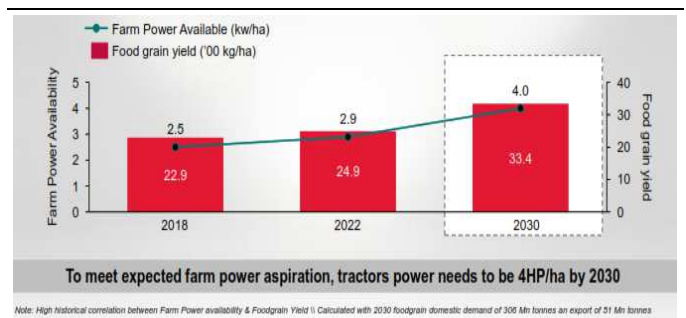
- MM expects the Indian market to get a strong volume push following the Met Department’s forecast of 106% of the long-term average monsoon and continued policy framework after the re-election of the incumbent government in India.
- MM and its division Swaraj Tractors launched some models in FY24, including Oja, Target and New (Naya) Swaraj and received a healthy response in domestic markets. The company plans to expand its international footprint with the launch of Oja in the <110HP segment. Oja was launched in the US and expects to enter the UK in FY26.

Fig 2 – Peak tractor volume and estimates at below peak



Source: Company

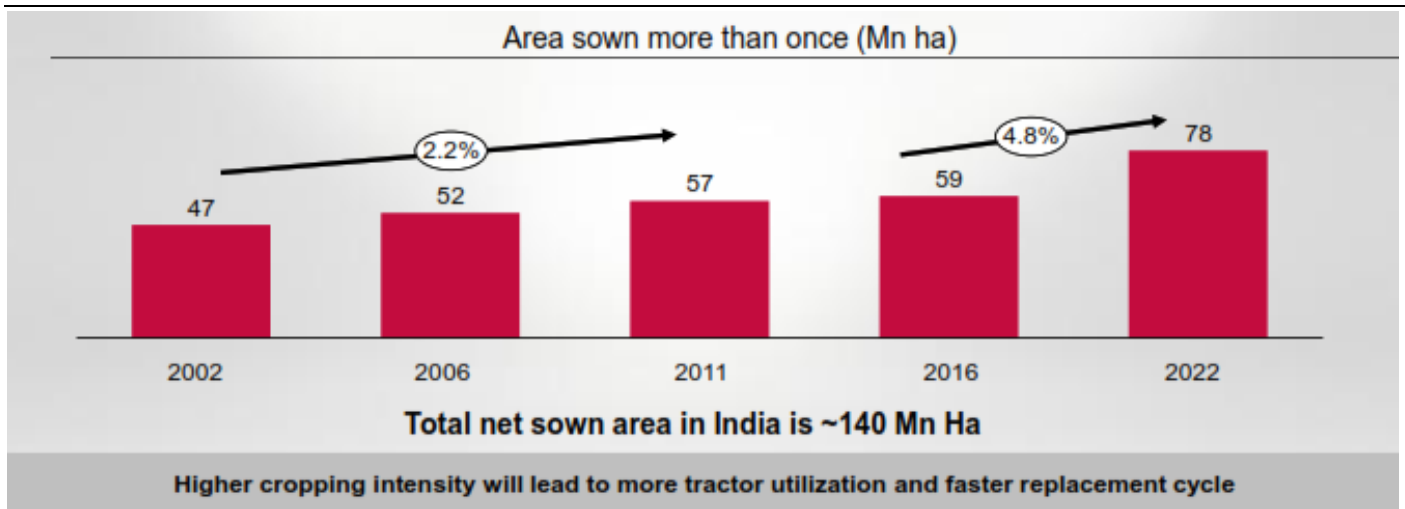
Fig 3 – Strong correlation in crop yield and horse power



Source: Company

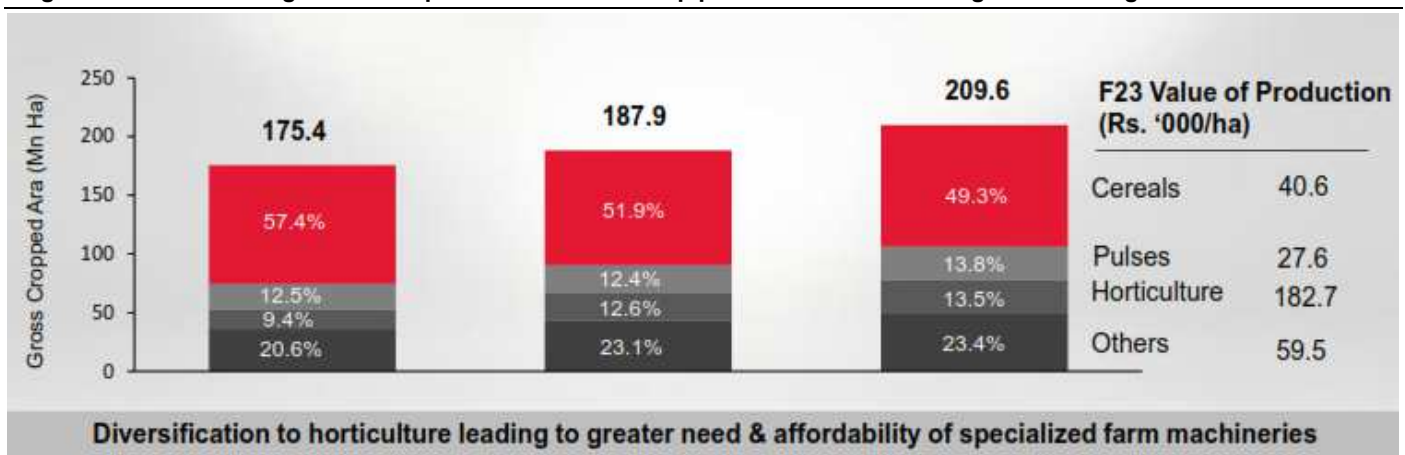
- MM has sustained its market share of ~40% in the past six years with the FY24 market share at 41.6%.
- The domestic tractor industry has significant headroom for growth from the current 4.5mn tractors to 11mn units by FY30 and peak of 70mn tractors assuming a requirement of 4 horsepower (HP)/hectare of agriculture land with power and yield strongly correlated.
- High power-yield correlation – due to the near doubling of cropping intensity (78mn ha from 47mn ha over 2002-2022) as a result of the shift to high-value crops like horticulture gaining traction, low farm labour availability, and shift to mechanisation – could potentially increase tractor demand. This will help MM beat the 15-year CAGR of 7.5% in the near future.

Fig 4 – Multi-cropping is gaining strength in the Indian agriculture arena, increasing replacement tractor demand



Source: Company

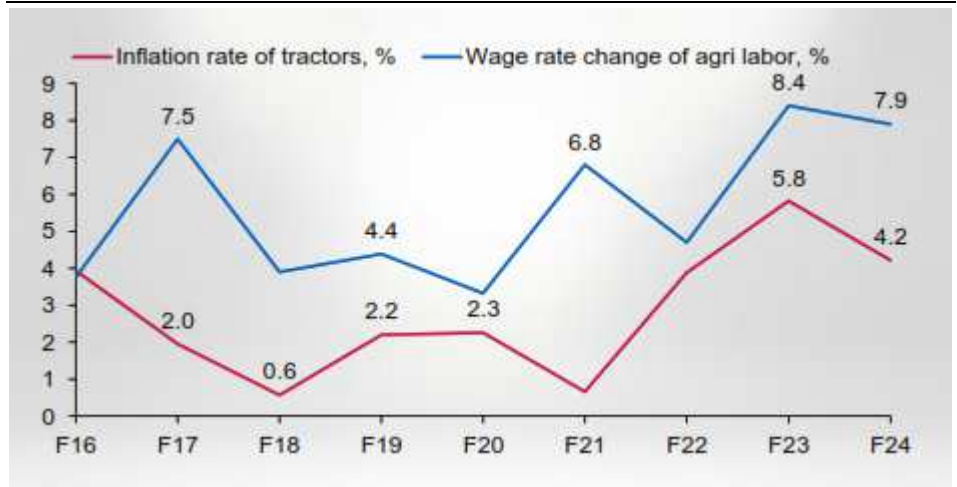
Fig 5 – Shift towards high-value crops over traditional crop pattern a welcome change for FES segment



Source: Company

- Lower rate of farm mechanisation in India at 47% over the average of 75% in the technology-dominant countries means MM could expand further in this segment. MM is the market leader in rice transplanters with a 40% market share and number 2 position in Rotavators with ~20% market share in FY24. MM has launched Rotary tillers, loaders and backhoes in North American markets.
- MM has planned capex of Rs 50bn over next 3 years in the farm segment, including Rs28bn in new products, Rs 7bn in capacities and Rs 15bn in regulatory and sustenance (including investments of Rs 6bn in Trem V in the case of mandatory regulation).

Fig 6 – Non-availability of labor for farming activity helps strengthen tractor demand further



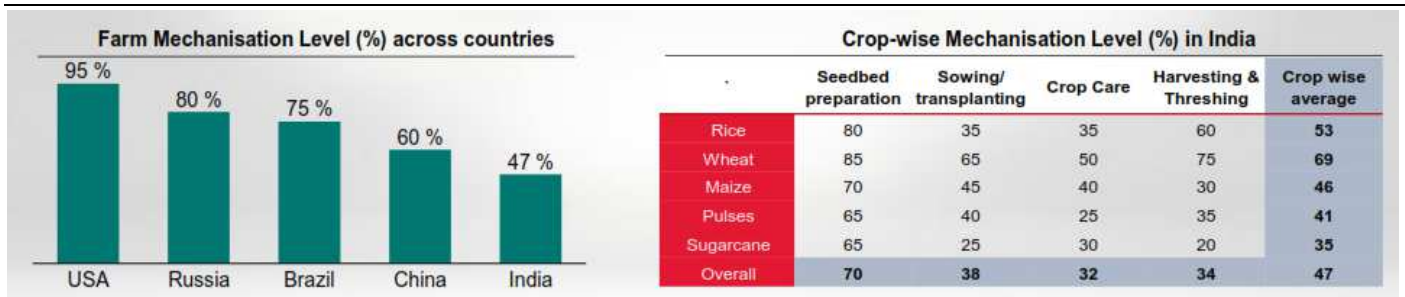
Source: Company

Fig 7 – MM has maintained/gained its market share over the business cycles



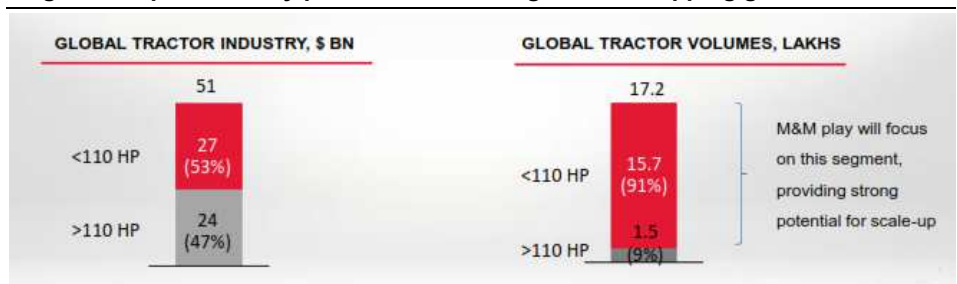
Source: Company

Fig 8 – India lags well behind in farm mechanisation, only few states in India have adopted mechanized farming means



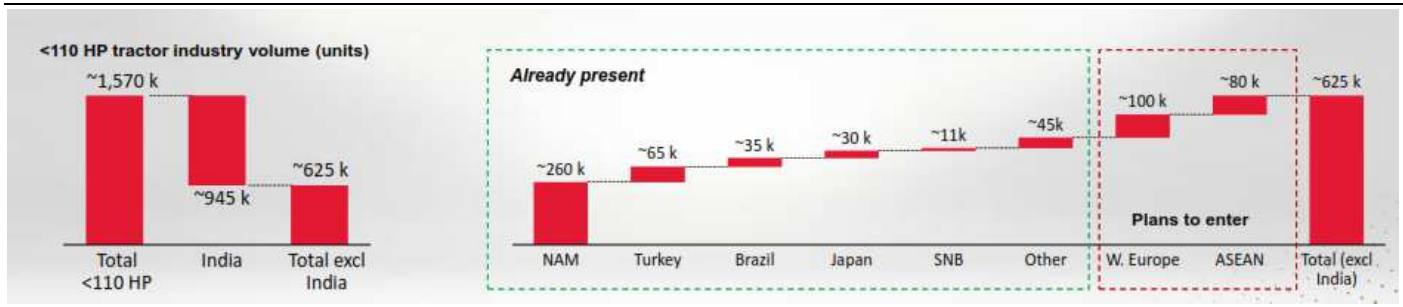
Source: Company

Fig 9 – MM plans to stay put in its core strengths while tapping global markets



Source: Company

Fig 10 – Tapping new markets globally will further diversify the revenues



Source: Company

Last mile mobility segment

LMM is one of the target segments for MM with strong traction probability in the EV space. LMM is the most penetrated in the domestic segment, but still has space for upside.

Market grew 4x in the EV segment in FY22-24 with MM launching Treo Plus, Jeeto Strong, EAlfa Super and Treo Metal

- LMM is a very competitive space with electrification pace doubling in 3W and LMM to 18% from 9% in a short span.
- This pace of electrification will create space for the major OEMs in this segment.
- The MM battery is manufactured in-house, but cells are imported from China.
- Cell localisation could be outsourced, without the need for major capex. Cell localisation could potentially be triggered by inflating duty structure. Though duty is well under control currently this could escalate. The key parameters critical for cell localisation is duty structure and scalability.

Fig 11 – EV growth has grown 4x from FY22-FY24 and still leaves headroom for healthy growth

Segment Wise EV Penetration	FY24	FY30#
Electric Rickshaw	100%	100%
Electric Autos (L5M)	11%	50%
Electric Cargo (L5N)	14%	55%
Electric 4W SCV	2%	20%

Highest EV Penetrated Segment in India

#- Source- Niti Ayog, Mckinsey, Batri,

Source: Company

- The battery range varies as cargo vehicles will require higher ranges due to the distance covered, while for autos and e-rickshaws 90-100km is also sizeable.
- There is no linear spread of electrification as in a few districts it can hover at ~80% while in a few others electrification may have not even started.
- Hence product offers will depend on regions. MM is planning EV in Jeeto or <2t segment.

In addition to MM's core business value, we have assigned SOTP valuations to its other businesses, including Mahindra Lifespace and MM Finance, to arrive at our TP.

Valuation methodology

We raise FY25E/FY26E EPS by ~2%/5% to factor in MM's aggressive growth plans. We factor in a 3Y EBITDA/PAT CAGR of 22%/30%. FES's revival is on the cards following predictions of a normal monsoon and expected steady policy framework following restatement of the existing government. Further, domestic agricultural market dynamics call for healthy tractor demand in the medium term. The automotive segment maintains strong momentum and, in our view, will likely benefit from management's focus on driving volumes and market share. MM has a strong focus on launch programmes in the automotive segment, including electric vehicles and FES.

Despite the strong capex for the automotive and FES segments, MM's capital allocation policy continues to imply less debt stress that will comfort the balance sheet health and keep the return ratios moving at a good pace.

To factor in the same, we now value MM's core business at 24x P/E (earlier 20x) FY26E EPS, 10% premium to its long-term average (22x) resulting in a revised SOTP-based TP of Rs 3,210 (from Rs 2,572). We value MM's core business at Rs 2,848 and value its other businesses at Rs 362/share (Rs 319 earlier) given the healthy traction in these businesses. At our TP the stock offers 13% upside and, hence, we retain our HOLD rating on the stock. However, we will watch out for better-than-expected performance of the company in the near term to review our estimates.

Fig 12 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	11,32,898	12,84,925	11,31,657	12,63,713	0.1	1.7
EBITDA	1,59,261	1,89,763	1,57,872	1,80,253	0.9	5.3
Adj PAT	1,16,835	1,42,164	1,15,017	1,34,937	1.6	5.4
Adj EPS (Rs)	97.5	118.7	96.0	112.6	1.6	5.4

Source: BOBCAPS Research

Fig 13 – Key assumptions

Parameter	FY24P	FY25E	FY26E
Volume (units)	12,43,896	13,91,291	15,15,603
Revenues (Rs mn)	9,87,634	11,32,898	12,84,925
EBITDA (Rs mn)	1,26,662	1,59,261	1,89,763
EBITDA margin (%)	12.8	14.1	14.8
Adj. PAT (Rs mn)	1,07,178	1,16,835	1,42,164
EPS (Rs)	89.5	97.5	118.7

Source: Company, BOBCAPS Research

Fig 14 – Valuation summary

Business	Value (Rs/sh)	Valuation basis
Core Business	2,848	24x FY26E EPS
Subsidiaries	362	30% holding company discount
Total	3,210	-

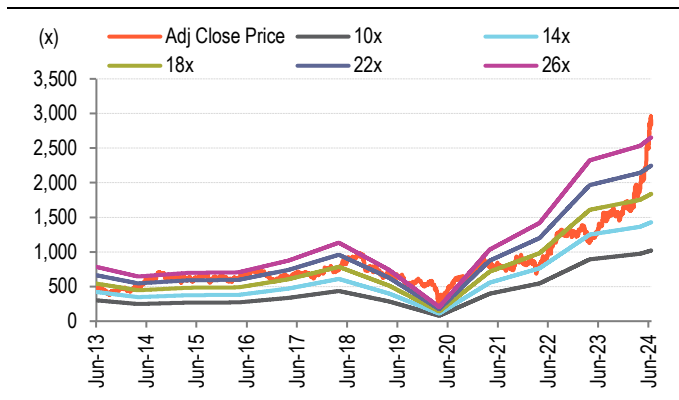
Source: BOBCAPS Research

Fig 15 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Mahindra & Mahindra	MM IN	HOLD	3,210	95.7	118.7	19.6	19.9
Maruti Suzuki	MSIL IN	HOLD	12,965	472.0	529.0	15.8	15.5
Tata Motors*	TTMT IN	NOT RATED	-	65.8	79.3	30.9	28.9

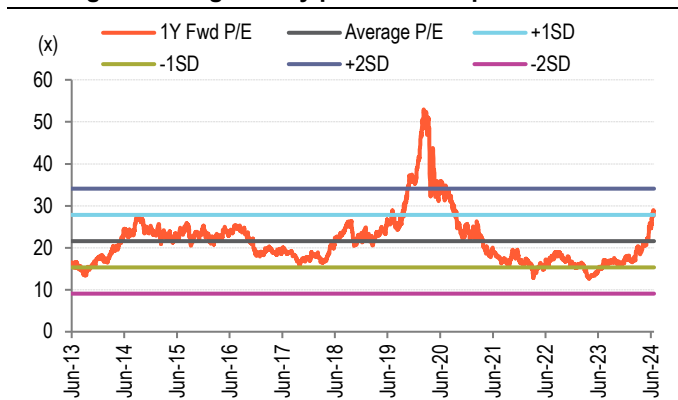
Source: BOBCAPS Research, *Bloomberg Estimates

Fig 16 – P/E band: We value MM at 24x FY26E core business EPS



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – We assign 10% premium to the long-term average factoring the key performance positives



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

- accelerated launches by competitors in the high-end automotive segment,
- faster-than-expected recovery in the farm equipment segment offers upside risk, 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	8.4	236	247	BUY
Bajaj Auto	BJAUT IN	33.8	9,602	6,823	SELL
Eicher Motors	EIM IN	16.1	4,846	4,633	HOLD
Escorts	ESCORTS IN	7.0	4,335	2,530	SELL
Hero MotoCorp	HMCL IN	13.2	5,452	4,776	HOLD
Mahindra & Mahindra	MM IN	43.2	2,840	3,210	HOLD
Maruti Suzuki	MSIL IN	44.8	12,202	12,965	HOLD
VST Tillers Tractors	VSTT IN	0.4	4,097	3,167	HOLD

Source: BOBCAPS Research, NSE | Price as of 21 Jun 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	5,74,460	8,49,603	9,87,634	11,32,898	12,84,925
EBITDA	68,963	1,04,424	1,26,662	1,59,261	1,89,763
Depreciation	24,511	31,545	34,389	37,553	40,254
EBIT	66,671	98,331	1,36,217	1,55,187	1,88,544
Net interest inc./(exp.)	(2,230)	(2,728)	(1,388)	(1,457)	(1,486)
Other inc./(exp.)	20,759	25,452	43,944	33,479	39,035
Exceptional items	(2,087)	(14,295)	0	0	0
EBT	62,355	81,308	1,34,830	1,53,730	1,87,058
Income taxes	13,002	15,821	27,652	36,895	44,894
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	47,266	51,191	1,07,178	1,16,835	1,42,164
Adjustments	2,087	14,295	0	0	0
Adjusted net profit	49,352	65,486	1,07,178	1,16,835	1,42,164

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	1,37,389	1,81,336	1,76,375	1,94,122	2,19,433
Other current liabilities	46,298	59,797	84,344	86,835	97,733
Provisions	13,663	18,139	18,714	1,638	1,802
Debt funds	67,336	50,255	20,364	45,217	38,702
Other liabilities	0	0	0	0	0
Equity capital	5,983	5,991	5,996	5,996	5,996
Reserves & surplus	3,83,627	4,27,577	5,16,768	6,45,610	7,76,392
Shareholders' fund	3,89,609	4,33,567	5,22,765	6,51,606	7,82,388
Total liab. and equities	6,54,295	7,43,095	8,22,562	9,79,418	11,40,059
Cash and cash eq.	36,505	44,818	55,258	86,031	1,12,958
Accounts receivables	30,351	40,417	45,495	67,974	78,380
Inventories	58,829	88,814	95,048	1,13,290	1,34,917
Other current assets	98,852	1,15,271	1,29,519	1,81,264	2,05,588
Investments	2,51,098	2,70,871	2,99,954	3,42,488	3,95,098
Net fixed assets	1,80,453	1,88,106	1,85,525	1,87,972	2,07,718
CWIP	15,215	9,503	27,313	15,950	20,950
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(17,008)	(14,703)	(15,551)	(15,551)	(15,551)
Other assets	0	0	0	0	0
Total assets	6,54,295	7,43,095	8,22,562	9,79,418	11,40,059

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	38,916	74,304	90,834	30,149	1,21,911
Capital expenditures	(38,811)	(33,485)	(49,619)	(28,637)	(65,000)
Change in investments	(33,272)	(19,773)	(29,083)	(42,534)	(52,610)
Other investing cash flows	20,759	25,452	43,944	33,479	39,035
Cash flow from investing	(51,324)	(27,806)	(34,758)	(37,692)	(78,575)
Equities issued/Others	1,153	968	(24,888)	22,790	0
Debt raised/repaid	(10,528)	(17,080)	(29,891)	24,852	(6,514)
Interest expenses	(2,230)	(2,728)	(1,388)	(1,457)	(1,486)
Dividends paid	(9,315)	(8,986)	(9,585)	(10,783)	(11,382)
Other financing cash flows	3,508	(1,520)	17,340	0	0
Cash flow from financing	(17,412)	(29,346)	(48,411)	35,402	(19,383)
Chg in cash & cash eq.	(29,820)	17,152	7,665	27,859	23,954
Closing cash & cash eq.	36,505	44,818	55,258	86,031	1,12,958

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	39.7	54.7	89.5	97.5	118.7
Adjusted EPS	39.7	54.7	89.5	97.5	118.7
Dividend per share	7.5	7.5	8.0	9.0	9.5
Book value per share	313.7	361.9	436.3	543.9	653.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	6.0	4.1	3.6	3.1	2.7
EV/EBITDA	50.2	33.5	27.8	21.9	18.3
Adjusted P/E	71.5	52.0	31.7	29.1	23.9
P/BV	9.1	7.8	6.5	5.2	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	75.8	63.0	79.5	76.0	76.0
Interest burden (PBT/EBIT)	93.5	82.7	99.0	99.1	99.2
EBIT margin (EBIT/Revenue)	11.6	11.6	13.8	13.7	14.7
Asset turnover (Rev./Avg TA)	129.9	180.6	192.3	182.7	169.3
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	12.8	12.4	22.4	19.9	19.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	28.7	47.9	16.2	14.7	13.4
EBITDA	0.9	51.4	21.3	25.7	19.2
Adjusted EPS	401.5	37.6	63.7	9.0	21.7
Profitability & Return ratios (%)					
EBITDA margin	12.0	12.3	12.8	14.1	14.8
EBIT margin	11.6	11.6	13.8	13.7	14.7
Adjusted profit margin	8.6	7.7	10.9	10.3	11.1
Adjusted ROAE	13.4	15.9	22.4	19.9	19.8
ROCE	11.8	16.9	21.0	19.0	18.8
Working capital days (days)					
Receivables	17	15	16	18	21
Inventory	34	32	34	34	35
Payables	108	90	88	80	79
Ratios (x)					
Gross asset turnover	0.6	0.5	0.5	0.4	0.4
Current ratio	1.1	1.1	1.2	1.6	1.7
Net interest coverage ratio	(29.9)	(36.0)	(98.2)	(106.5)	(126.9)
Adjusted debt/equity	0.2	0.1	0.0	0.1	0.0

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%

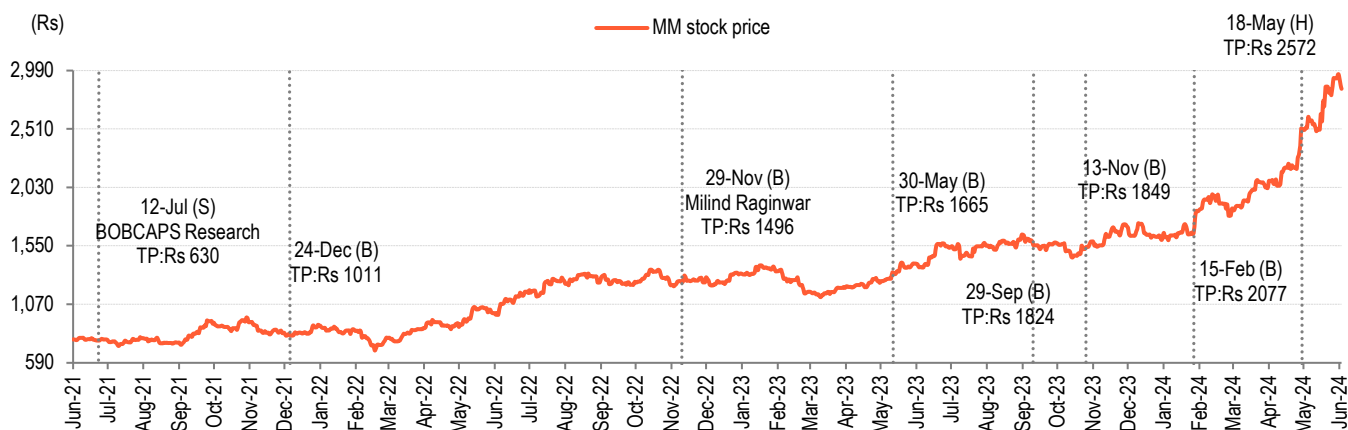
HOLD – Expected return from -6% to +15%

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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