

India

June 15, 2024 - 10:01 PM

HOLD (no change)

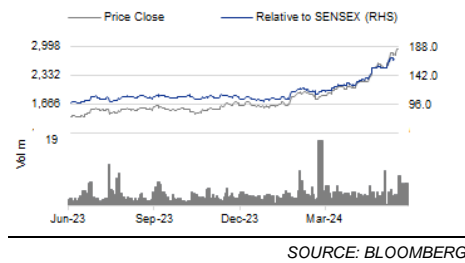
Consensus ratings*: Buy 35 Hold 4 Sell 1

| | |
|------------------------------|--------------|
| Current price: | Rs2,929 |
| Target price: | Rs2,455 |
| Previous target: | Rs2,455 |
| Up/downside: | -16.2% |
| InCred Research / Consensus: | -8.6% |
| Reuters: | MAHM.NS |
| Bloomberg: | MM IN |
| Market cap: | US\$43,582m |
| | Rs3,641,799m |
| Average daily turnover: | US\$80.8m |
| | Rs6748.8m |
| Current shares o/s: | 1,110.3m |
| Free float: | 80.7% |

*Source: Bloomberg

Key financial forecast

| | Mar-25F | Mar-26F | Mar-27F |
|------------------|---------|---------|---------|
| Net Profit (Rsm) | 112,538 | 121,524 | 137,724 |
| Core EPS (Rs) | 101.36 | 109.45 | 124.04 |
| Core EPS Growth | 10.0% | 8.0% | 13.3% |
| FD Core P/E | 28.89 | 26.76 | 23.61 |
| Recurring ROE | 19.9% | 18.5% | 18.3% |
| P/BV (x) | 5.33 | 4.64 | 4.05 |
| DPS (Rs) | 21.10 | 25.00 | 30.00 |
| Dividend Yield | 0.78% | 0.92% | 1.11% |



| Price performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute (%) | 27.2 | 62.7 | 110.3 |
| Relative (%) | 22.1 | 53.6 | 73.1 |

| Major shareholders | % held |
|--------------------|--------|
| Mahindra Family | 19.3 |
| LIC | 6.0 |
| SBI Mutual Fund | 3.7 |

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

Mahindra & Mahindra

Mahindra Group Investor Day - Highlights

- Automotive division has started making XUV electric vehicle, which will be launched in early CY25F. MHCV division plans to double market share to 8%.
- Tractor division to focus on power penetration per acre for domestic growth and exports to Thailand and western Europe in the medium term.
- A 26% spike in the stock price in a month led to the P/E valuation (adjusted for subsidiaries' value) rise to +3SD above the 10-year mean. Retain HOLD.

Automotive business

- Mahindra & Mahindra (M&M) showcased its three born electric vehicles or BEV, which it plans to start launching in CY25F, positioning them as lifestyle products. It plans to offer the EV option in all its ICE brands and thus, EV penetration to touch 30% by FY30F.
- As regards exports, M&M said the global SUV segment is on the growth path and its less competitive. M&M has deepened its dealer network in South Africa, where it is getting good traction for Scorpio-N & XUV700. It recently launched XUV700 in Australia.
- By 2030F, M&M plans to launch nine gasoline SUVs (three mid-cycle enhancements including the recently launched XUV3XO & six new SUVs) & seven BEVs.
- M&M plans to double its market share to 7% in big trucks in the coming years. It also plans to launch EV small and pick-up trucks to expand the market.
- Volkswagen to help M&M bring in high-end motors and help diversify the cell source supply. The initial batch of BEVs to be fitted with imported Chinese blade LFP cells.

Farm equipment business

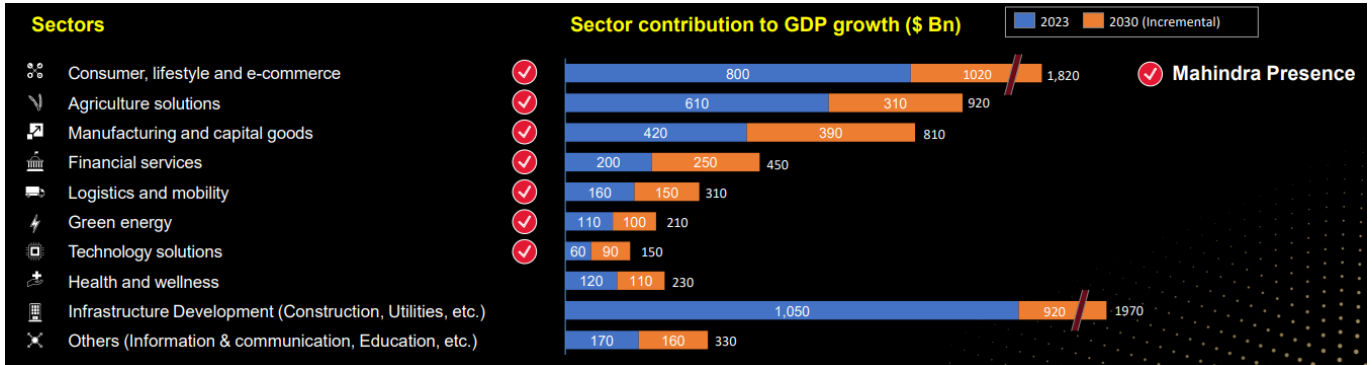
- Management feels the tractor power per acre at 2.9 currently will rise to 4 by FY30F, which will improve productivity and meet crop production targets of India which, it feels, could yield a better than 7.5% tractor industry volume CAGR by FY30F.
- M&M plans to leverage scale benefits of being the world's largest tractor volume manufacturer with the global launch of the OJA series of tractors in three platforms. In less than 110HP tractors, the global market size at 0.6m is 65% of India's tractor market.
- OJA models to enter ASEAN (90% dominated by Japanese players in Thailand) and western Europe. For other export models, the company is targeting Brazil and Turkey where it has ~7.5% market share.
- In the domestic market, Punjab & Haryana are likely to witness replacement demand higher than the country's average (75-85% in Punjab & Haryana vs. 45% in India). M&M is offering 15-80HP tractors in Uttar Pradesh and Bihar where the intensity of farming is higher compared to other Indian states.
- The key driver of growth in farm machinery is mechanization of Indian tractors as it is below the global average, at 47% of Indian farms vs. >60% in other developed nations. In the farm rotavator space, M&M already has market share of 21% and 40% in rice sowing/ transplanting equipment, respectively.
- M&M has sets an ambitious 500bp EBITDA margin expansion target for Tech Mahindra and doubling of RoE to 18% for Mahindra Finance to create better shareholder value.

Figure 1: Mahindra group's growth drivers

| Capitalize on Market Leadership | | Unlock Full Potential | | 5x Challenge | |
|---------------------------------|---|-----------------------|---|---|--|
| AUTO | ICE Momentum Best in Class EV Strength in CV International | FINANCE | Asset Quality Diversification Digital Transformation | GROWTH GEMS Brand and Trust Underlying Market Expansion Focused Growth Strategy M&A and Partnerships | |
| FARM | India Fortress Farm Machinery International | TECH M | Large Account Growth Margin Expansion New Age Offerings | | |

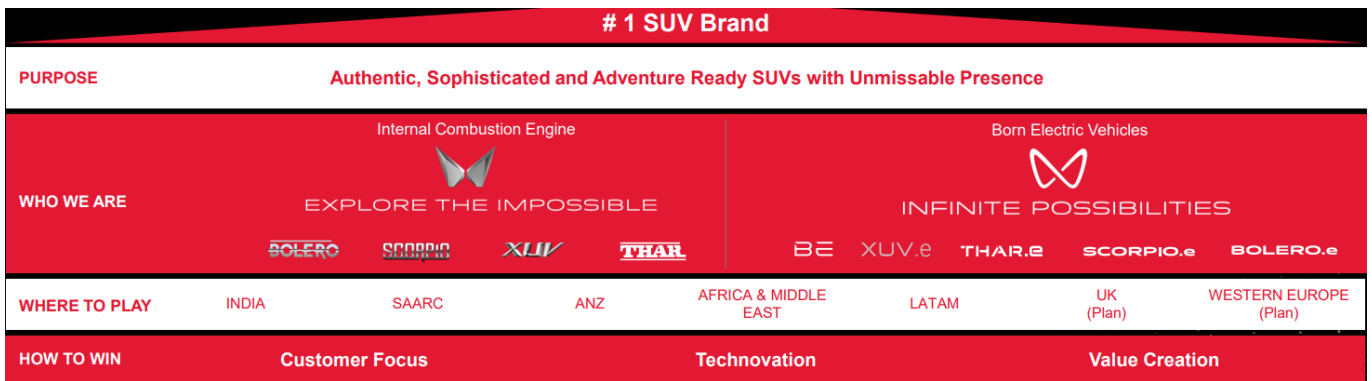
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: M&M group is a play on 70% of India's GDP growth



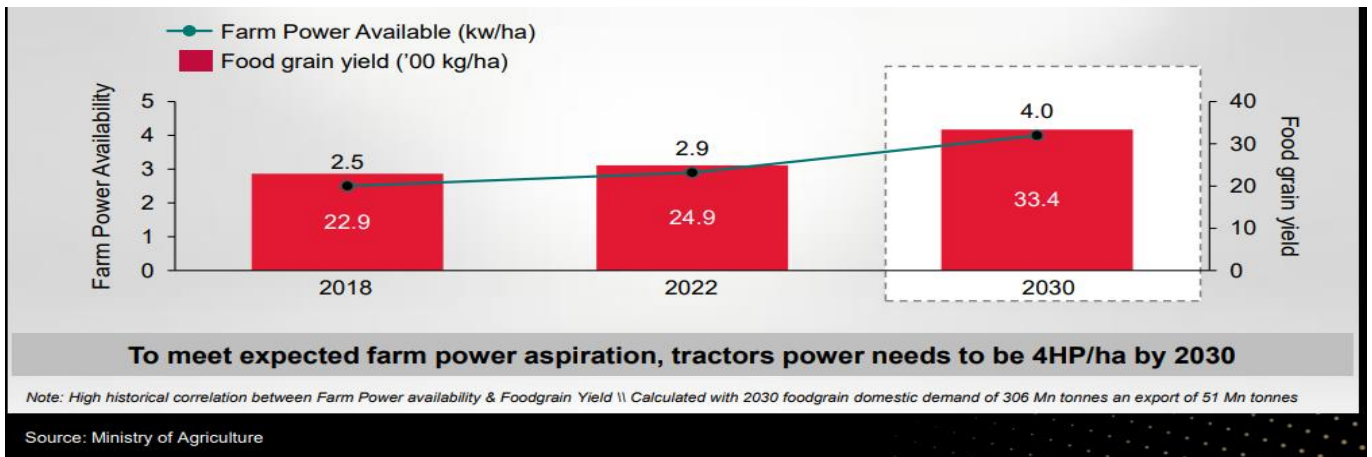
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: M&M's sports utility vehicle or SUV positioning



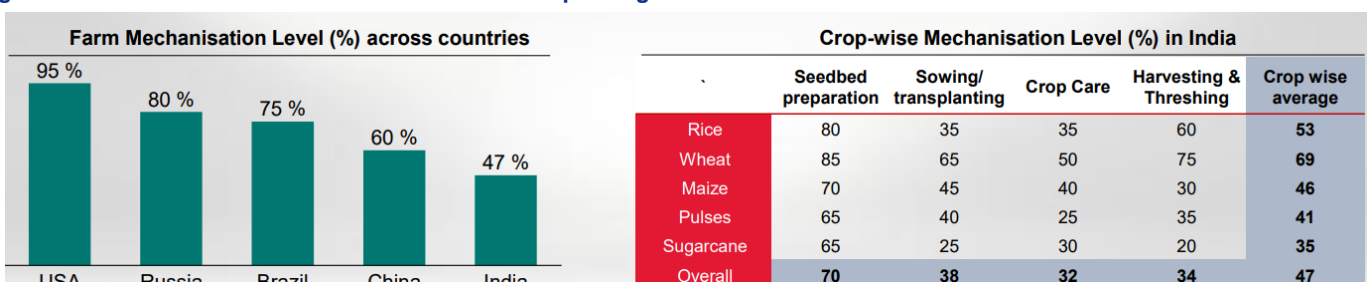
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: To achieve the required 2030F foodgrain demand, farm power of 4kW/ha is required



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: India's headroom for farm mechanization is quite big



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

| (Rs mn) | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---|----------------|------------------|------------------|------------------|
| Total Net Revenues | 992,682 | 1,159,658 | 1,294,103 | 1,444,093 |
| Gross Profit | 252,619 | 289,914 | 320,938 | 363,911 |
| Operating EBITDA | 132,825 | 152,607 | 166,418 | 191,913 |
| Depreciation And Amortisation | (34,389) | (40,845) | (49,125) | (57,405) |
| Operating EBIT | 98,437 | 111,763 | 117,294 | 134,508 |
| Financial Income/(Expense) | (1,388) | (1,200) | (1,000) | (1,000) |
| Pretax Income/(Loss) from Assoc. | | | | |
| Non-Operating Income/(Expense) | 32,955 | 35,591 | 39,506 | 43,062 |
| Profit Before Tax (pre-EI) | 130,004 | 146,154 | 155,800 | 176,570 |
| Exceptional Items | | | | |
| Pre-tax Profit | 130,004 | 146,154 | 155,800 | 176,570 |
| Taxation | (27,652) | (33,615) | (34,276) | (38,845) |
| Exceptional Income - post-tax | | | | |
| Profit After Tax | 102,352 | 112,538 | 121,524 | 137,724 |
| Minority Interests | | | | |
| Preferred Dividends | | | | |
| FX Gain/(Loss) - post tax | | | | |
| Other Adjustments - post-tax | | | | |
| Net Profit | 102,352 | 112,538 | 121,524 | 137,724 |
| Recurring Net Profit | 102,352 | 112,538 | 121,524 | 137,724 |
| Fully Diluted Recurring Net Profit | 102,352 | 112,538 | 121,524 | 137,724 |

Balance Sheet

| (Rs mn) | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|--|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 139,726 | 133,347 | 135,650 | 172,873 |
| Total Debtors | 45,495 | 69,897 | 74,455 | 90,998 |
| Inventories | 95,048 | 111,200 | 124,092 | 130,562 |
| Total Other Current Assets | 50,204 | 55,704 | 62,204 | 68,704 |
| Total Current Assets | 330,473 | 370,149 | 396,402 | 463,136 |
| Fixed Assets | 212,615 | 251,770 | 302,646 | 325,241 |
| Total Investments | 215,487 | 237,487 | 264,487 | 294,487 |
| Intangible Assets | | | | |
| Total Other Non-Current Assets | | | | |
| Total Non-current Assets | 428,103 | 489,258 | 567,133 | 619,728 |
| Short-term Debt | | | | |
| Current Portion of Long-Term Debt | | | | |
| Total Creditors | 185,920 | 202,543 | 218,629 | 239,712 |
| Other Current Liabilities | | | | |
| Total Current Liabilities | 185,920 | 202,543 | 218,629 | 239,712 |
| Total Long-term Debt | 15,849 | 10,849 | 5,849 | 849 |
| Hybrid Debt - Debt Component | | | | |
| Total Other Non-Current Liabilities | | | | |
| Total Non-current Liabilities | 15,849 | 10,849 | 5,849 | 849 |
| Total Provisions | 34,265 | 36,015 | 37,515 | 39,015 |
| Total Liabilities | 236,033 | 249,406 | 261,992 | 279,575 |
| Shareholders Equity | 522,766 | 610,000 | 701,543 | 803,290 |
| Minority Interests | | | | |
| Total Equity | 522,766 | 610,000 | 701,543 | 803,290 |

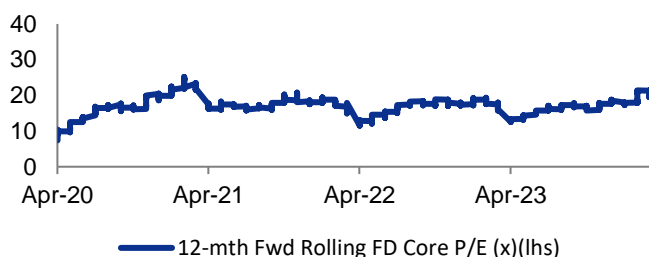
Cash Flow

| (Rs mn) | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|-----------------|------------------|------------------|------------------|
| EBITDA | 132,825 | 152,607 | 166,418 | 191,913 |
| Cash Flow from Invt. & Assoc. | | | | |
| Change In Working Capital | 3,151 | (23,931) | (1,364) | (1,930) |
| (Incr)/Decr in Total Provisions | (12,929) | (3,750) | (5,000) | (5,000) |
| Other Non-Cash (Income)/Expense | | | | |
| Other Operating Cashflow | 8,313 | | | |
| Net Interest (Paid)/Received | 31,567 | 34,391 | 38,506 | 42,062 |
| Tax Paid | (27,652) | (33,615) | (34,276) | (38,845) |
| Cashflow From Operations | 135,275 | 125,702 | 164,284 | 188,199 |
| Capex | (44,544) | (79,777) | (100,000) | (80,000) |
| Disposals Of FAs/subsidiaries | | | | |
| Acq. Of Subsidiaries/Investments | | | | |
| Other Investing Cashflow | (29,083) | (32,533) | (37,000) | (37,000) |
| Cash Flow From Investing | (73,627) | (112,310) | (137,000) | (117,000) |
| Debt Raised/(repaid) | (30,588) | (5,000) | (5,000) | (5,000) |
| Proceeds From Issue Of Shares | 6 | | | |
| Shares Repurchased | | | | |
| Dividends Paid | (28,482) | (25,304) | (29,981) | (35,977) |
| Preferred Dividends | | | | |
| Other Financing Cashflow | 10,502 | | | |
| Cash Flow From Financing | (48,563) | (30,304) | (34,981) | (40,977) |
| Total Cash Generated | 13,085 | (16,912) | (7,697) | 30,222 |
| Free Cashflow To Equity | 31,060 | 8,392 | 22,284 | 66,199 |
| Free Cashflow To Firm | 63,036 | 14,592 | 28,284 | 72,199 |

Key Ratios

| | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---------------------------|---------|---------|---------|---------|
| Revenue Growth | 16.8% | 16.8% | 11.6% | 11.6% |
| Operating EBITDA Growth | 27.2% | 14.9% | 9.1% | 15.3% |
| Operating EBITDA Margin | 13.4% | 13.2% | 12.9% | 13.3% |
| Net Cash Per Share (Rs) | 111.57 | 110.33 | 116.91 | 154.93 |
| BVPS (Rs) | 470.83 | 549.40 | 631.84 | 723.48 |
| Gross Interest Cover | 70.94 | 93.14 | 117.29 | 134.51 |
| Effective Tax Rate | 21.3% | 23.0% | 22.0% | 22.0% |
| Net Dividend Payout Ratio | 27.8% | 22.5% | 24.7% | 26.1% |
| Accounts Receivables Days | 15.79 | 18.16 | 20.36 | 20.91 |
| Inventory Days | 45.34 | 43.28 | 44.12 | 43.02 |
| Accounts Payables Days | 88.13 | 81.51 | 78.98 | 77.44 |
| ROIC (%) | 40.6% | 38.5% | 30.8% | 29.3% |
| ROCE (%) | 18.8% | 18.8% | 17.3% | 17.4% |
| Return On Average Assets | 14.5% | 14.0% | 13.4% | 13.5% |

12-mth Fwd Rolling FD Core P/E (x)



Key Drivers

| | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|---------------------------------------|---------|---------|---------|---------|
| ASP (% chg. main prod./serv.) | 6.9% | 4.7% | 2.6% | 1.9% |
| Unit sales grth (%. main prod./serv.) | 9.3% | 11.5% | 8.8% | 9.5% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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.