

India

March 17, 2024 - 1:40 PM

Overweight (no change)

Highlighted Companies

Mahindra & Mahindra

HOLD, TP Rs1765, Rs1800 close

Mahindra & Mahindra's platform co-operation with Volkswagen, if it extends to manufacturing premium electric vehicles, can derive benefits from the EV policy. However, weakness in the tractor demand cycle, in our view, is an area of concern.

Samvardhana Motherson International

ADD, TP Rs133, Rs111 close

Samvardhana Motherson International or SAMIL's penetration into premium car manufacturers globally and new order wins in the EV space can help if any global manufacturer sets up a plant in India and needs to localize production.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Mahindra & Mahindra	19.7	18.75	17.42
Samvardhana	24.42	21.34	16.44
Motherson International			

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Mahindra & Mahindra	3.9	3.41	3
Samvardhana	3.15	2.85	2.54
Motherson International			

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Mahindra & Mahindra	1.42%	1.65%	1.8%
Samvardhana	0.9%	1.35%	1.8%
Motherson International			

Research Analyst(s)

Pramod AMTHE

T (91) 22 4161 1541

E pramod.amthe@incredresearch.com

Ravi GUPTA

T (91) 02241611552

E ravi.gupta@incredresearch.com

Autos

EV car manufacturing policy's beneficiaries

- Consistent with India's EV promotion policy, the manufacturing incentive for premium car (>US\$35k) production in India for the first five years is comforting.
- Mahindra-VW or JSW-MG can benefit if they set up exclusive EV premium car capacity. Maximum 8,000 cars allowed per year limits the threat to incumbents.
- Can help bring top-end auto component tech in 3-5 years as localization needs are steep & capture better value per car for SAMIL, Bharat Forge & Endurance.

Key highlights of the scheme

- Duty concession:** The automobile maker will be allowed to import fully built premium cars (priced above US\$35,000) at a concessional duty of 15% (like completely knocked down or CKD instead of 70-100% duty applicable) for a maximum five years or till the investment planned equals the loss to the Government of India (GoI) from lower duty, whichever is earlier.
- The maximum number of e-4Ws allowed shall be capped at 8,000 vehicles per year. The carryover of unutilized annual import limits is permitted.
- The maximum number of electric vehicles or EVs to be imported under this scheme shall be such that the total duty foregone will be limited to the lower levels of the following: (a) The maximum duty foregone per applicant (limited to Rs64.8bn). (b) Committed investment of the applicant.
- Capex investment:** The importer needs to set up a plant in India with a minimum investment of Rs41.50bn (US\$500m) for manufacturing premium e-4Ws.
- Localization condition :** The plant needs to be operational within three years from the date of approval and should achieve minimum domestic value addition (DVA) of 25% within the same period. Also, it is required to achieve DVA of 50% within five years.

Policy impact analysis

- Considering that India sold 42,000 luxury cars in CY23, the plan to import a maximum of 8,000 premium EVs per annum at a concessional rate will lead to a market penetration of ~20%. The scheme is attractive for global new EV makers like Tesla or recent EV joint ventures like Mahindra-Volkswagen in case they embark on setting up a plant. There is a marginal disadvantage to incumbents like Mercedes and BMW's ICE capacity and EV vehicles imported at a high duty.
- The auto component segment will be the beneficiary, to begin with, in case of companies already supplying to EV vehicle makers globally as they can do near-shoring from India plants and these include SAMIL, Bharat Forge and Endurance Technologies. The new policy can help the auto component sector absorb high-end technology faster, as 50% localization is needed in five years.

Figure 1: EV premium car manufacturing policy highlights

Eligibility Criteria	Auto OEM
Global group* revenue (from automotive manufacturing), based on the latest audited annual financial statements at the time of application.	Minimum Rs100bn.
Investment, based on the latest audited annual financial statements at the time of application.	Global investment of company or its group* company(ies) in fixed assets (gross block) of Rs30bn.
Minimum investment commitment in India during a three-year window.	Rs41.50bn (US\$500m).
Maximum investment commitment in India during a three-year window.	No limit.
Domestic value addition criteria during manufacturing.	25% to be achieved within three years and 50% to be achieved within five years from the date of issuance of approval letter.

SOURCE: THE GAZETTE OF INDIA, INCRED RESEARCH

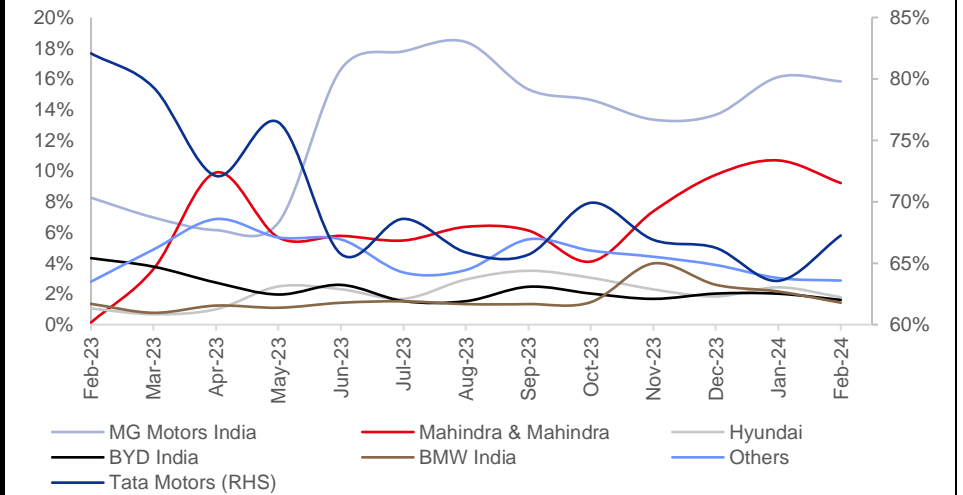
EV car manufacturing policy beneficiaries

Figure 1: Niti Aayog's EV penetration outlook for FY30F

Two-wheelers	35-40%
Private four-wheelers	9-11%
Shared four-wheelers	20-25%
Buses	13-16%

SOURCE: THE GAZETTE OF INDIA, INCRED RESEARCH

Figure 2: EV manufacturers' market share in India



SOURCE: VAHAN, INCRED RESEARCH

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.