

# Mahindra & Mahindra

 BSE SENSEX  
 60,348

 S&P CNX  
 17,754

**CMP: INR1,290**
**TP: INR1,525 (+18%)**
**Buy**

## Mahindra Rise.

Bloomberg	MM IN
Equity Shares (m)	1197
M.Cap.(INRb)/(USDb)	1604.4 / 19.6
52-Week Range (INR)	1396 / 671
1, 6, 12 Rel. Per (%)	-5/-2/73
12M Avg Val (INR M)	3830
Free float (%)	81.1

### Financials & Valuations (INR b)

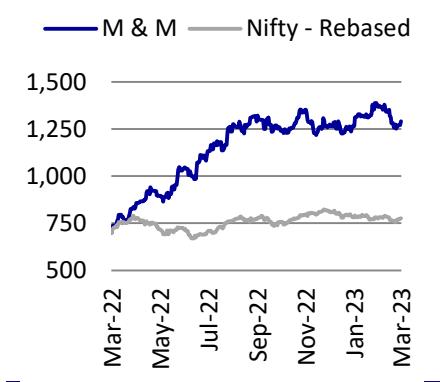
Y/E MARCH	2023E	2024E	2025E
Sales	844	1,008	1,109
EBITDA	104.3	132.4	150.4
Adj. PAT	73.9	93.6	106.7
Adj. EPS (INR)	61.8	78.2	89.2
EPS Gr. (%)	43.7	26.6	14.0
BV/Sh. (INR)	368	431	503
<b>Ratios</b>			
RoE (%)	17.8	19.6	19.1
RoCE (%)	16.2	18.4	18.2
Payout (%)	23	19	20
<b>Valuations</b>			
P/E (x)	20.9	16.5	14.5
P/BV (x)	3.5	3.0	2.6
Div. Yield (%)	1.0	1.2	1.4
FCF Yield (%)	3.7	5.3	6.3

### Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	18.9	18.9	18.9
DII	27.1	27.8	27.0
FII	44.5	43.7	44.4
Others	9.5	9.6	9.7

FII Includes depository receipts

### Stock Performance (1-year)



### Demand sustains amid macro uncertainties

FY24 tractor outlook hazy | Inadequate chip supply curbing production ramp-up

We met with the management of Mahindra & Mahindra (MM) to gauge the overall environment – both at macro and company levels. Management indicated that demand environment for the auto business has been stable in general but it expects slower growth for tractors in FY24 (even under normal monsoons) due to high base and three Navratras in FY23. While chip supply is improving, it is still not adequate enough to ramp-up production meaningfully. Chip supply is the only restricting factor to reach full capacity for production of SUVs. Profitability of both businesses should improve through ramp-up of new businesses (EVs and farm equipment) would dilute expansion. However, commodity cost inflation visible from the lows of 3QFY23 is the primary risk of MM's business. We cut our FY24E EPS by 8% to factor in: a) lower tractor/SUV volumes, and b) the adverse impact of losses from new businesses. We reiterate our BUY rating as we still expect 20% EPS CAGR and 2pp RoCE improvement over FY23-25, along with attractive valuations.

- **SUV demand holding up well amid macro challenges:** MM is not witnessing any signs of demand moderation for its SUVs. Its orderbook is steady amid uncertain macro environment. There are signs of sustained stress at the lower segment in rural markets.
- **Chip supply improving but still restricting full capacity ramp-up:** Waiting period for MM's SUVs has come down by 1.0-1.5 months, largely benefitting from supply chain recovery. While supply chain issues are improving gradually, the situation is still volatile – for example, the last month's production was hit by lower availability of crash sensor chips. The sole issue at this point remains the shortage of semiconductors, while the other supply chain issues have been substantially resolved since China is opening-up. Hence, MM is not able to ramp-up its SUV production to full capacity of ~39k units per month (v/s average wholesales of 30-33k units).
- **FY24E tractor growth to be low on high base, even if monsoons are normal:** FY23 tractor demand benefitted largely from higher mandi prices of crops than MSPs and as FY23 had three Navratras, apart from other favorable agro-economic indicators. MM is currently focusing on building inventory before the festive season (Navratri) in Mar'23. However, FY24 tractor volume growth would be lower on high base, even if monsoons are normal, as there would be only one Navratri in FY24. Monsoons do play a major part sentimentally, though demand correlation is the highest with farmers' profitability (terms of trade).
- **Nascent farm equipment business to grow exponentially:** MM has ambitious plans to grow its nascent farm equipment business by 10x in FY27. It will invest INR10-15b over the next few years for: a) acquisitions and, ii) expanding capacities. However, ramp-up in the segment would adversely impact the company's overall margins.

- **Margin expansions likely, but commodity price inflation a risk:** MM sees scope for margin expansion from 3QFY23 levels in both Auto and FES businesses. Auto business has many levers for margin expansion in the form of: a) price hikes, b) easing semiconductor premium as supplies improve, and c) cost-cutting measures, being offset by ramp-up in EVs. For the FES segment, tractor business margins are likely to improve but sharp ramp-up in farm equipment will dilute margin expansion. However, the rising prices for commodities basket from the lows of 3QFY23 could be one of the key risks for margin expansion.

#### Other key takeaways

- **No new SUV launch before Dec'24:** MM's product pipeline remains unchanged with major launches planned in the form of Thar five-door in CY24E and first born EV platform in Dec'24E.
- **Transition to RDE norms** is largely done expect for Bolero.
- **Demand for pick-ups** is not a problem, though recent months wholesales have been flattish. Broad-based weakness in consumption has hit e-commerce, consequently impacting the demand for pick-ups adversely to some extent. It is planning for several product actions to drive demand.
- **EV tractors:** MM already has an electric tractor ready, but it has no immediate plans to launch the same as management does not see any commercial merit for e-tractors in the foreseeable future. Torque requirement for tractors on Indian soil is very high, resulting in a key challenge of balancing power, range and cost.
- **Capex (including investment)** for the core business could be higher than budgeted due to the on-going significant capacity additions in the auto business. Management will revert with an updated capex guidance.
- **A large part of capital allocation correction done**, though some pain points remain in the form of Pininfarina (strategic asset), Truck & Bus division (MTBD) and Classic Legends (2Ws). It is focused on sustainable turnaround of MTBD and Classic Legends (turnaround is lagging by 1.5 years due to multiple challenges faced post the initial launch). There could be further impairment of Peugeot Motocycles as its stake sale to Mutares is completed.

**Valuation & view:** Demand for both the divisions (Automotive and tractors) remains healthy; however, with multiple industry-wide challenges emerging in foreseeable future, we expect lower volume growth for both the divisions v/s earlier expectations. We now project lower growth for the SUV business of M&M, particularly in FY25 as the benefit of new products and strong order book fades along with increasing competitive launches. For the tractor segment, we are reducing our: a) volume assumptions for FY24/25 to factor in high base due to timing difference of festivities, and b) margin assumptions because of the adverse impact of farm equipment ramp-up. Hence, we cut our standalone FY24E EPS by 8%. Despite this, we expect MM's revenue/ EBITDA/PAT to post 15%/20%/20% CAGR over FY23-25. This coupled with a healthy improvement in RoCE (+200bp over FY23-25E to 18.2%) and cheap valuations (at 14.3x/12.6x FY24E/FY25E) preserves attractiveness of the stock. Hence, we maintain our **BUY** rating with a TP of INR1,525 (premised on Mar'25E SoTP or implied core P/E at TP, which stands at 15.7x FY25E EPS).

**Exhibit 1: Revisions to our estimates**

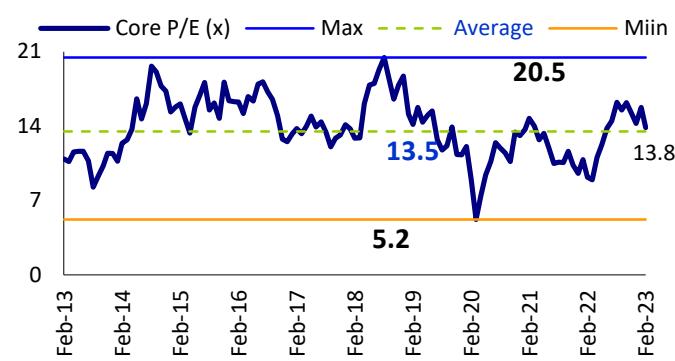
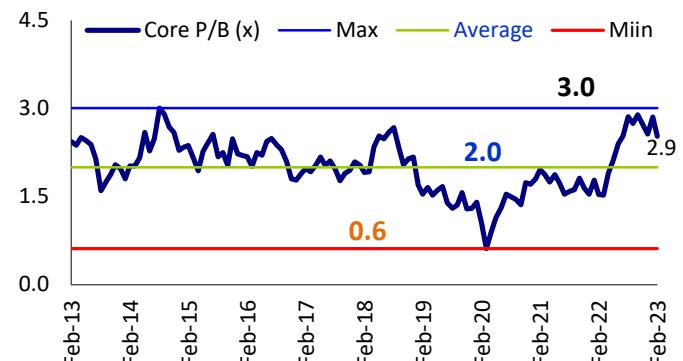
	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes ('000 units)	1,100	1,105	-0.5	1,261	1,314	-4.1
Net Sales	844	844	-0.1	1,008	1,050	-4.0
EBITDA (%)	12.4	12.5	-10bp	13.1	13.7	-50bp
Net Profit	74	75	-0.9	94	102	-8.4
EPS (INR)	61.8	62.3	-0.9	78.2	85.4	-8.4

Source: MOFSL

**Exhibit 2: Sum-of-the-Parts valuation**

SOTP (INR/sh)	Target P/E (x)	FY23E	FY24E	FY25E
Tractors	18	464	510	555
Autos	14	327	507	600
Others	10	11	13	14
<b>Value of Core Business</b>	<b>802</b>	<b>1,030</b>	<b>1,169</b>	
Value of subs post hold-co discount	20%	356	356	356
- Tech Mahindra	226	181	181	181
- MMFSL	138	110	110	110
- Mah. Lifespaces	8	6	6	6
- Mah. Holidays	21	16	16	16
- Mah. Logistics	16	12	12	12
- Others	36	29	29	29
<b>Fair Value (INR/sh)</b>	<b>1,158</b>	<b>1,386</b>	<b>1,525</b>	

Source: MOFSL

**Exhibit 3: Core P/E trend****Exhibit 4: Core P/B trend**

Source: Bloomberg, MOFSL

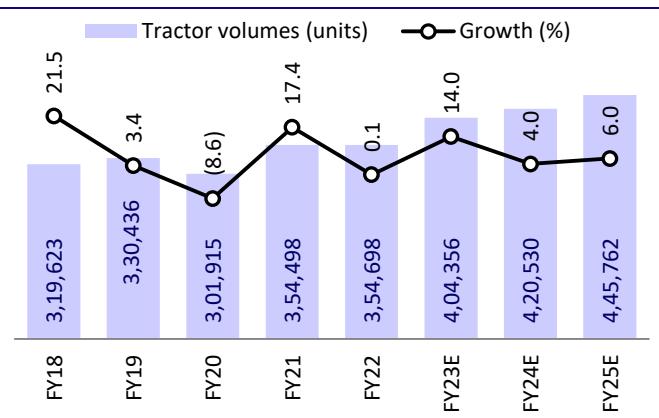
**Exhibit 5: Snapshot of the revenue model (standalone)**

000 units	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Tractors</b>	<b>320</b>	<b>330</b>	<b>302</b>	<b>354</b>	<b>355</b>	<b>404</b>	<b>421</b>	<b>446</b>
Growth (%)	21.5	3.4	-8.6	17.4	0.1	14.0	4.0	6.0
% of total volumes	36.8	35.2	38.8	50.2	43.2	36.8	33.4	32.8
<b>Autos</b>								
Pick-up/LCVs (<3.5t)	200	229	188	154	171	237	261	282
Growth (%)	19.1	14.9	-18.1	-18.3	11.2	39.0	10.0	8.0
SUVs	235	237	179	156	225	356	454	489
Growth (%)	5.7	0.9	-24.4	-13.3	44.7	58.2	27.4	7.8
3-Ws	55	67	62	21	30	60	78	89
Growth (%)	4.4	22.1	-6.8	-67.0	46.5	99.0	30.0	15.0
LCVs (>3.5t)	8	8	6	2	2	4	4	5
Growth (%)	1.6	8.6	-26.5	-75.0	31.0	85.0	15.0	8.0
M&HCVs (MTBL)	9	11	5	3	4	6	6	7
Growth (%)	41.2	14.3	-53.0	-50.0	60.0	30.0	10.0	10.0
Others & Exports	42	56	35	18	33	33	37	41
Growth (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Autos</b>	<b>549</b>	<b>609</b>	<b>476</b>	<b>352</b>	<b>466</b>	<b>696</b>	<b>840</b>	<b>913</b>
Growth (%)	8.9	10.8	-21.8	-26.0	32.2	49.4	20.8	8.7
% of total volumes	63.2	64.8	61.2	49.8	56.8	63.2	66.6	67.2
<b>Total volumes ('000 units)</b>	<b>869</b>	<b>939</b>	<b>778</b>	<b>707</b>	<b>820</b>	<b>1,100</b>	<b>1,261</b>	<b>1,359</b>
Growth (%)	12.9	8.1	-17.2	-9.1	16.1	34.1	14.6	7.8
<b>ASP (INR '000/Unit)</b>	<b>548</b>	<b>563</b>	<b>577</b>	<b>629</b>	<b>705</b>	<b>767</b>	<b>800</b>	<b>816</b>
Growth (%)	1.9	2.8	2.5	9.1	12.0	8.9	4.3	2.1
<b>Net Sales (INR b)</b>	<b>476</b>	<b>528</b>	<b>449</b>	<b>445</b>	<b>578</b>	<b>844</b>	<b>1,008</b>	<b>1,109</b>
Growth (%)	15.0	11.1	-15.1	-0.9	29.9	46.0	19.5	10.0

Source: Company, MOFSL

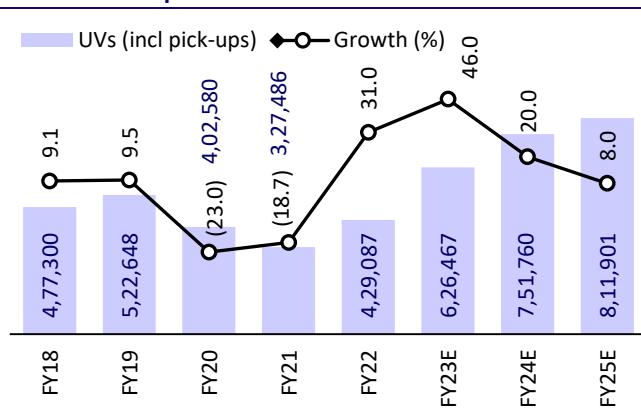
## Story in charts

**Exhibit 6: Trend in tractor volumes**



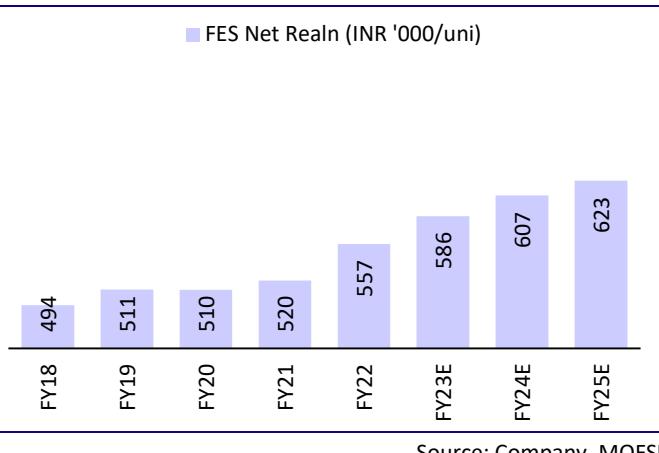
Source: Company, MOFSL

**Exhibit 7: New product launches to drive UV sales**



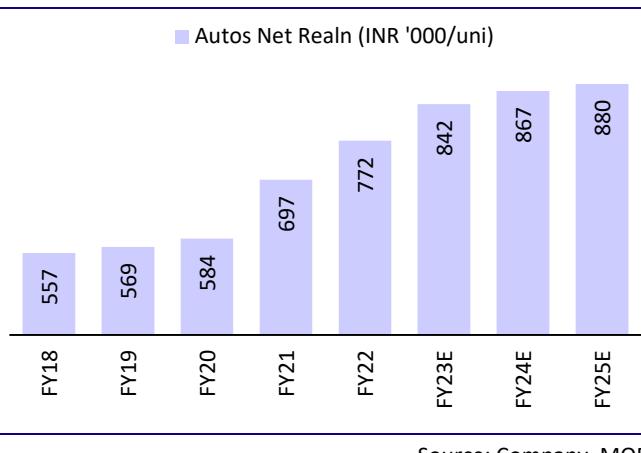
Source: Company, MOFSL

**Exhibit 8: Trend in FES business realizations**



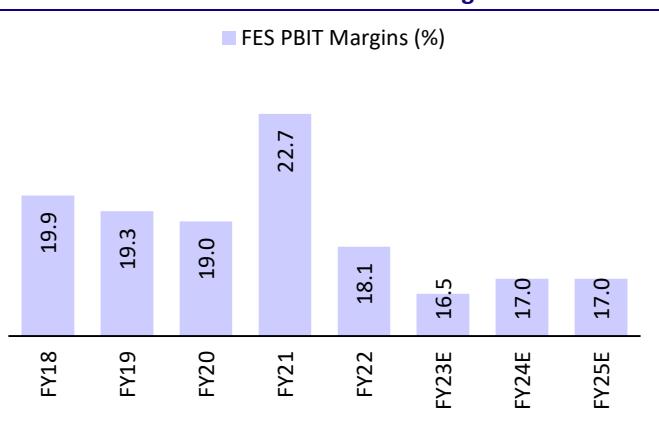
Source: Company, MOFSL

**Exhibit 9: Trend in Auto business realizations**



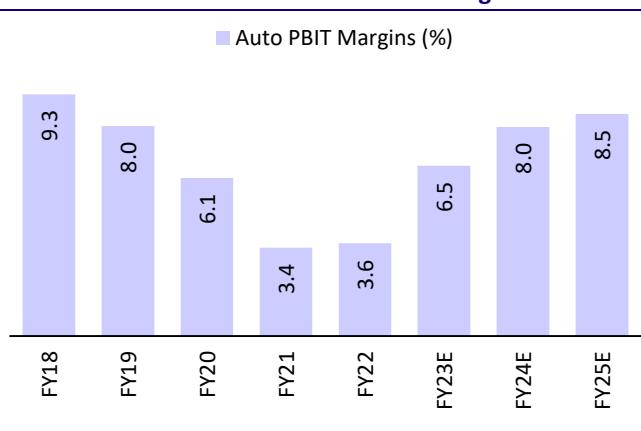
Source: Company, MOFSL

**Exhibit 10: Trend in FES business PBIT margin**



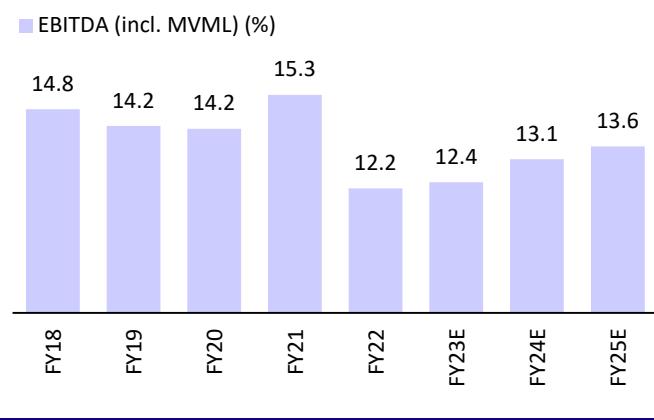
Source: Company, MOFSL

**Exhibit 11: Trend in Auto business PBIT margin**



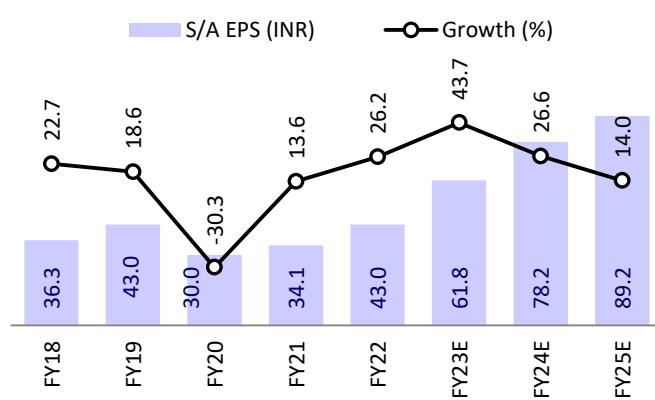
Source: Company, MOFSL

Exhibit 12: Trend in EBITDA margin



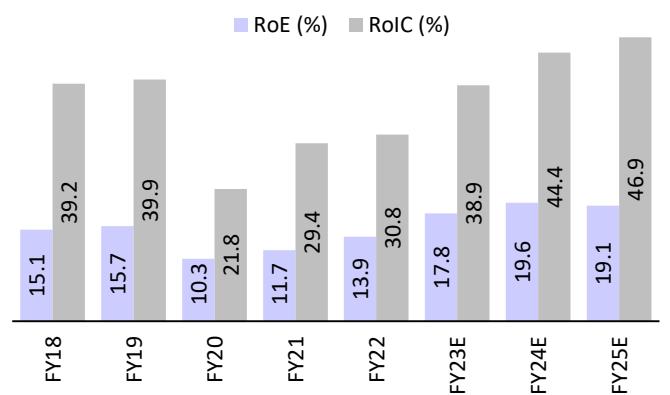
Source: Company, MOFSL

Exhibit 13: Trend in standalone EPS



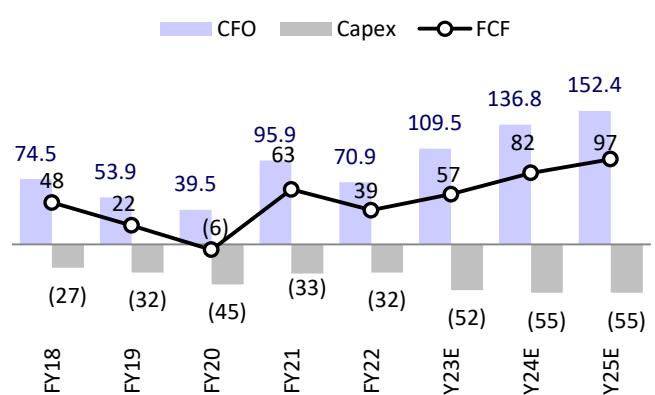
Source: Company, MOFSL

Exhibit 14: Trend in capital efficiencies (standalone)



Source: Company, MOFSL

Exhibit 15: FCF to improve despite higher capex plans



Source: Company, MOFSL

## Financials and valuations

S/A Income Statement (incl MVML)							(INR Million)
Y/E March	FY19	FY20	FY21	FY22	FY23E	2024E	2025E
<b>Net Op. Income</b>	<b>5,28,482</b>	<b>4,48,655</b>	<b>4,44,719</b>	<b>5,77,869</b>	<b>8,43,635</b>	<b>10,07,915</b>	<b>11,08,792</b>
Change (%)	11.1	-15.1	-0.9	29.9	46.0	19.5	10.0
<b>EBITDA</b>	<b>75,301</b>	<b>63,506</b>	<b>67,995</b>	<b>70,275</b>	<b>1,04,335</b>	<b>1,32,393</b>	<b>1,50,410</b>
Margins (%)	14.2	14.2	15.3	12.2	12.4	13.1	13.6
Depreciation	20,030	23,631	23,699	24,984	31,566	35,701	40,376
<b>EBIT</b>	<b>55,271</b>	<b>39,875</b>	<b>44,296</b>	<b>45,291</b>	<b>72,769</b>	<b>96,691</b>	<b>1,10,034</b>
Int. & Finance Charges	1,467	1,245	3,963	2,262	2,707	2,524	2,304
Other Income	16,303	15,391	11,995	20,538	24,244	26,569	29,966
Non-recurring Income	3,723	-28,112	-29,293	-2,087	-9,177	0	0
<b>Profit before Tax</b>	<b>73,829</b>	<b>25,910</b>	<b>23,035</b>	<b>61,480</b>	<b>85,130</b>	<b>1,20,736</b>	<b>1,37,695</b>
Eff. Tax Rate (%)	26.8	71.5	57.3	20.8	22.5	22.5	22.5
<b>Profit after Tax</b>	<b>54,012</b>	<b>7,397</b>	<b>9,842</b>	<b>48,699</b>	<b>65,976</b>	<b>93,571</b>	<b>1,06,714</b>
<b>Adj. Profit after Tax</b>	<b>51,288</b>	<b>35,770</b>	<b>40,710</b>	<b>51,440</b>	<b>73,919</b>	<b>93,571</b>	<b>1,06,714</b>
Change (%)	18.7	(30.3)	13.8	26.4	43.7	26.6	14.0

Balance Sheet							(INR Million)
Y/E March	FY19	FY20	FY21	FY22	FY23E	2024E	2025E
Sources of Funds							
Share Capital	5,958	5,965	5,974	5,983	5,983	5,983	5,983
Reserves	3,43,979	3,40,326	3,43,536	3,83,627	4,34,668	5,10,316	5,96,121
<b>Net Worth</b>	<b>3,49,937</b>	<b>3,46,291</b>	<b>3,49,510</b>	<b>3,89,610</b>	<b>4,40,651</b>	<b>5,16,299</b>	<b>6,02,104</b>
Deferred tax	7,896	15,068	14,497	17,008	17,008	17,008	17,008
Loans	26,803	31,530	77,863	67,336	23,948	21,948	19,948
<b>Capital Employed</b>	<b>3,84,636</b>	<b>3,92,889</b>	<b>4,41,870</b>	<b>4,73,953</b>	<b>4,81,606</b>	<b>5,55,255</b>	<b>6,39,060</b>
Application of Funds							
Gross Fixed Assets	2,42,262	2,66,446	2,88,343	3,37,331	3,92,512	4,47,512	5,02,512
Less: Depreciation	1,23,730	1,45,935	1,68,230	1,91,845	2,21,361	2,57,062	2,97,438
<b>Net Fixed Assets</b>	<b>1,18,532</b>	<b>1,20,511</b>	<b>1,20,113</b>	<b>1,45,486</b>	<b>1,71,151</b>	<b>1,90,450</b>	<b>2,05,074</b>
Capital WIP	26,437	48,582	61,255	50,182	45,000	45,000	45,000
Investments	2,06,262	1,75,329	2,17,826	2,51,098	2,56,098	2,95,098	3,12,098
<b>Curr. Assets, L &amp; Adv.</b>	<b>1,97,940</b>	<b>1,73,757</b>	<b>2,16,451</b>	<b>2,24,537</b>	<b>2,60,732</b>	<b>3,14,370</b>	<b>3,90,062</b>
Inventory	47,631	40,408	47,830	58,829	85,884	1,02,608	1,12,878
Inventory Days	33	33	39	37	37	37	37
Sundry Debtors	38,119	29,012	22,028	30,351	44,310	52,938	58,236
Debtor Days	26	24	18	19	19	19	19
Cash & Bank Bal.	38,321	42,365	63,952	36,505	18,782	39,092	94,318
Loans & Advances	8,612	6,511	19,324	28,057	40,961	48,937	53,835
Others	65,257	55,460	63,317	70,795	70,795	70,795	70,795
<b>Current Liab. &amp; Prov.</b>	<b>1,64,535</b>	<b>1,25,290</b>	<b>1,73,775</b>	<b>1,97,350</b>	<b>2,51,375</b>	<b>2,89,663</b>	<b>3,13,174</b>
Sundry Creditors	1,03,607	72,006	1,06,427	1,28,935	1,76,677	2,11,081	2,32,207
Creditor Days	72	59	87	81	76	76	76
Other Liabilities	44,775	37,503	52,271	54,752	54,752	54,752	54,752
Provisions	16,154	15,781	15,077	13,663	19,946	23,830	26,215
<b>Net Current Assets</b>	<b>33,405</b>	<b>48,467</b>	<b>42,676</b>	<b>27,187</b>	<b>9,357</b>	<b>24,707</b>	<b>76,888</b>
Working Capital	-4,916	6,101	-21,276	-9,318	-9,425	-14,385	-17,430
<b>Application of Funds</b>	<b>3,84,636</b>	<b>3,92,889</b>	<b>4,41,870</b>	<b>4,73,953</b>	<b>4,81,606</b>	<b>5,55,255</b>	<b>6,39,060</b>

E: MOFSL Estimates

## Financials and valuations

Ratios						
Y/E March	FY19	FY20	FY21	FY22	FY23E	2024E
<b>Basic (INR)</b>						
Fully diluted EPS	43.0	30.0	34.1	43.0	61.8	78.2
FD EPS (incl MVML)	43.0	30.0	34.1	43.0	61.8	78.2
Cash EPS	59.9	49.8	53.9	63.9	88.2	108.0
Book Value per Share	293.7	290.3	292.5	325.6	368.3	431.5
DPS	8.5	2.4	8.8	11.5	12.5	15.0
Div. Payout (%)	21.8	44.0	106.2	28.2	22.6	19.2
<b>Valuation (x)</b>						
P/E	30.0	43.0	37.9	30.0	20.9	16.5
Cash P/E	21.6	25.9	23.9	20.2	14.6	11.9
EV/EBITDA	19.9	23.6	22.2	22.2	14.8	11.3
EV/Sales	2.8	3.3	3.4	2.7	1.8	1.5
Price to Book Value	4.4	4.4	4.4	4.0	3.5	3.0
Dividend Yield (%)	0.7	0.2	0.7	0.9	1.0	1.2
<b>Profitability Ratios (%)</b>						
RoE	15.7	10.3	11.7	13.9	17.8	19.6
RoCE	14.1	9.3	10.1	11.5	16.2	18.4
RoIC	39.9	21.8	29.4	30.8	38.9	44.4
<b>Turnover Ratios</b>						
Debtors (Days)	26	24	18	19	19	19
Inventory (Days)	33	33	39	37	37	37
Creditors (Days)	72	59	87	81	76	76
Core. Work. Cap (Days)	-12	-2	-30	-25	-20	-20
Asset Turnover (x)	1.4	1.1	1.0	1.2	1.8	1.8
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3
<b>Cash Flow Statement</b> <span style="float: right;">(INR Million)</span>						
Y/E March	FY19	FY20	FY21	FY22	FY23E	2024E
OP/(Loss) before Tax	70,106	54,021	53,907	64,441	72,769	96,691
Int./Dividends Received	-12,339	-12,918	-9,458	-17,438	24,244	26,569
Depreciation & Amort.	20,030	23,631	23,699	24,511	31,566	35,701
Direct Taxes Paid	-17,006	-11,986	-11,381	-5,981	-19,154	-27,166
(Inc)/Dec in Wkg. Capital	-6,722	-14,954	35,866	4,967	107	4,959
Other Items	-153	1,657	3,302	437		
<b>CF from Oper. Activity</b>	<b>53,916</b>	<b>39,451</b>	<b>95,936</b>	<b>70,937</b>	<b>1,09,533</b>	<b>1,36,755</b>
(Inc)/Dec in FA+CWIP	-32,150	-45,418	-33,113	-31,859	-52,049	-55,000
<b>Free Cash Flow</b>	<b>21,766</b>	<b>-5,967</b>	<b>62,824</b>	<b>39,078</b>	<b>57,484</b>	<b>81,755</b>
(Pur)/Sale of Invest.	4,431	16,423	-1,12,247	-11,730	-5,000	-39,000
<b>CF from Inv. Activity</b>	<b>-27,720</b>	<b>-28,994</b>	<b>-1,45,638</b>	<b>-43,589</b>	<b>-57,049</b>	<b>-94,000</b>
Change in Net Worth	0	0	0	5,141	0	0
Inc/(Dec) in Debt	-5,224	3,892	42,723	-12,671	-43,388	-2,000
Interest Paid	-2,016	-1,904	-4,645	-5,290	-2,707	-2,524
Dividends Paid	-10,267	-12,132	-2,936	-10,891	-15,103	-18,090
<b>CF from Fin. Activity</b>	<b>-17,507</b>	<b>-10,144</b>	<b>35,142</b>	<b>-23,711</b>	<b>-61,197</b>	<b>-22,614</b>
<b>Inc/(Dec) in Cash</b>	<b>8,689</b>	<b>312</b>	<b>-14,560</b>	<b>3,637</b>	<b>-8,714</b>	<b>20,141</b>
Add: Beginning Balance	14,234	22,923	23,235	8,675	12,312	3,766
<b>Closing Balance</b>	<b>22,923</b>	<b>23,235</b>	<b>8,675</b>	<b>12,312</b>	<b>3,766</b>	<b>24,076</b>
						<b>79,302</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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