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distributor of this report

Company update,  
earnings revision and  
ratings change

## Automobiles

Target price: Rs1,386

### Earnings revision

(%)	FY23E	FY24E
Sales	↑ 0.8	↓ 8.6
EBITDA	↑ 1.7	↓ 10.6
EPS	↑ 2.4	↓ 14.1

### Target price revision

Rs1,386 from Rs1,514

### Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	19.5	19.4	19.4
Institutional investors	66.9	66.8	66.6
MFs and others	14.8	15.0	15.3
FIs/Banks	0.2	0.1	1.3
FIIIs	13.9	13.1	10.8
Others	37.9	38.6	39.2

Source: BSE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>60.0</b>	<b>66.5</b>	<b>6.5</b>
Environment	50.3	70.6	20.4
Social	39.7	38.9	(0.8)
Governance	89.9	89.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.  
Source: Bloomberg, I-sec research

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INDIA

# Mahindra & Mahindra



**BUY**

Upgrade from ADD  
**Rs1,128**

## Near-term challenges priced in

Mahindra & Mahindra (M&M) has corrected ~20% in the past couple of months due to fears of El Nino impacting tractor demand in FY24 along with receding waiting period of its UV portfolio. In the past 15 years, on four occasions of El Nino, tractor volume declined by an average of ~12%. Thus, we are building in 12% tractor volume decline for M&M in FY24 as against our earlier estimate of ~6% growth. For SUVs, though waiting period of XUV700 has declined, overall monthly retails in general have largely remained unchanged in the past 4-6 months, as per our dealer interactions. We believe waiting period of XUV700 is down to 2-3 months in general as compared to 6-12 months in H1FY23 due to rise in cancellation rate. For other key models like Scorpio N and Thar rear wheel drive, waiting periods are in excess of a year. With XUV400 and Thar RWD yet to get delivered, against current monthly wholesale number of ~30-32k units, we are building in ~35k units/month of SUVs in FY24. FES segment EBITM for M&M in the past has been sticky in nature, largely independent of fluctuation in volume and thus, we are building in 17.5% EBITM in FY24E. We expect M&M to receive ~Rs25bn cash in FY24-25E combined, as a result of selling stake in its EV arms, thus, helping it generate superior FCF, with budgeted capex+ investment remaining unchanged at Rs50bn p.a. We have cut our FY24E revenue/PAT estimates by 9%/14% and correspondingly cut our target price by ~8% to Rs1,386, implying 16x FY24E core EPS. We upgrade M&M to BUY from Add, as post the recent correction (~10% in six months) and factoring in the cut in tractor volume, M&M is currently trading at ~12.5x FY25E core EPS vs long term mean multiple of ~15x.

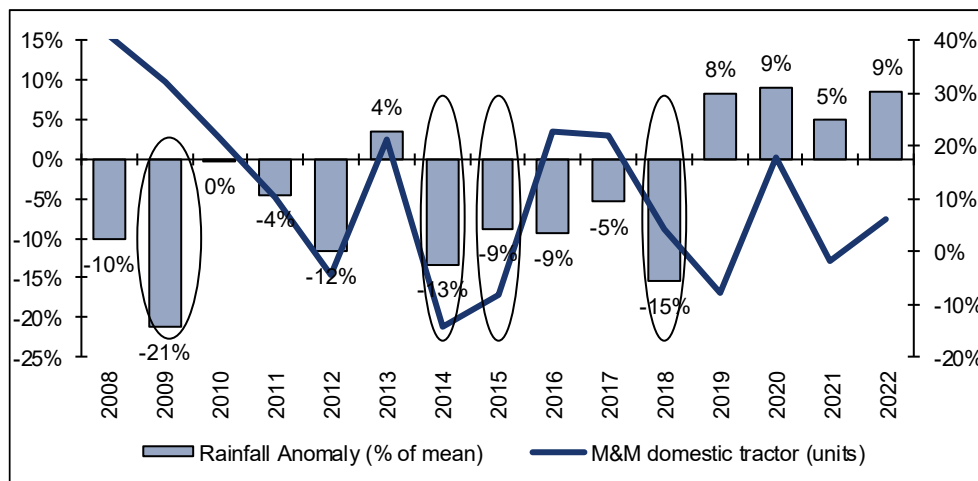
- ▶ Domestic tractor industry declined on an average by ~12% in the past four instances of El Nino in India. Reservoir water levels are currently 5% lower than pre-summer levels of past 15 years and along with risk of disruption led by El Nino, we are factoring in tractor industry decline of ~12% in FY24, against our earlier estimate of ~6% growth. Historically, M&M has executed sticky EBITM levels in general, largely insulated from volume volatility of (+-)10% and thus, we believe stability in raw material basket would be key for M&M FES segment EBITM to move back towards ~18-19% levels from current ~16-17% levels.
- ▶ We interacted with Mahindra UV dealers across various cities such as Mumbai, Patna, Kolkata, Surat, Lucknow and Jaipur to gauge demand conditions. Feedback was largely similar across the cities as monthly retails have remained steady since November, though waiting period of XUV700 has declined. As against ~5-10% cancellation rate of XUV700 till festive season, currently it has increased to ~20% of gross booking, resulting in many models being available at a short notice. Incremental booking for XUV700/month is still at levels similar to past 4-6 months. Thar RWD and XUV400 retails are yet to start at a scale and expected to ramp up from April only. Scorpio N supply has been restricted resulting in continuation of elevated waiting periods in excess of a year. Legacy portfolio models like Scorpio Classic and Bolero are witnessing some discounts currently, as year-end month is ongoing.

	Rs1403bn/US\$17.1bn
Market Cap	Rs1403bn/US\$17.1bn
Reuters/Bloomberg	MAHM.BO / MM IN
Shares Outstanding (mn)	1,243.5
52-week Range (Rs)	1388/769
Free Float (%)	80.6
FII (%)	10.8
Daily Volume (US\$/'000)	39,433
Absolute Return 3m (%)	(9.9)
Absolute Return 12m (%)	48.2
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	1.3

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	5,74,460	8,15,707	9,14,404	10,34,863
Net Profit (Rs mn)	51,439	76,882	86,573	1,02,375
Dil. EPS (Rs)	43.0	64.3	72.3	85.6
% Chg YoY	26.1	49.5	12.6	18.3
P/E (x)	25.9	17.1	14.6	12.0
CEPS (Rs)	62.1	90.1	102.2	120.1
EV/E (x)	16.1	10.6	9.0	7.5
Dividend Yield (%)	1.0	1.6	1.8	2.1
RoCE (%)	12.8	17.4	17.7	18.6
RoE (%)	13.9	18.4	18.2	18.8

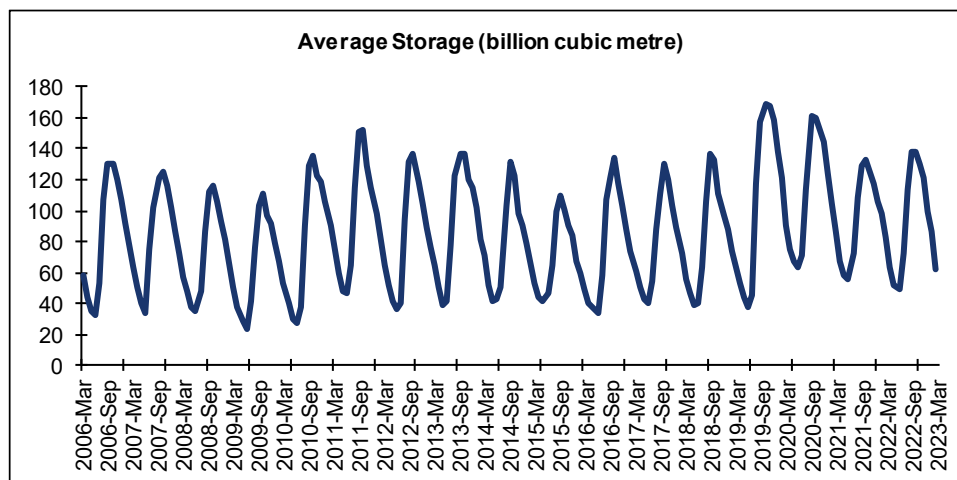
Please refer to important disclosures at the end of this report

**Chart 1: El Nino years in recent past have resulted in ~12% decline in tractor volume for Mahindra and industry; factoring in 12% decline in industry volume in FY24 as against 6% growth earlier**



Source: IMD, Company data, I-Sec research

**Chart 2: Water levels across reservoirs in India are largely fine on a seasonally adjusted basis**



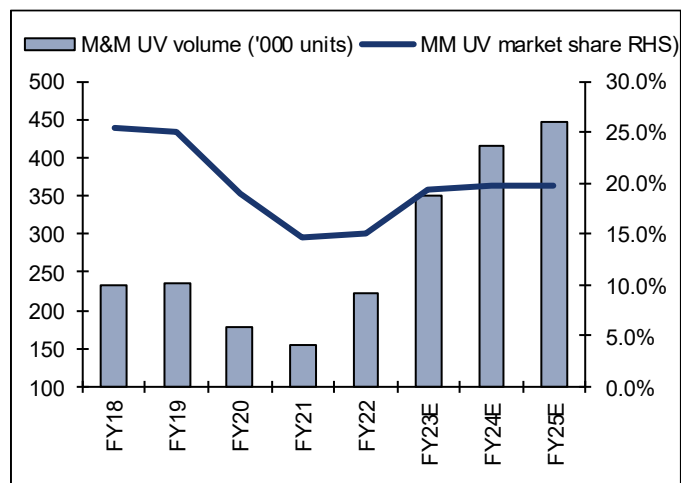
Source: India WRIS, I-Sec research

**Table 1: M&M’s key business assumptions**

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Total Volumes</b>	<b>9,37,983</b>	<b>7,72,996</b>	<b>7,06,907</b>	<b>8,17,374</b>	<b>10,78,310</b>	<b>11,01,739</b>	<b>11,55,085</b>
Auto (units)	6,07,547	4,71,081	3,52,409	4,62,676	6,79,038	7,54,262	7,75,896
Auto EBIT Margin (%)	8.0%	6.1%	3.4%	3.8%	6.5%	7.5%	8.0%
Tractors (units)	3,30,436	3,01,915	3,54,498	3,54,698	3,99,273	3,47,477	3,79,189
FES EBIT Margin (%)	19.3%	19.0%	22.7%	18.1%	16.4%	17.5%	19.0%
EBITDA Margin (%)	14.2%	14.2%	15.6%	12.3%	12.9%	13.5%	14.2%
Capex (Rs mn)	34,930	47,755	35,974	38,811	54,652	64,008	72,440
Investment (Rs mn)	19,212	(20,403)	19,486	(841)	10,000	10,000	10,000
OCF (Rs mn)	54,356	21,360	45,047	42,522	58,027	93,663	1,09,644

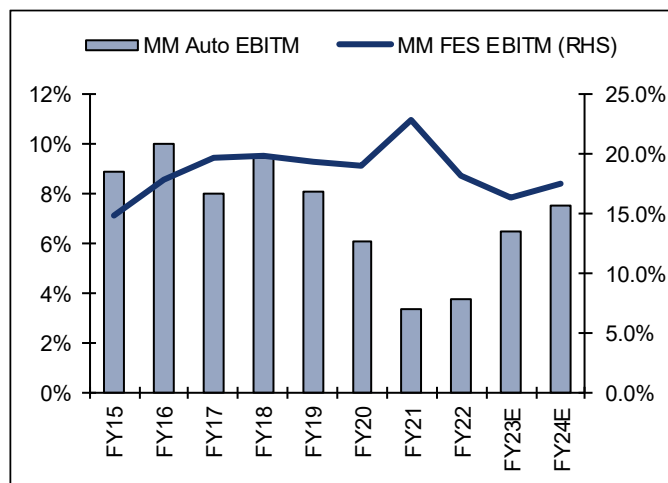
Source: Company data, I-Sec research

**Chart 3: M&M's UV volume and market share trends**



Source: SIAM, I-Sec research

**Chart 4: M&M's auto and FES EBIT margin trends**



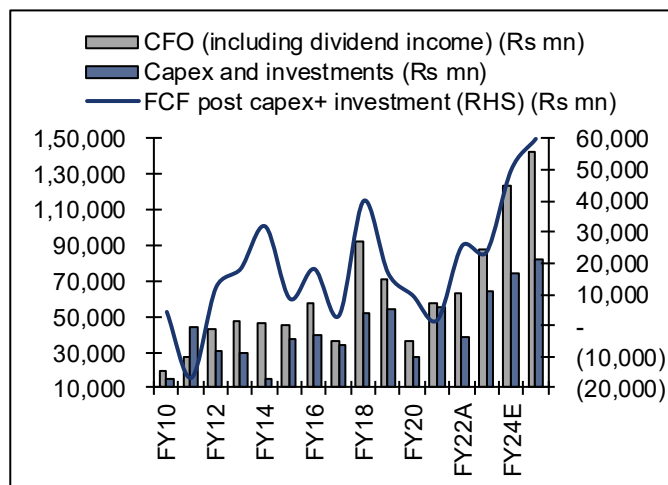
Source: Company data, I-Sec research

**Table 2: FY24E volume of M&M UV models/month**

Model	Per month model wise capacity
XUV700	7,000
Thar	6,500
Scorpio N	4,500
XUV300+ XUV400	7,000
Bolero + Bolero Neo	7,000
Scorpio Classic	3,000
<b>Total Capacity</b>	<b>35,000</b>

Source: SIAM, I-Sec research

**Chart 5: FCF generation expanding finally**



Source: Company data, I-Sec research

**Table 3: Earnings revision**

	FY23E			FY24E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Auto volume ('000)	677	679	0.3%	813	754	-7.2%
Tractor volume ('000)	376	399	6.1%	399	347	-12.9%
Revenue (Rs bn)	809	816	0.8%	1,000	914	-8.6%
EBITDA (Rs bn)	104	106	1.7%	138	123	-10.6%
EBITDA margin (%)	12.8%	12.9%	12 bps	13.8%	13.5%	-31 bps
Core EPS (Rs)	46	47	2.4%	64	55	-14.1%

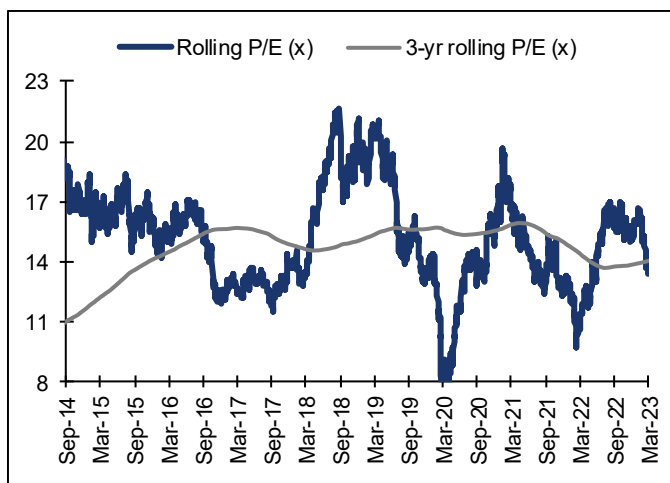
Source: Company data, I-Sec research

**Table 4: SoTP valuation**

Particulars	Value	Holding (%)	Value/ share Rs	Comments
<b>Core MM+ MVML business</b>	<b>12,72,316</b>		<b>1,066</b>	<b>DCF</b>
Tech Mahindra	2,02,023	26%	169	
MMFSL	1,20,636	52%	101	
Mahindra Holidays and Resorts	19,317	68%	16	
Mahindra Lifespace	21,076	51%	18	
Mahindra Logistics	12,291	59%	10	
<b>Value of listed investments</b>	<b>3,80,238</b>		<b>319</b>	
<b>SoTP valuation</b>			<b>1,386</b>	

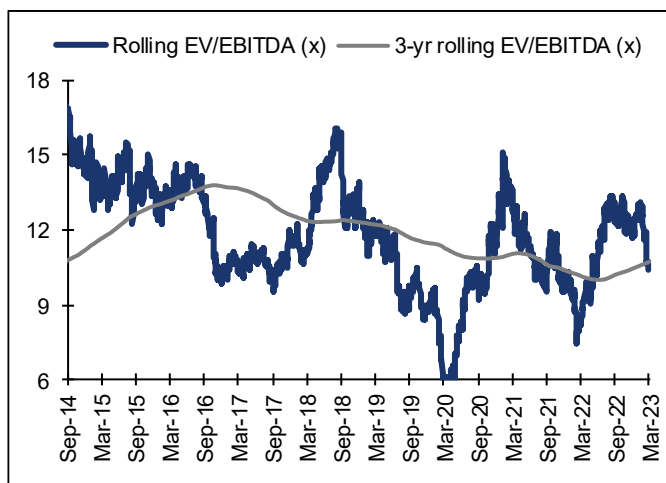
Source: Company data, I-Sec research

**Chart 6: M&M forward earnings multiple below 3-yr rolling average levels**



Source: Company data, Bloomberg, I-Sec research

**Chart 7: Forward EV/EBITDA too following the trend and is now at sub-3yr rolling average levels**



Source: Company data, Bloomberg, I-Sec research

**Table 5: Tractor market growth driven sensitivity analysis on M&M valuation**

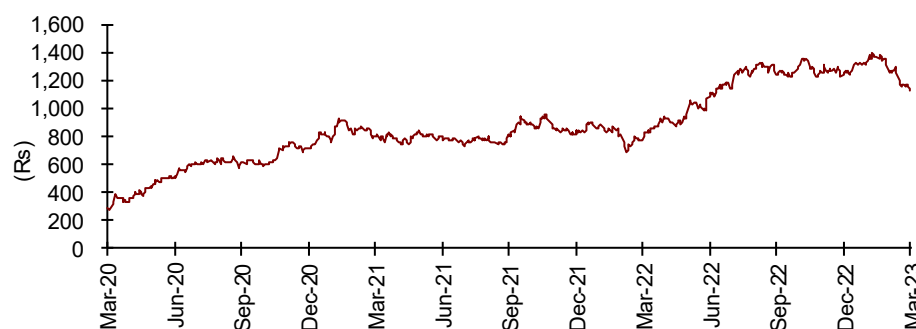
MM FY24 tractor volume growth	Implied valuation (Rs/share)	Value/share of listed subs @ 20% holding company discount	Implied FY25E core earnings multiple (x)
12%	1,491	319	15.7
8%	1,473	319	15.7
4%	1,456	319	15.8
0%	1,438	319	15.8
-4%	1,421	319	15.9
-8%	1,403	319	15.9
-12%	1,386	319	16.0
-16%	1,368	319	16.0

Source: Company data, I-Sec research

**Upside risks:** Continued success in SUV portfolio with Thar RWD, Scorpio N ramping up production, and XUV700 increasing capacity, to drive up volume, beyond estimated ~35k units a month. El Nino does not impact domestic tractor demand much as against fears of 10% industry level decline. Decline in raw material basket continuing to push margin up other than price hikes in UV portfolio may help in further improvement of auto segment margin.

**Downside risks:** Weakness in domestic SUV market, larger-than-expected impact of El Nino on tractor sales, major launches by peers, faster than expected PV electrification, allocation of capital in RoCE-dilutive ventures.

**Price chart**



Source: Bloomberg

## Financial summary (M&M+MVML)

**Table 6: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>5,74,460</b>	<b>8,15,707</b>	<b>9,14,404</b>	<b>10,34,863</b>
Total expenses	5,04,037	7,10,166	7,91,196	8,87,527
<b>EBITDA</b>	<b>70,423</b>	<b>1,05,541</b>	<b>1,23,208</b>	<b>1,47,336</b>
<i>EBITDA Margin (%)</i>	<i>12.3%</i>	<i>12.9%</i>	<i>13.5%</i>	<i>14.2%</i>
Depreciation	24,511	30,338	35,085	40,543
<b>EBIT</b>	<b>45,913</b>	<b>75,203</b>	<b>88,123</b>	<b>1,06,793</b>
Interest expenses	2,230	2,693	2,693	2,693
Other income	20,759	30,000	30,000	32,400
<b>Adj PBT</b>	<b>64,442</b>	<b>1,02,509</b>	<b>1,15,430</b>	<b>1,36,500</b>
Provision for taxation	13,002	25,627	28,858	34,125
<b>Adj PAT</b>	<b>51,439</b>	<b>76,882</b>	<b>86,573</b>	<b>1,02,375</b>
<b>Reported PAT</b>	<b>49,353</b>	<b>76,882</b>	<b>86,573</b>	<b>1,02,375</b>

Source: Company data, I-Sec research

**Table 7: Balance sheet**
*(Rs mn, year ending March 31)*

	FY22	FY23E	FY24E	FY25E
Share capital	5,983	5,983	5,983	5,983
Reserves and surplus	3,83,627	4,38,979	5,01,307	5,75,013
<b>Total Network</b>	<b>3,89,610</b>	<b>4,44,962</b>	<b>5,07,290</b>	<b>5,80,996</b>
Debt	67,336	67,336	67,336	67,336
Deferred tax liability (net)	17,008	17,008	17,008	17,008
<b>Total Liabilities</b>	<b>4,73,953</b>	<b>5,29,305</b>	<b>5,91,634</b>	<b>6,65,340</b>
Gross Block	3,51,901	4,06,554	4,70,562	5,43,002
Net block	1,45,486	1,69,800	1,98,724	2,30,622
Capital work-in-progress	50,182	50,182	50,182	50,182
Investments (non-current)	1,72,078	1,82,078	1,92,078	2,02,078
Cash and bank balances	1,15,526	1,22,386	1,47,817	1,80,483
Sundry debtors	30,351	49,166	55,115	62,375
Inventories	58,829	80,453	87,683	99,233
Loans and advances	98,852	1,40,365	1,57,348	1,78,077
Total Current Assets	3,03,557	3,92,370	4,47,963	5,20,169
Current Liabilities	1,83,687	2,34,655	2,63,048	2,97,700
Provisions	13,663	30,469	34,265	40,010
Current liabilities and provisions	1,97,350	2,65,125	2,97,312	3,37,710
<b>Net current assets</b>	<b>1,06,208</b>	<b>1,27,245</b>	<b>1,50,650</b>	<b>1,82,458</b>
Miscellaneous expenditure	-	-	-	-
<b>Total Assets</b>	<b>4,73,953</b>	<b>5,29,305</b>	<b>5,91,634</b>	<b>6,65,340</b>

Source: Company data, I-Sec research

**Table 8: Quarterly trend**
*(Rs mn, year ending March 31)*

	Mar-22	Jun-22	Sep-22	Dec-22
Net sales	1,71,240	1,96,126	2,08,393	2,16,537
% growth (YoY)	28.2	66.7	36.7	26.5
EBITDA	19,455	23,410	24,964	28,142
Margin (%)	11.4	11.9	12.0	13.0
Other income	2,387	2,386	13,259	6,700
Add: Extraordinaries	2,060	583	(2,479)	(4,717)
Reported PAT	12,919	14,302	20,899	15,280

Source: Company data, I-Sec research

**Table 9: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY22	FY23E	FY24E	FY25E
<b>Operating cashflow before WC changes</b>	<b>57,846</b>	<b>79,914</b>	<b>94,351</b>	<b>1,13,211</b>
Change in working capital	(15,324)	(21,887)	(688)	(3,567)
<b>Cashflow from operations</b>	<b>42,522</b>	<b>58,027</b>	<b>93,663</b>	<b>1,09,644</b>
Net capex	(38,811)	(54,652)	(64,008)	(72,440)
Net investments	841	(10,000)	(10,000)	(10,000)
Others	20,759	30,000	30,000	32,400
<b>Cashflow from investments</b>	<b>(17,211)</b>	<b>(34,652)</b>	<b>(44,008)</b>	<b>(50,040)</b>
Proceeds from borrowings	(10,528)	-	-	-
Change in share capital	4,567	-	0	-
Interest & finance charges paid	(2,230)	(2,693)	(2,693)	(2,693)
Dividends paid	(10,454)	(13,821)	(21,530)	(24,244)
Others	-	-	-	-
<b>Cashflow from financing</b>	<b>(18,645)</b>	<b>(16,514)</b>	<b>(24,223)</b>	<b>(26,937)</b>
<b>Net increase in cash</b>	<b>6,666</b>	<b>6,860</b>	<b>25,431</b>	<b>32,666</b>
<b>FCF</b>	<b>4,551</b>	<b>(6,626)</b>	<b>19,654</b>	<b>27,203</b>

Source: Company data, I-Sec research

**Table 10: Key ratios**
*(Year ending March 31)*

	FY22	FY23E	FY24E	FY25E
<b>Per Share data (Rs)</b>				
EPS (Rs)	43.0	64.3	72.3	85.6
Core EPS (Rs)	31.2	47.2	55.3	67.1
CEPS (Rs)	62.1	90.1	102.2	120.1
Dividend per share (Rs)	11.6	18.0	20.3	24.0
Book value per share (Rs)	325.6	371.9	423.9	485.5
<b>Growth Ratios (%)</b>				
Operating Income	29	42	12	13
EBITDA	1	50	17	20
Recurring Net Income	26	49	13	18
Diluted Recurring EPS	26	49	13	18
Diluted Recurring CEPS	120	45	13	17
<b>Valuation Ratios (x)</b>				
Core P/E (x)	25.9	17.1	14.6	12.0
P/CEPS (x)	18.2	12.5	11.0	9.4
P/B (x)	3.5	3.0	2.7	2.3
EV/Operating Income (x)	2.3	1.6	1.4	1.3
EV/EBITDA (x)	16.1	10.6	9.0	7.5
<b>Operating Ratios</b>				
Raw Material/Sales (%)	73.7	72.5	69.0	69.0
Other Income / PBT (%)	32.2	29.3	26.0	23.7
Effective Tax Rate (%)	20.2	25.0	25.0	25.0
Inventory Turnover (days)	7.9	8.5	7.5	7.6
Receivables (days)	16.6	17.8	20.8	20.7
Payables (days)	108.8	93.6	99.3	98.9
D/E Ratio (x)	0.2	0.2	0.1	0.1
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	9.0	9.4	9.5	9.9
RoCE	12.8	17.4	17.7	18.6
RoNW	13.9	18.4	18.2	18.8
Dividend Payout Ratio	26.9	28.0	28.0	28.0
Dividend Yield	1.0	1.6	1.8	2.1
EBITDA Margins	12.3	12.9	13.5	14.2

Source: Company data, I-Sec research

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