

# Mahindra & Mahindra (MM)

Automobiles | NBIE Conference Update

**BUY**

**CMP: Rs1,553 | Target Price (TP): Rs1,859 | Upside: 20%**

**November 28, 2023**

## UV demand remains strong; EV plans on track

### Key Points

- We hosted the management of Mahindra & Mahindra (M&M) at our investor conference.
- The management expects the demand outlook to be robust on the back of a strong order book in the Auto segment. Tractor volume is expected to be flattish in FY24.
- We are building in 12% volume CAGR over FY23-FY26E for the Auto segment, led by new capacity addition and a strong order book. For the FES segment, the company has guided for a flattish FY24. We value M&M on SOTP basis, with the core business valued at 17x Sept'25E core EPS and the other listed entities at the current market value to arrive at a target price (TP) of Rs1,859. We maintain BUY on M&M.

**Tractor segment and Farm Machinery:** M&M gained market share by 150bps YoY in 2QFY24 despite lower volume. Its market share stood at 41.6%. The Tractor segment is going through a slowdown in FY24 and the remaining part of FY24 is expected to be flattish. March'24 would be a challenging month compared to March'23 because March'23 had strong festive sales due to two navratras. FY25 is expected to start with good volume due to the festive season and lower base of April'23. Farm Machinery segment grew by 35% YoY and in 2HFY24, growth should be along expected lines of 40%+ due to new launches. Also, seasonally, 2H is better for Farm Machinery. M&M is targeting market share of 50% in the Farm Machinery segment. The market size of the Farm Machinery segment is ~Rs80bn.

**Automotive Segment:** The Auto segment is expected to see robust demand going forward on the back of a strong order book despite increase in production. M&M is on track to expand its capacity to 49k for SUVs. M&M will position its EVs as lifestyle products. The first EV will be launched in Dec'24. M&M will launch at least four EVs. M&M expects EVs to account for 20-30% of its portfolio by 2027-2028 and have a capacity of 200k. The manufacturing facility will be fungible so that ICE vehicles can also be manufactured using the same facility. On profitability and margins, the management mentioned that once the EV market stabilises and matures, profitability will be similar to ICE vehicles.

**Growth Gems' performance:** Growth Gems are well on track to deliver 5x revenue growth in the next 5-7 years. Susten registered 71% growth in bids won for building sustainable green energy solutions. Last Mile Mobility Unit has a 63% market share in the E-3W segment. This segment is seeing strong growth due to lower cost of operation compared to CNG and Diesel models. In the Real Estate sector, the company has witnessed a 3-fold revenue jump compared to FY21 and is targeting a pre-sale value of Rs80bn by FY28. Mahindra Logistics is targeting revenue of Rs100bn by FY26. It will be double of FY23 level.

Est Change	No change
TP Change	No change
Rating Change	No Change

### Company Data and Valuation Summary

Reuters	MAHM.BO
Bloomberg	MM IN Equity
Mkt Cap (Rsbn/US\$bn)	1,931.4 / 23.2
52 Wk H / L (Rs)	1,670 / 1,123
ADTV-3M (mn) (Rs/US\$)	3,909.4 / 47.0
Stock performance (%) 1M/6M/1yr	(0.8) / 21.8 / 23.9
Nifty 50 performance (%) 1M/6M/1yr	2.7 / 2.5 / 6.9

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	19.4	19.4	19.3
DII's	27.7	26.9	26.9
FII's	39.2	40.1	40.3
Others	13.7	13.6	13.5
Pro pledge	0.1	0.1	0.1

### Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Automotive Volume	698,486	859,889	922,256	983,017
YoY growth (%)	50.0	23.1	7.3	6.6
Farm Volume	407,545	410,540	422,856	435,541
YoY growth (%)	14.9	0.7	3.0	3.0
Net sales	866,446	1,033,629	1,138,784	1,241,711
YoY growth (%)	49.9	19.3	10.2	9.0
EBITDA	120,639	156,886	174,234	192,464
Adjusted PAT	77,000	108,365	119,999	132,204
YoY change (%)	51.6	40.7	10.7	10.2
RoCE (%)	16.0	20.0	19.0	18.2
RoE (%)	17.8	21.0	19.8	18.7
P/E (x)	25.1	17.8	16.1	14.6
EV/Sales (x)	1.9	1.5	1.3	1.1
EV/EBITDA (x)	13.2	9.7	8.3	7.1

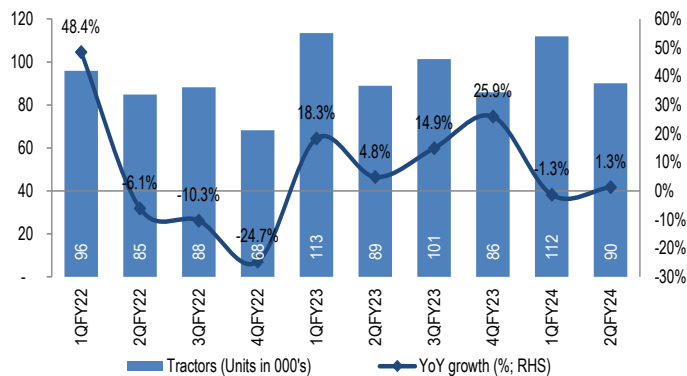
Source: Company, Nirmal Bang Institutional Equities Research

**Key Links-** [2QFY24 Presentation](#) | [2QFY24 Result](#) | [FY23 Annual Report](#)

Please refer to the disclaimer towards the end of the document.

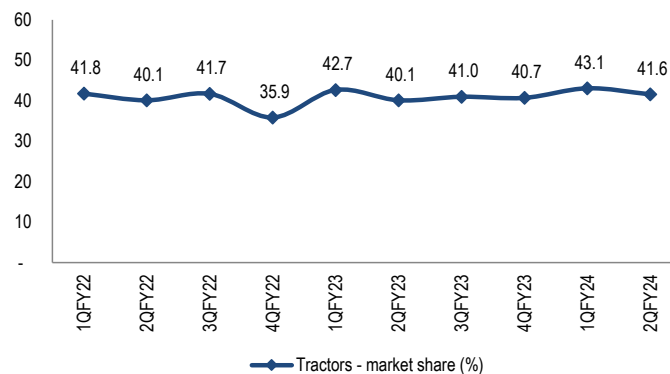
## Story in charts

**Exhibit 1: Tractors – Domestic volume trend**



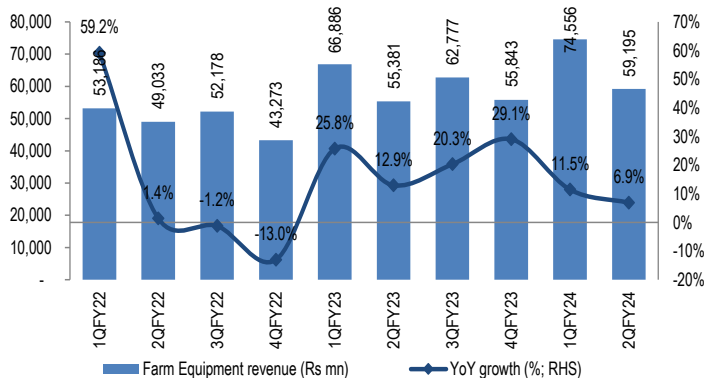
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Tractors – Domestic market share (%)**



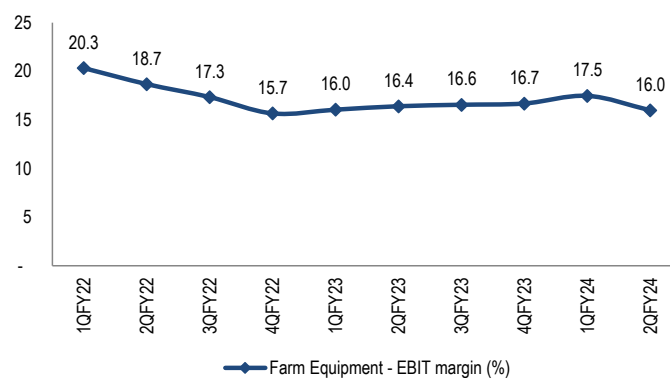
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 3: FES revenue & YoY growth (%)**

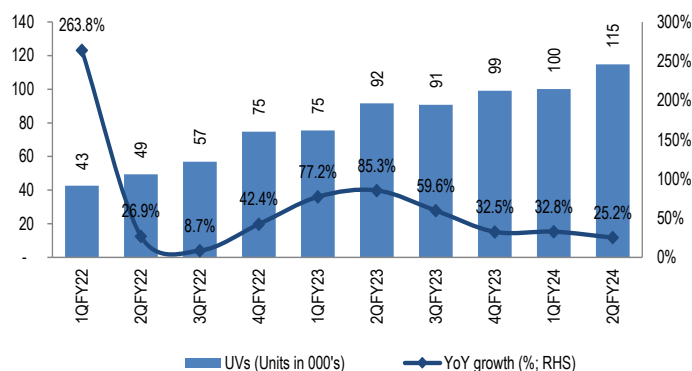


Source: Company, Nirmal Bang Institutional Equities Research

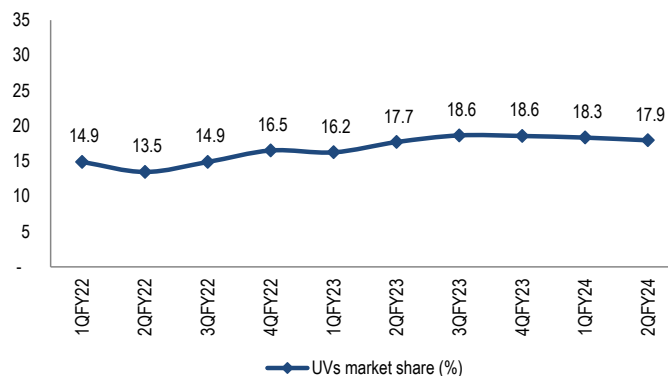
**Exhibit 4: FES – EBIT margin trend**



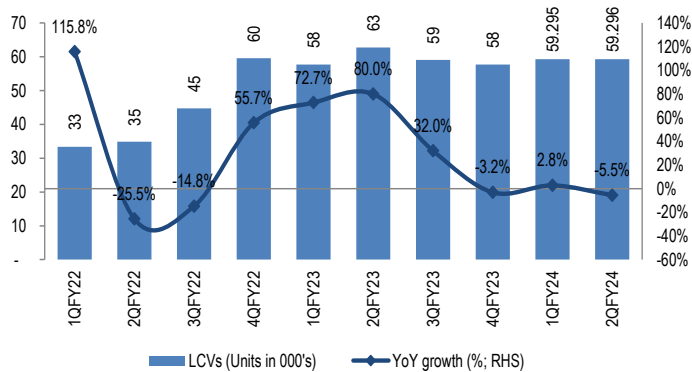
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: UVs - Domestic volume & YoY growth (%)**


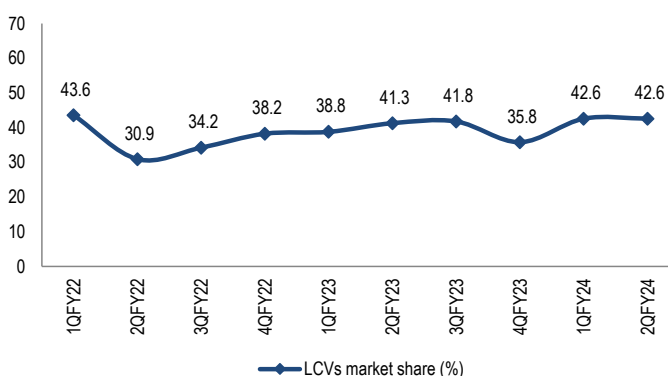
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: UVs – Domestic market share (%)**


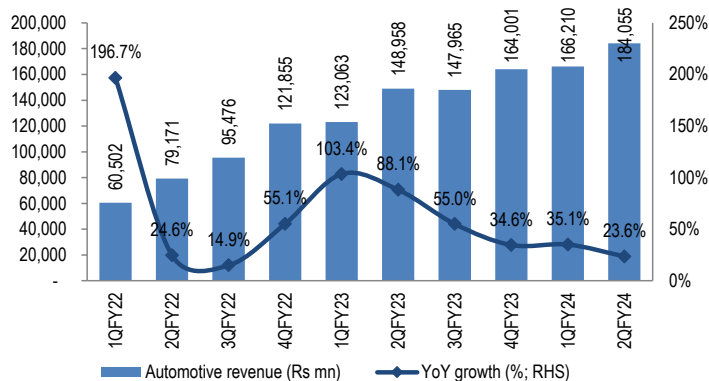
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 7: LCVs - Domestic volume & YoY growth (%)**


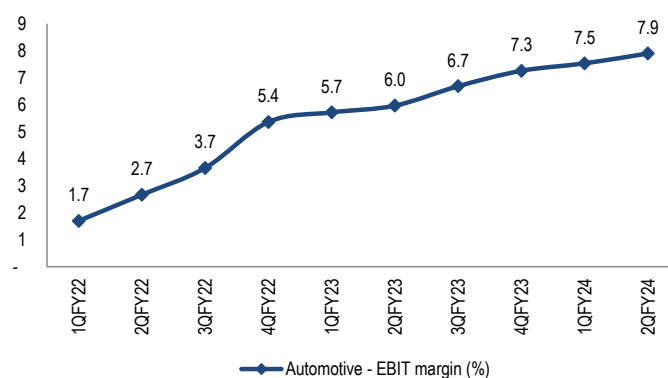
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: LCVs – Domestic market share (%)**


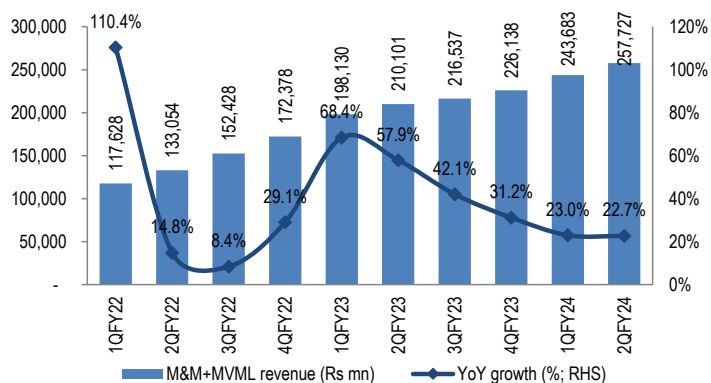
Source: CRISIL, Nirmal Bang Institutional Equities Research

**Exhibit 9: Automotive - revenue & YoY growth (%)**


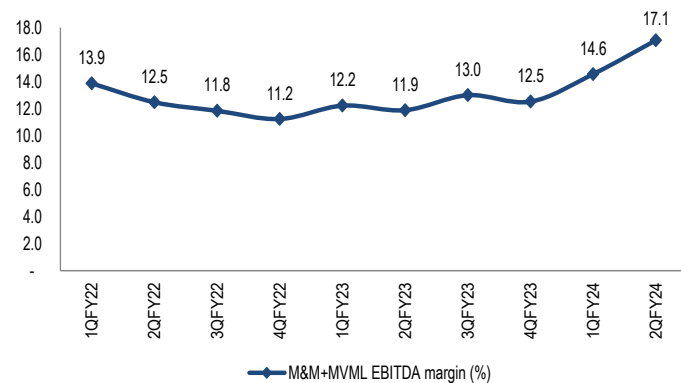
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Automotive – EBIT margin trend**


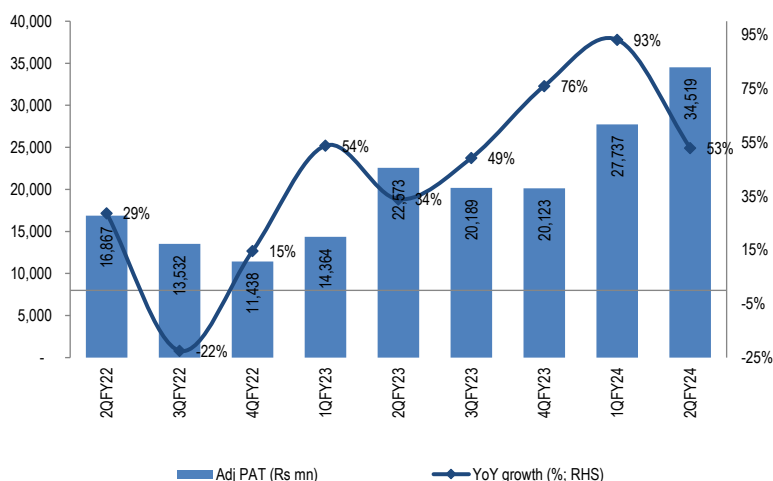
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Revenue & YoY growth (%)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: EBITDA margin trend**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Adj. PAT & YoY growth (%)**


Source: Company, Nirmal Bang Institutional Equities Research

## Financials (MM+MVML)

### Exhibit 14: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>577,869</b>	<b>866,446</b>	<b>1,033,629</b>	<b>1,138,784</b>	<b>1,241,711</b>
% Growth	29.5	49.9	19.3	10.2	9.0
Raw material	425,604	645,582	759,876	837,006	906,450
<b>Gross margin (%)</b>	<b>26.3</b>	<b>25.5</b>	<b>26.5</b>	<b>26.5</b>	<b>27.0</b>
Staff costs	33,296	36,499	44,446	50,106	55,877
Other expenses	48,695	63,098	72,421	77,437	86,920
Total expenses	507,595	745,808	876,743	964,550	1,049,247
<b>EBITDA</b>	<b>70,275</b>	<b>120,639</b>	<b>156,886</b>	<b>174,234</b>	<b>192,464</b>
% Growth	1.0	71.7	30.0	11.1	10.5
<b>EBITDA margin (%)</b>	<b>12.2</b>	<b>13.9</b>	<b>15.2</b>	<b>15.3</b>	<b>15.5</b>
Other income	20,538	9,237	16,000	17,280	18,662
Interest costs	2,262	2,728	967	269	633
Depreciation	24,984	31,545	34,400	37,400	41,000
Profit before tax (before exceptional items)	63,566	95,603	137,519	153,845	169,493
Exceptional items	(2,087)	(14,295.40)	-	-	-
Tax	12,781	15,821	29,154	33,846	37,289
Profit after tax	48,699	65,486	108,365	119,999	132,204
<b>Adj. Profit after tax</b>	<b>50,785</b>	<b>77,000</b>	<b>108,365</b>	<b>119,999</b>	<b>132,204</b>
% Growth	24.7	51.6	40.7	10.7	10.2
<b>Adj PAT margin (%)</b>	<b>8.8</b>	<b>8.9</b>	<b>10.5</b>	<b>10.5</b>	<b>10.6</b>
EPS (Rs)	40.8	61.9	87.1	96.5	106.3
% Growth	24.7	51.6	40.8	10.7	10.2
DPS (Rs)	11.6	16.3	20.4	24.6	25.6
Payout (incl. div. tax) (%)	28.3	26.2	23.4	25.5	24.1

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,983	5,991	5,991	5,991	5,991
Reserves	375,998	427,577	510,574	599,982	700,353
Net worth	381,981	433,567	516,564	605,973	706,344
Total debt	64,978	46,437	15,348	11,348	8,848
Deferred tax liability	17,622	14,703	14,703	14,703	14,703
<b>Capital employed</b>	<b>464,580</b>	<b>494,708</b>	<b>546,615</b>	<b>632,023</b>	<b>729,894</b>
Net block	149,040	169,762	194,762	219,762	244,762
Capital work-in-progress	30,361	12,227	21,000	15,000	15,000
Investments	242,045	270,871	305,871	330,871	355,871
Inventories	59,704	88,814	108,051	119,043	129,803
Debtors	30,386	40,417	49,172	54,174	59,071
Cash	36,506	44,818	52,708	99,333	152,308
Loans & advances	22,307	23,544	23,544	23,544	23,544
Other current assets	73,451	91,727	100,899	110,989	122,088
Total current assets	222,353	289,319	334,374	407,084	486,814
Creditors	129,701	171,456	208,594	229,815	250,587
Other current liabilities & provisions	71,784	91,635	100,798	110,878	121,966
Total current liabilities	201,485	263,091	309,392	340,693	372,552
Net current assets	20,868	26,229	24,982	66,391	114,262
<b>Application of funds</b>	<b>442,314</b>	<b>479,088</b>	<b>546,615</b>	<b>632,023</b>	<b>729,894</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
OP/(loss) before tax	45,291	89,094	122,486	136,834	151,463
Depreciation & amortization	24,984	31,545	34,400	37,400	41,000
Other income	20,538	9,237	16,000	17,280	18,662
(Inc.)/dec. in working capital	(11,253)	2,952	9,137	5,216	5,104
Direct taxes paid	(9,656)	(18,740)	(29,154)	(33,846)	(37,289)
Cash flow from operations before EO	69,903	114,087	152,869	162,884	178,941
Extraordinary (EO) items	(2,087)	(14,295)	-	-	-
<b>Cash flow from operations after EO</b>	<b>67,816</b>	<b>99,791</b>	<b>152,869</b>	<b>162,884</b>	<b>178,941</b>
Capital expenditure (-)	(39,538)	(34,133)	(68,173)	(56,400)	(66,000)
<b>Net cash after capex</b>	<b>28,279</b>	<b>65,659</b>	<b>84,696</b>	<b>106,484</b>	<b>112,941</b>
Other investing activities	(19,183)	(28,826)	(35,000)	(25,000)	(25,000)
Dividends paid (-)	(14,363)	(20,207)	(32,509)	(36,000)	(39,661)
Inc./(dec.) in total borrowings	(9,427)	(21,268)	(32,057)	(4,269)	(3,133)
Others	(5,567)	6,308	7,141	5,409	7,828
<b>Cash from financial activities</b>	<b>(29,357)</b>	<b>(35,168)</b>	<b>(57,425)</b>	<b>(34,860)</b>	<b>(34,966)</b>
Opening cash balance	62,555	36,506	44,818	52,708	99,333
Closing cash balance	42,294	38,171	37,089	99,333	152,308
Change in cash balance	(20,261)	1,665	(7,729)	46,624	52,975

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: Key ratios

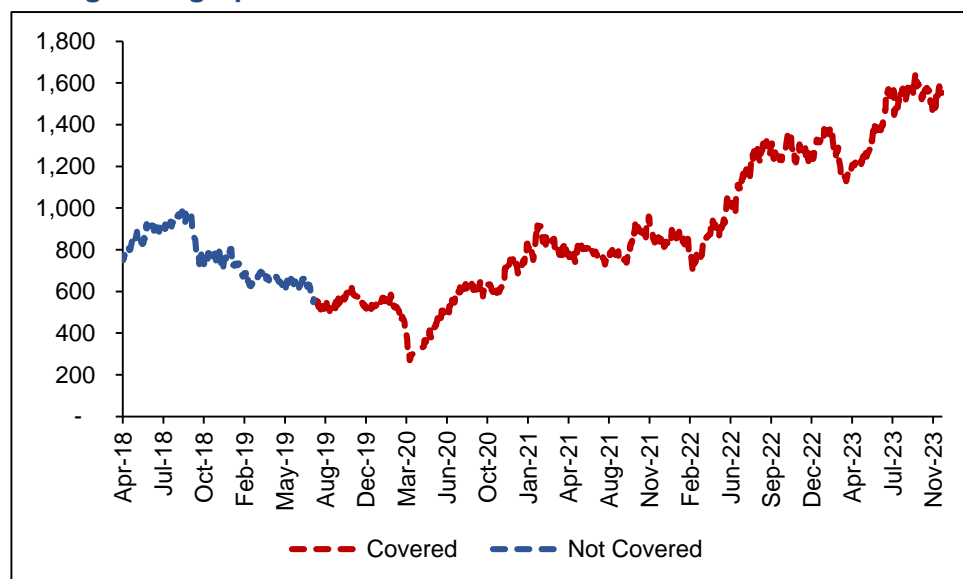
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (Rs)</b>					
EPS	40.8	61.9	87.1	96.5	106.3
EPS Growth (%)	24.7	51.6	40.8	10.7	10.2
Cash EPS	60.9	87.3	114.8	126.6	139.3
Book value per share	319.2	361.9	431.2	505.8	589.6
DPS	11.6	16.3	20.4	24.6	25.6
Payout (incl. div. tax) %	28.3	26.2	23.4	25.5	24.1
<b>Valuation (x)</b>					
P/E	38.0	25.1	17.8	16.1	14.6
Cash P/E	25.5	17.8	13.5	12.3	11.1
EV/Sales	2.8	1.9	1.5	1.3	1.1
EV/EBITDA	23.4	13.2	9.7	8.3	7.1
P/BV	4.9	4.3	3.6	3.1	2.6
Dividend yield (%)	0.7	1.0	1.3	1.6	1.6
<b>Return ratios (%)</b>					
RoCE(Post Tax)	11.2	16.0	20.0	19.0	18.2
RoE	13.3	17.8	21.0	19.8	18.7
<b>Profitability ratios (%)</b>					
EBITDA margin	12.2	14.2	15.2	15.3	15.5
PAT margin	8.4	7.7	10.5	10.5	10.6
<b>Turnover ratios</b>					
Debtors (days)	19	17	17	17	17
Inventory (days)	38	38	38	38	38
Creditors (days)	82	74	74	74	74
Working capital (days)	(25)	(18)	(18)	(18)	(18)
Asset turnover (x)	1.2	1.7	1.9	1.8	1.7
<b>Leverage Ratio</b>					
Debt/equity (x)	0.2	0.1	0.0	0.0	0.0
Net Debt/equity(x)	(0.56)	(0.62)	(0.66)	(0.69)	(0.71)

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 July 2019	Buy	565	800
08 August 2019	Buy	517	782
23 September 2019	Buy	565	711
11 November 2019	Buy	582	686
12 February 2020	Buy	524	663
30 March 2020	Buy	295	438
15 June 2020	Acc	510	518
10 August 2020	Buy	603	695
22 September 2020	Buy	618	830
11 November 2020	Buy	622	810
6 January 2021	Buy	739	929
7 February 2021	Buy	863	1,033
30 May 2021	Buy	845	972
7 August 2021	Buy	758	972
26 September 2021	Buy	779	972
10 November 2021	Buy	893	1,042
11 February 2022	Buy	853	1,025
31 May 2022	Buy	1,032	1,184
7 August 2022	Buy	1,237	1,444
13 November 2022	Buy	1,289	1,493
13 February 2023	Buy	1,363	1,575
28 May 2023	Buy	1,277	1,558
8 June 2023	Buy	1,384	1,593
5 August 2023	Buy	1,464	1,713
11 November 2023	Buy	1,524	1,866
28 November 2023	Buy	1,553	1,859

## Rating track graph



## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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