

CMP: ₹ 2,375

Target: ₹ 2,915 (23%)

Target Period: 12 months

BUY

May 17, 2024

Stepping up capex spending and product launches...

About the stock: Mahindra & Mahindra (M&M) is a conglomerate with presence in auto, IT, financial services, logistics, hospitality and real estate among others. At standalone level it is India's largest tractor manufacturer (41.6% FY24 market share) & 2nd largest CV, 4th largest PV maker (27.2%, 10.9% FY24 market share)

- FY24 standalone revenue mix – ~74% automotive, ~26% tractors

Q4FY24 Results: Reports healthy performance

At M&M, on standalone basis, topline for the quarter came in at ₹25,109 crore (up 11% YoY). EBITDA in Q4FY24 came in at ₹3,240 crore with EBITDA margins at 12.9% (up 10 bps QoQ). Resultant PAT for the quarter stood at ₹2,038 crore (up 32% YoY). Automotive segment EBIT margins improved to 8.8% (up 50 bps QoQ) while Farm Equipment segment margins improved to 15.8% (up 30 bps QoQ).

Investment Rationale

- Robust product launches, healthy order book to drive growth in PV space:** M&M is the prominent player in domestic PV space predominately in the SUV category with its recent launches like XUV 3XO, XUV 700, Thar & Scorpio-N being an instant hit with customers primarily driven by the cutting-edge technology & value proposition offered. Testimony to its success is healthy pending orderbook of ~2.2 lakh units with fresh bookings still exceeding its billing run-rate. M&M aspires to grow volumes in SUV space at mid to high teens in FY25E amidst muted industry growth outlook. We expect double digit volume growth to continue in FY26 as well. This will ensure market share gains for M&M and is structurally positive. It has also outlined an aggressive capex spend of ~₹ 26,000 crore over FY25-27E in auto segment primarily at product development and capacity expansions. This includes ₹ 12,000 crore earmarked for the PV-EV space. It is looking at aggressive product launches at 9-ICE SUV's (6 new ICE models, 3 refreshes incl. XUV 3XO), 7 BEV's & 7 LCV's (5 ICE, 2 EV) by 2030.
- Tractor volumes to consolidate on high base, forecast of above normal monsoon 2024 bodes well:** Domestic tractor space was resilient during the covid downturn and was the first one within the auto segment to surpass its pre-Covid peaks. Tractor volumes in FY21 stood at ~9 lakh units vs. its pre-Covid highs of ~7.9 lakh units in FY19. With industry volumes declining 7.4% YoY to 8.8 lakh units in FY24 and forecast of above normal monsoons in 2024, we expect domestic tractor industry to resume its 5-7% long term volume CAGR trend starting FY25. M&M's focus in present times in on market share gains with 40 bps gain witnessed in FY24 at 41.6%.

Rating and Target Price

- We have a positive view on M&M and retain our **BUY** rating on the stock amidst its convincing revenue market leadership in SUV & Tractor space, impressive new product launches outlook and persistent focus on capital efficiency (RoE>=18%). We now value M&M at SOTP-based target price of **₹2,915** (15x FY26E standalone EV/EBITDA; 20% hold co. discount to investments, ₹300/share value accrued for its Electric PV arm).

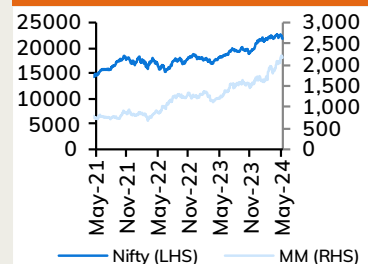
Particulars

Particular	₹ crore
Market Capitalization	2,95,260
Total Debt (FY24P)	1,585
Cash and Inv (FY24P)	13,973
Enterprise Value	2,82,872
52 week H/L (₹)	2,394/ 1,237
Equity capital (₹ crore)	599.6
Face value (₹)	₹ 5

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	19.4	19.3	19.3	18.6
FII	40.1	40.3	40.9	41.8
DII	26.9	26.8	26.3	26.1
Other	13.6	13.6	13.6	13.5

Price Chart



Recent event & key risks

- Reports healthy Q4FY24. Margins came in robust at 12.9%
- Key Risk:** (i) lower than anticipated operating leverage gains (ii) unforeseen delay in new product launches across ICE & EV domains

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Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	45,488	44,630	57,446	84,960	98,763	13.0%	1,11,925	1,23,201	11.7%
EBITDA	5,798	6,958	7,042	10,442	12,778	14.0%	14,790	16,620	14.1%
EBITDA Margins (%)	12.7	15.6	12.3	12.3	12.9		13.2	13.5	
Net Profit	1,330	984	4,935	6,549	10,718	17.4%	11,237	12,675	8.7%
Adjusted Net Profit	2,190	2,303	5,100	7,700	10,718	17.3%	11,237	12,675	8.7%
EPS (₹)	11.2	8.2	41.4	54.9	89.8		94.2	106.2	
P/E	213.0	287.9	57.4	43.3	26.4		25.2	22.4	
RoNW (%)	6.4	6.6	13.1	17.8	20.5		18.5	18.0	
RoCE (%)	8.8	10.0	9.3	14.0	16.0		16.6	16.6	

Source: Company, ICICI Direct Research

Key takeaways of Recent Quarter

Q4FY24 Results:

- At M&M, on standalone basis, topline for the quarter came in at ₹25,109 crore (up 11% YoY) with automotive segment volumes growing 14% YoY at 2.16 lakh units & tractor sales volume at 0.72 lakh units (down 20% YoY).
- EBITDA in Q4FY24 came in at ₹3,240 crore with corresponding EBITDA margins at 12.9% (up 10 bps QoQ). Automotive segment EBIT margins improved further to 8.8% (up 50 bps QoQ) while Farm Equipment segment margins improved to 15.8% (up 30 bps QoQ).
- It generated healthy CFO to the tune of ~₹ 11,500 crore in FY24 with capex spend pegged at ~₹ 5,000 crore. It also declared a dividend of ₹ 21/share.
- ASP at the automotive segment stood at ₹ 9.24 lakh/unit (up 5.3% QoQ) while ASP at the tractor segment stood at ₹ 7.3 lakh/unit (up 10% QoQ)

Q4FY24 Earnings Conference Call Highlights:

Automotive

- **Performance and Guidance:** M&M retained its revenue market leadership position in the SUV segment at 20.4%, up by 130 bps YoY in FY24. On a quarterly basis, performance was muted in Q4FY24 due to the transition towards the new model launch of XUV3XO. It expects mid to high teen growth rate in FY25, driven by new launches such as XUV3XO and Thar-5 door. It sees an opportunity to become the No 1 or 2 players in the XUV 3XO type SUV category within the next 3 years. It maintains a growth guidance of 15% to 20% in EPS and 18% in ROE for FY25.
- **Open Bookings:** As on 1st May'24, the pending orderbook for SUVs stand at 220K units. The Scorpio-N (including Classic) has the largest open booking of 86k (~17k per month), followed by Thar (including RWD) with 59k open bookings (~7k per month). Out of the total open bookings of 220k units, 50k units are for XUV3XO as of 15th May'24. It has already produced 10,000 vehicles of XUV3XO category and set up 9000 per month manufacturing capacity to cater this segment.
- **New Launches:** M&M is aiming to launch 23 new vehicle models by 2030. This includes 9 new ICE SUVs, within which there are 3 Mid cycle enhancements (incl. the recently launched XUV3XO). Additionally, it will also launch 7 new Battery Electric Vehicles models and 7 new LCV models including 5 ICE and 2 Electric Vehicle variants.
- **Capacity Expansion:** M&M will expand its capacity to 72k units in FY26 from 49k units in FY24. Of this, an incremental capacity of 15k units will be added in FY25, with 5k units for capacity enhancement for Thar 5D and XUV3XO/400. An EV capacity of 10k units will be added in FY25, followed by an additional 8k units of EV capacity by the end of FY26.
- **Capex:** M&M will invest ~₹27,000 crore in the auto division over next 3 years (FY25-27) with ~70-80% allocated for product development and the balance towards capacity expansion. Out of this, a larger capex of ₹8,500 crore will be spent on SUVs ICE and ₹4000 crore on the CV segment. Additionally, it has received the board approval for an investment of ₹12,000 crore in its Electric Vehicle unit, Mahindra Electric Automobile Ltd over next 3 years.
- **LCV and E-3 Wheeler:** M&M has retained its top position in the LCV <3.5T with a market share of 49%, up by 350 bps YoY in FY24. Additionally, it holds a ~58.7% market share in the Electric 3-Wheeler segment for the same period.

Exhibit 1: Pending orderbook in the SUV space at M&M

UV PERFORMANCE & PIPELINE

Open Bookings: ~220k*



*Open Bookings as on 1st May 2024, XUV3XO booking as on 15th May 11:00 AM
Avg Monthly booking of Q4 F24

16

Source: Company, ICICI Direct Research

Exhibit 2: Capacity expansion timeline in the SUV space

AUTO: CAPACITY PLANNING

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

- **F25 Exit capacity includes:**
 - Increase in SUV capacity (THAR 5D, XUV3XO/400) : 5K
 - EV capacity : 10K
- **Additional 8k EV capacity by F26 end**

Source: Company, ICICI Direct Research

Exhibit 3: Capex and investments plan over FY25-27E

F25 - F27: Cash deployment

STANDALONE M&M + MEAL + LMM Co

Rs cr.

Deployment	Auto	Farm	Services	Total
Deployment	(27,000)	(5,000)	(5,000)	(37,000)
Capex – ICE	(14,000)			(14,000)
EV – MEAL net	(12,000)			(12,000)
Capex – Farm		(5,000)		(5,000)
Investments	(1,000)		(5,000)	(6,000)
	(Excl cell localization)		(MMFSL, Growth gems)	

Source: Company, ICICI Direct Research

Farm Equipment

- **Performance & Guidance:** Despite the tractor industry reporting a decline in FY24, M&M retained its leadership position in the tractor segment with a market share of 41.6% thereby gaining 40 bps YoY in FY24. Additionally, it has gained 12.8% market share in the 20-30 HP segment (from Sep'23 to Mar'24 YoY) due to successful launch of OJA & Target tractor series. It expects overall tractor industry to grow at 5% YoY in FY25, with the southern region witnessing lower growth compared to the northern and western regions during this period.

Capex: M&M will invest ~₹5,000 crore in the farm division over the next 3 years (FY25-27). Of this, ~₹2,800 crore will be towards new products and ~₹700 crore for capacity expansion. It has allocated ~₹1500 crore towards regulatory and sustenance, including ~₹600 crore investment for Term V, required if the regulation becomes mandatory for the company.

Key Tables and Charts

Exhibit 4: Quarterly Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	25,109	22,571	11.2	25,289	-0.7	Topline came in ahead of estimates tracking handsome beat on ASP's
Raw Material Expenses	18,446	16,922	9.0	19,066	-3.3	
Employee Expenses	1,111	949	17.1	1,134	-2	Employees expenses came in a tad high
Other expenses	2,311	1,903	21.5	1,852	24.8	
EBITDA	3,240	2,797	15.8	3,236	0.1	
EBITDA Margin (%)	12.9	12.4	51 bps	12.8	11 bps	Margins surprised positively amidst healthy gross margin gains
Other income	426	334	27.6	737	-42.2	
Depreciation	977	839	16.5	818	19.5	Depreciation came in a tad higher
Interest	39	70	-45	35	11	
Tax	612	162	277.7	667	-8.2	
PAT	2,038	1,549	31.6	2,454	-16.9	PAT for the quarter was up 32% YoY
EPS	17.1	13.0	31.6	20.5	-16.9	
Key Metrics						
Auto revenues (₹ crore)	19,910	16,400	21.4	18,577	7.2	Auto Segment ASP's stood at ₹ 9.24 lakh/unit, up 5.3% QoQ
FES revenues (₹ crore)	5,227	5,584	-6.4	6,735	-22.4	Farm segment ASP's stood at ₹ 7.3 lakh/unit , up 10.1% QoQ

Source: Company, ICICI Direct Research

Exhibit 5: Assumptions

Units	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Automotive volumes	6,08,597	4,76,043	3,52,281	4,65,597	6,98,466	8,24,936	9,30,382	10,20,782
Automotive ASPs (₹)	5,80,892	5,96,766	7,10,075	7,64,323	8,37,710	8,91,142	9,11,062	9,22,519
FES Volumes	3,30,436	3,01,915	3,54,498	3,54,678	4,07,545	3,78,386	3,97,998	4,19,423
FES ASPs (₹)	5,10,679	5,10,158	5,19,983	5,57,318	5,91,070	6,69,597	6,85,798	6,95,832
Total Volumes	9,39,033	7,77,958	7,06,779	8,20,275	11,06,011	12,03,322	13,28,380	14,40,204

Source: ICICI Direct Research

Exhibit 6: Valuation matrix (SOTP Valuation)

Valuation Matrix (SOTP)					
Automotive Business (UV+PV+CV+Tractors)	₹crore		₹/share		Remark
Standalone business					
FY26E EBITDA		16,620			
Assigning EV/EBITDA Multiple of 14x		15			
Enterprise Value		2,49,307		2005	
Net Debt (FY26E)		(14,768)		-119	
Value of Standalone Business		2,64,076		2125	
Valuation Pegging of electric PV business at lower valuation band		36,896		300	
Total value of automobile business including electric PV company (A)				2425	
Value of Investments (listed companies)	M&M stake (%)	Co's Market Capitalisation ₹ crore	Contribution to M&M ₹crore	₹/share	Remark
Tech Mahindra	26	1,26,572	32,909	265	Current market cap
M&M Financial Services	52	32,743	17,079	137	Current market cap
Mahindra Life space	52	9,530	4,908	39	Current market cap
Mahindra Holidays & Resorts	67	8,150	5,485	44	Current market cap
Mahindra Logistics	58	3,100	1,807	15	
Other subsidiaries & investments			13,879	112	
Total Value of subsidiaries & associates (B)			76,067	612	
Value of investments post 20% holding company discount (C = 0.8*B)				490	
M&M Target Price (value of equity per share , A+C)				2,915	

Source: ICICI Direct Research

Financial Summary

Exhibit 7: Profit and Loss statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	84,960	98,763	1,11,925	1,23,201	
Growth (%)	47.9	16.2	13.3	10.1	
Raw Material Expenses	64,558	74,006	83,538	91,613	
Employee Expenses	3,650	4,416	4,925	5,421	
Other Expenses	6,310	7,563	8,672	9,546	
Total Operating Expenditure	74,518	85,986	97,135	1,06,580	
EBITDA	10,442	12,778	14,790	16,620	
Growth (%)	48.3	22.4	15.8	12.4	
Depreciation	3,155	3,439	3,694	3,942	
Interest	273	139	64	51	
Other Income	2,545	4,283	3,374	3,623	
PBT	9,560	13,483	14,406	16,250	
Others (incl exceptional item)	41	248	629	512	
Total Tax	1,582	2,765	3,169	3,575	
PAT	6,549	10,718	11,237	12,675	
Adjusted PAT	7,700	10,718	11,237	12,675	
Growth (%)	32.7	63.7	4.8	12.8	
EPS (₹)	54.9	89.8	94.2	106.2	

Source: Company, ICICI Direct Research

Exhibit 8: Cash Flow statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax (adj)	6,549	10,718	11,237	12,675	
Add: Depreciation	3,155	3,439	3,694	3,942	
(Inc)/dec in Current Assets	-6,249	-519	-3,561	-2,342	
Inc/dec in CL and Provisions	5,719	1,801	3,557	2,741	
CF from operating activities	9,174	11,438	12,426	14,517	
(Inc)/dec in Investments	-1,977	-2,908	-2,000	-3,200	
(Inc)/dec in Fixed Assets	-3,349	-4,962	-10,000	-10,000	
Others	982	2,333	2,652	2,631	
CF from investing activities	-4,344	-5,537	-9,348	-10,569	
Issue/(Buy back) of Equity	1	1	0	0	
Inc/dec in loan funds	-1,846	-3,059	-250	-350	
Dividend paid & dividend tax	-1,790	-2,505	-2,744	-3,102	
Others	-364	707	0	0	
CF from financing activities	-3,999	-4,857	-2,994	-3,452	
Net Cash flow	831	1,044	85	496	
Opening Cash	3,650	4,482	5,526	5,611	
Closing Cash	4,482	5,526	5,611	6,107	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	599	600	600	600	
Reserve and Surplus	42,758	51,677	60,170	69,743	
Total Shareholders funds	43,357	52,277	60,769	70,343	
Total Debt	4,644	1,585	1,335	985	
Deferred Tax Liability	1,470	1,555	1,555	1,555	
Others	2,581	2,866	3,248	3,575	
Total Liabilities	52,052	58,283	66,908	76,458	
Assets					
Gross Block	39,067	43,058	51,814	60,314	
Less: Acc Depreciation	22,091	25,530	29,223	33,166	
Net Block	16,976	17,528	22,590	27,148	
Capital WIP	2,785	3,756	5,000	6,500	
Total Fixed Assets	19,761	21,284	27,590	33,648	
Other investments	17,539	21,549	23,549	25,549	
Liquid Investments	9,548	8,447	8,447	9,647	
Inventory	8,881	9,505	10,733	11,814	
Debtors	4,042	4,549	6,133	6,751	
Loans and Advances	2,177	2,379	2,696	2,968	
Other current assets	3,500	3,250	3,683	4,054	
Cash	4,482	5,526	5,611	6,107	
Total Current Assets	25,096	26,659	30,305	33,143	
Creditors	17,146	18,592	21,465	23,627	
Provisions	607	684	790	869	
Total Current Liabilities	17,752	19,276	22,255	24,497	
Net Current Assets	7,343	7,383	8,050	8,646	
Application of Funds	52,052	58,283	66,908	76,458	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Per share data (₹)					
EPS	54.9	89.8	94.2	106.2	
Cash EPS	81.3	118.7	125.1	139.3	
BV	363.4	438.2	509.4	589.6	
DPS	15.0	21.0	23.0	26.0	
Cash Per Share	117.6	117.1	117.8	132.0	
Operating Ratios (%)					
EBITDA Margin	12.3	12.9	13.2	13.5	
PBT / Net sales	8.6	9.5	9.9	10.3	
PAT Margin	7.7	10.9	10.0	10.5	
Inventory days	38.2	35.1	35.0	35.0	
Debtor days	17.4	16.8	20.0	20.0	
Creditor days	73.7	68.7	70.0	70.0	
Net Working Capital days	-18.1	-16.8	-15.0	-15.0	
Return Ratios (%)					
RoE	17.8	20.5	18.5	18.0	
RoCE	14.0	16.0	16.6	16.6	
RoC	20.7	23.0	23.2	23.4	
Valuation Ratios (x)					
P/E	43.3	26.4	25.2	22.4	
EV / EBITDA	27.4	22.1	19.1	16.9	
EV / Net Sales	3.4	2.9	2.5	2.3	
Market Cap / Sales	3.5	3.0	2.6	2.4	
Price to Book Value	6.5	5.4	4.7	4.0	
Solvency Ratios					
Debt/Equity	0.1	0.0	0.0	0.0	
Current Ratio	0.9	0.8	0.9	0.9	
Quick Ratio	0.5	0.4	0.5	0.5	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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