

Mahindra & Mahindra

BUY

Choice

In Q2FY25, M&M delivered a decent set of performance on a yearly basis backed by healthy growth in both the segments. Revenue for the quarter grew by 12.9% on YoY basis to Rs.275.5bn (vs CEBPL est. of Rs.273.7bn). Automotive business grew by 14.7% YoY to Rs.211bn and FES segment grew by 9.8% YoY to Rs.65bn. Margin during the quarter came at 14.2% (excluding investments from JV& Subsidiary) (+190bps YoY/-71bps QoQ) led by RM cost. EBITDA grew by (30.5% YoY/-2.9% QoQ) to Rs.39bn (vs CEBPL est. of Rs.40.8bn) and APAT for the quarter stood at Rs.38.4bn (+13.2% YoY/+47.0% QoQ).

- The company continues to demonstrate solid market positioning within the SUV segment, underscored by a significant order backlog across high-demand models, which underscores strong consumer confidence and brand loyalty. XUV models have garnered robust booking numbers, fortifying the company's presence in an increasingly competitive SUV market. This momentum reflects strategic alignment with consumer demand trends and positions the brand favorably against peers.
- A commitment to innovation is evident in the company's continual rollout of new features and advanced technology across its vehicle lineup. This proactive approach to enhancing user experience is expected to further differentiate the company in a competitive landscape, reinforcing customer retention while attracting a new demographic. Anticipated model launches and feature enhancements will likely sustain the brand's competitive edge and leadership within the automotive technology space.
- Furthermore, the company's balanced revenue mix across the Auto and Farm Equipment segments reflects financial stability, with both segments posting strong EBIT margins and growth. This diversification not only secures a stable revenue stream but also ensures capital is available for reinvestment into growth-driven areas, reinforcing a sustainable long-term outlook.

Outlook and Valuations: The company continues to see strong demand across its SUV portfolio, driven by continuous innovation and new model introductions. The commitment to product development and market expansion positions the company well for future growth. The auto revenue market share has increased to 21.9%, up nearly 2 percentage points from the previous year, highlighting the success of its expanding SUV offerings. Furthermore, the farm segment is also showing significant progress, with market share growing by nearly 1 percentage point, driven by strong rural sentiment. The balanced revenue mix across segments is expected to support sustained growth. We arrive at a BUY rating on the stock with a SOTP TP of Rs.3,466 (based on 24x Sep-FY27E Core EPS + subsidiary valuation).

Quarterly performance

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Volumes (units)	3,24,420	3,02,139	7.4	3,33,017	(2.6)
Net Sales	2,75,533	2,43,948	12.9	2,70,388	1.9
Material Expenses	2,04,440	1,83,724	11.3	1,99,394	2.5
Employee Expenses	11,526	11,384	1.2	11,753	(1.9)
Other Operating Expenses	20,525	18,912	8.5	19,018	7.9
EBITDA	39,042	29,928	30.5	40,222	(2.9)
Depreciation	9,614	8,282	16.1	9,146	5.1
EBIT	29,428	21,646	36.0	31,076	(5.3)
Interest Cost	551	333	65.6	529	4.2
Exceptional Item	-	-	NA	-	NA
PBT	49,310	43,218	14.1	34,062	44.8
RPAT	38,409	33,931	13.2	26,126	47.0
APAT	38,409	33,931	13.2	26,126	47.0
Adj. EPS	31	27	13.2	21	47.0

Margin Analysis	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
Material Exp % of Sales	74.2	75.3	(111)	73.7	45
Employee Exp. % of Sales	4.2	4.7	(48)	4.3	(16)
Other Op. Exp % of Sales	7.4	7.8	(30)	7.0	42
EBITDA Margin (%)	14.2	12.3	190	14.9	(71)
Tax Rate (%)	22.1	21.5	62	23.3	(119)
APAT Margin (%)	13.9	13.9	3	9.7	428

Source: Company, CEBPL

Nov 8, 2024	
CMP (Rs)	2,890
Target Price (Rs)	3,466
Potential Upside (%)	19.9

*CMP as on 7th Nov 2024

Company Info

BB Code	MM IN EQUITY
ISIN	INE101A01026
Face Value (Rs.)	5.0
52 Week High (Rs.)	3,221
52 Week Low (Rs.)	1,475
Mkt Cap (Rs bn.)	3,611
Mkt Cap (\$ bn.)	42.9
Shares o/s (Mn.)/Free Float	1,243.5/72
Adj. TTM EPS (Rs)	87.7
FY27E EPS (Rs)	169.8

Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	18.53	18.55	18.58
FII's	41.18	41.90	41.75
DII's	27.04	26.18	26.13
Public	13.25	13.37	13.54

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE AUTO	107.0	76.6	44.8
M&M	237.9	117.1	86.9

Year end March (INR bn)

Particular	FY25E	FY26E	FY27E
Revenue	1,164.3	1,384.8	1,665.2
Gross Profit	300.4	358.7	433.0
EBITDA	164.2	200.8	248.1
EBITDA (%)	14.1	14.5	14.9
EPS (INR)	110.4	137.2	169.8

Rebased Price Performance



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CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	Choice Est.	Deviation (%)
Revenue	2,75,533	2,73,674	0.7
EBIDTA	39,042	40,777	(4.3)
EBIDTA Margin (%)	14.17	14.90	(73)bps
PAT	38,409	27,250	41.0

Source: Company, CEBPL

Changes in Estimates

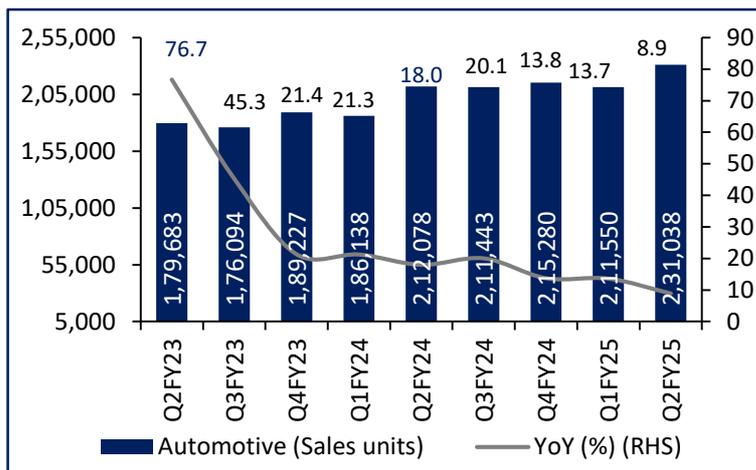
Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Old	Dev. (%)	New	Old	Dev. (%)	New
Net sales	11,64,251	11,65,225	-0.1%	13,84,793	13,69,902	1.1%	16,65,244
EBITDA	1,64,159	1,64,297	-0.1%	2,00,795	2,05,485	-2.3%	2,48,121
EBITDA margin(%)	14.1	14.1	-	14.5	15.0	(50) bps	14.9
APAT	1,37,253	1,34,526	2.0%	1,70,641	1,72,662	-1.2%	2,11,155
EPS	110.4	108.2	2.0%	137.2	138.8	-1.2%	169.8

Source: Company, CEBPL

Management Call – Highlights

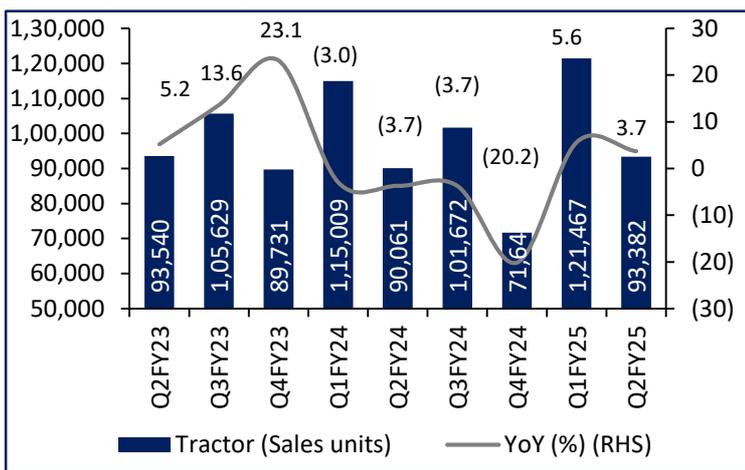
- Auto and farm sectors achieved strong performance, with auto market share at 21.9%, up nearly 2%, and farm market share up by 1%.
- PBIT margins in auto rose by 140 basis points YoY; farm margins increased by 150 basis points.
- Services saw significant profit growth, led by TechM, Mahindra Finance, and other growth segments, contributing more to profits than the tractor business.
- Mahindra Finance improved asset quality, achieving Gross Stage 3 NPAs of 3.8%, below the target of 6%, with PAT up 36%.
- Renewables division achieved a 1 GW increase in capacity in the quarter, moving toward the 5 GW target.
- The company observed a positive shift in rural sentiment, projecting 6-7% growth in the farm sector, with 13-15% expected in H2.
- The company is maintaining its full-year projections, expecting 15% to 18% growth for its SUV portfolio, supported by notable new SUV launches and increased capacity for the Thar to meet strong demand.
- LCV segment showed recovery, while exports grew, notably in tractors with a 27% rise.
- The electric segment (last-mile mobility) achieved a 20% market share in its category.
- The consolidated PAT growth of 35% included non-operating gains from land sales; excluding these, growth stood at 22%.
- Auto and farm profits rose by 23%, driven by successful new product launches.
- Logistics and real estate sectors exhibited solid performance, with logistics facing minor profitability challenges due to express business integration.
- Real estate benefited from strong industry tailwinds, with consistent project execution and profitability.
- Services division, including Mahindra Finance and Tech Mahindra, expanded profit margins, contributing equally to profits alongside the auto sector.
- Mahindra Finance focused on sustainable growth, prioritizing asset quality over aggressive expansion, with a diversification strategy now expanding into mortgages.
- Tractor margins maintained at robust 18.7% despite Q2 being a seasonally low-volume quarter.
- Mahindra & Mahindra is carefully assessing its international subsidiaries, with particular attention to challenges in the US and Turkey markets, the latter impacted by hyperinflation.
- Despite the price reduction on the XUV700 model, strong volume and high mix of premium variants maintained margin stability.
- The company faced an unexpected inventory buildup due to unforeseen factors like heat waves and flooding, resulting in higher-than-anticipated inventory levels. Most of the industry has now largely cleared this excess inventory, anticipating a fresh start from January onward. Company still needs to make some minor adjustments to its tractor inventory over the next 3-5 months, though these are not substantial and pose no significant concern.
- The company's electric vehicle strategy features new SUVs, the B6E and XEV9E, set to launch in early 2025, with an official reveal planned for this November. Substantial launch expenses in Q3 are anticipated to impact short-term margins, but these investments are focused on driving long-term growth.
- The company will add 100,000 EV capacities in phase one as production starts.
- Classic Legends, the motorcycle business, and the hospitality division are flagged as future growth areas, with the latter well-positioned amid India's tourism expansion.
- The spike in rubber prices will impact tractor production costs, especially for tires. While base metals have also seen some effect, the overall outlook for commodity costs remains reasonably benign.

Automotive volume grew 8.9% YoY



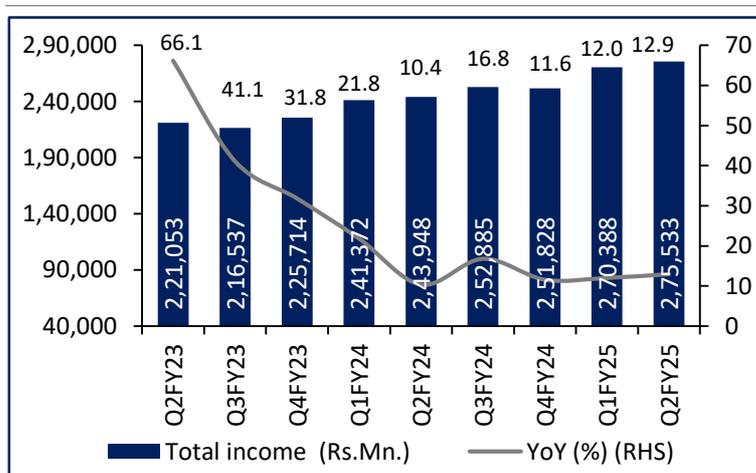
Source: Company, CEBPL

Tractor (Sales units)



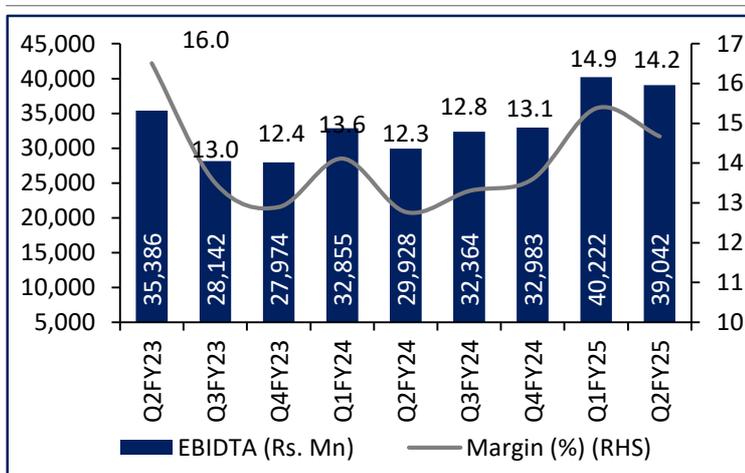
Source: Company, CEBPL

Revenue grew 12.9% YoY



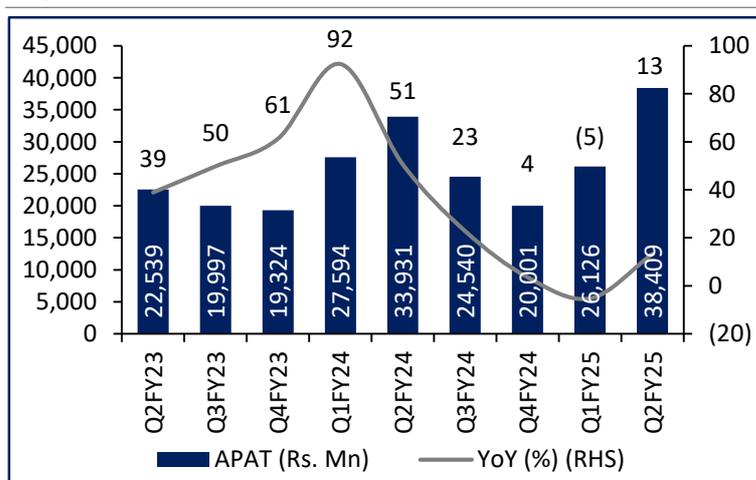
Source: Company, CEBPL

Margin improved YoY



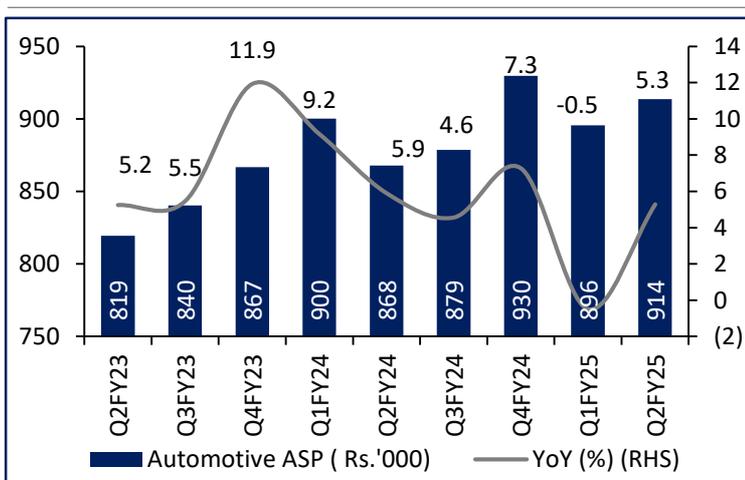
Source: Company, CEBPL

Adjusted PAT trend



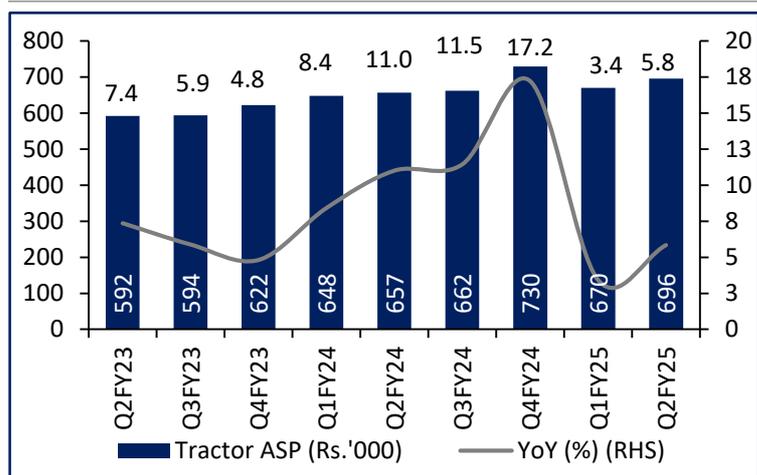
Source: Company, CMIE, CEBPL

Automotive ASP trend



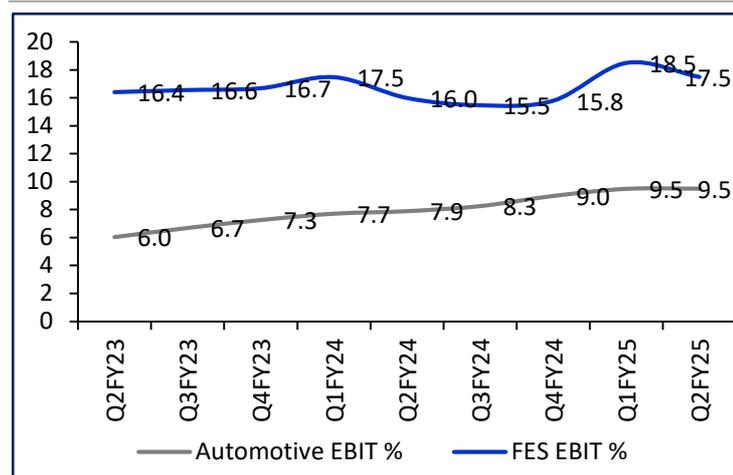
Source: Company, CMIE, CEBPL

Tractor ASP improved



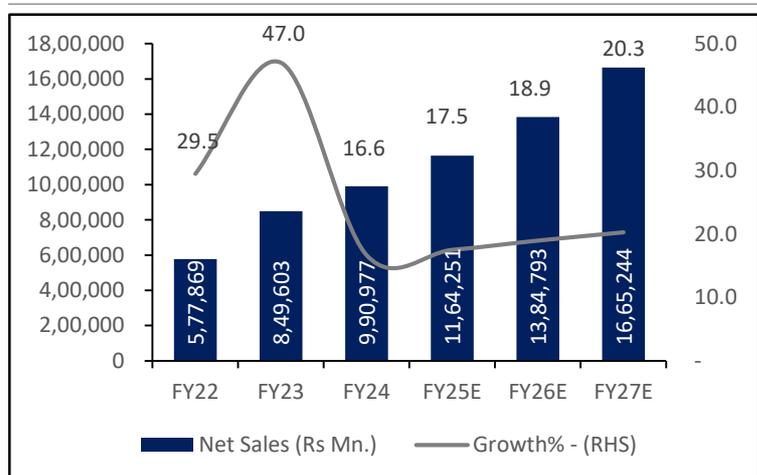
Source: Company, CMIE, CEBPL

Automotive & FES margin improved YoY



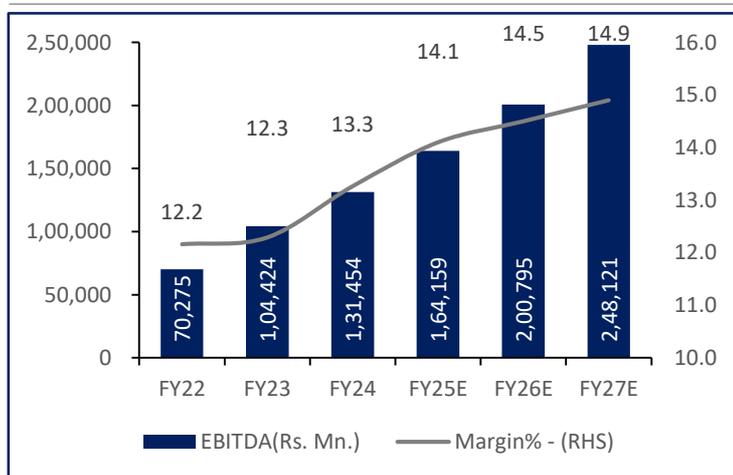
Source: Company, CMIE, CEBPL

Revenue to grow on account of healthy order book



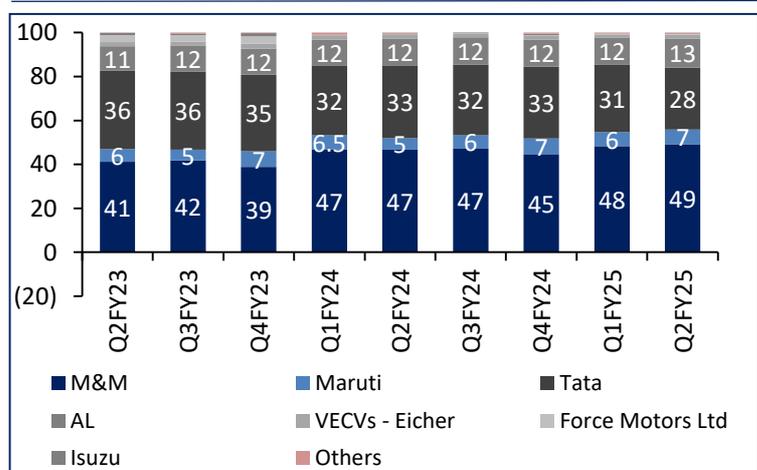
Source: Company, CEBPL

Margins to improve on account of Oplev benefit and product mix



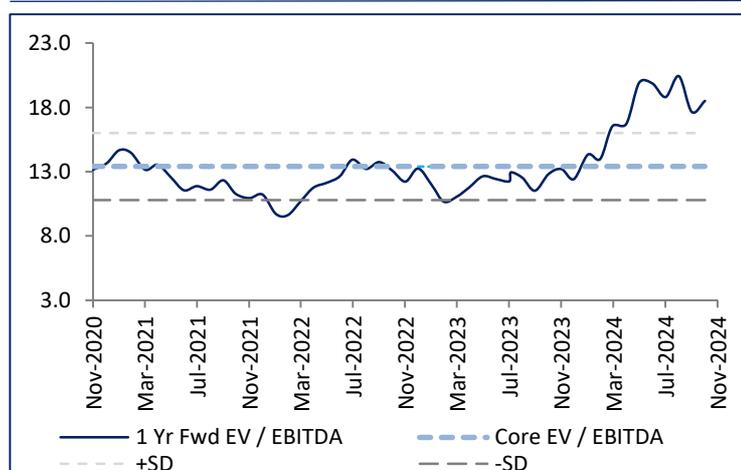
Source: Company, CEBPL

LCV (goods) market share (%)



Source: Company, CEBPL

1 year Fwd. EV/EBITDA



Source: Company, CEBPL

Income statement (in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	8,49,603	9,90,977	11,64,251	13,84,793	16,65,244
Gross profit	2,04,020	2,51,028	3,00,377	3,58,661	4,32,963
EBITDA	1,04,424	1,31,454	1,64,159	2,00,795	2,48,121
Depreciation	31,545	34,880	36,556	40,056	44,556
EBIT	72,879	96,574	1,27,603	1,60,739	2,03,565
Interest expense	2,728	1,405	584	605	480
Other Income	25,452	39,409	51,232	61,478	67,626
EO item	(14,295)	-	-	-	-
Reported PAT	65,486	1,06,423	1,37,253	1,70,641	2,11,155
Minority Interest	-	-	-	-	-
Adjusted PAT	76,208	1,06,423	1,37,253	1,70,641	2,11,155
EPS	61	86	110	137	170
NOPAT	58,698	76,370	98,255	1,23,769	1,58,781

Balance sheet (in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Net worth	4,33,567	5,22,766	6,18,843	7,34,879	8,72,130
Minority Interest	-	-	-	-	-
Deferred tax	14,703	15,551	15,551	15,551	15,551
Total debt	46,437	15,849	13,349	10,849	8,349
Other liabilities & provisions	25,812	28,662	32,073	35,553	40,821
Total Net Worth & liabilities	5,20,520	5,82,827	6,79,815	7,96,832	9,36,850
Net Fixed Assets	1,69,762	1,75,280	1,90,280	2,10,280	2,35,280
Capital Work in progress	27,846	37,558	37,558	37,558	37,558
Investments	2,70,871	2,99,954	3,39,954	3,89,954	4,49,954
Cash & bank balance	44,818	55,259	66,751	88,351	1,16,828
Loans & Advances & other assets	38,363	58,730	68,976	82,000	98,542
Net Current Assets	13,678	11,304	43,047	77,039	1,15,516
Total Assets	5,20,520	5,82,827	6,79,815	7,96,832	9,36,850
Capital Employed	4,80,005	5,38,615	6,32,192	7,45,728	8,80,478
Invested Capital	4,07,341	4,45,797	5,27,883	6,19,819	7,26,093
Net Debt	1,620	(39,410)	(53,402)	(77,502)	(1,08,479)
FCFF	56,980	64,941	92,352	1,28,347	1,68,566

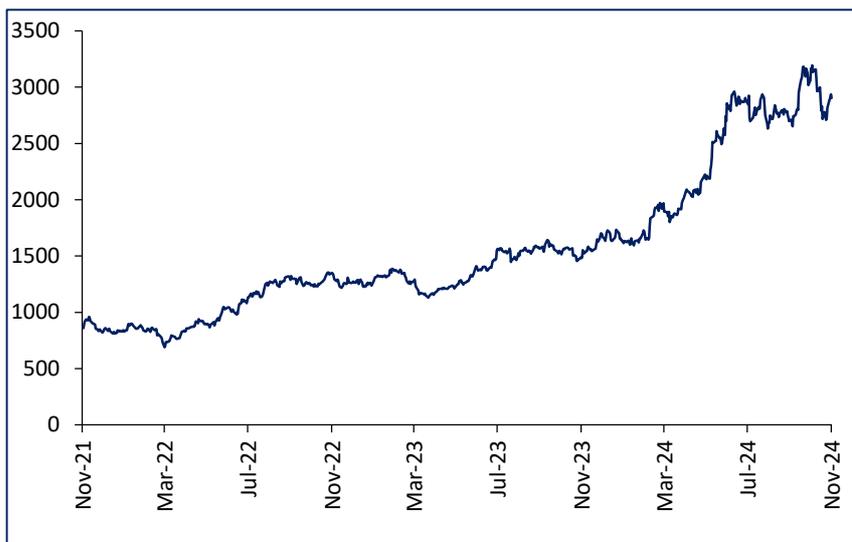
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	91,293	1,15,051	1,43,909	1,88,403	2,38,122
Capex	(34,313)	(50,110)	(51,556)	(60,056)	(69,556)
FCF	56,980	64,941	92,352	1,28,347	1,68,566
CFI	(47,535)	(76,332)	(91,556)	(1,10,056)	(1,29,556)
CFF	(37,838)	(55,375)	(44,260)	(57,710)	(76,884)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenue	47.0	16.6	17.5	18.9	20.3
EBITDA	48.6	25.9	24.9	22.3	23.6
PAT	51.6	39.6	29.0	24.3	23.7
Margin ratios (%)					
EBITDA margins	12.3	13.3	14.1	14.5	14.9
PAT Margins	9.0	10.7	11.8	12.3	12.7
Performance Ratios (%)					
OCF/EBITDA (X)	0.9	0.9	0.9	0.9	1.0
OCF/IC	22.4	25.8	27.3	30.4	32.8
RoE	17.6	20.4	22.2	23.2	24.2
ROCE	15.2	17.9	20.2	21.6	23.1
RoIC(Post tax)	14.4	17.1	18.6	20.0	21.9
RoIC(Pre tax)	17.9	21.7	24.2	25.9	28.0
Turnover Ratio (Days)					
Inventory	38	35	38	38	38
Debtors	17	17	17	18	18
Payables	84	79	79	74	70
Cash Conversion Cycle	(24)	(27)	(19)	(14)	(11)
Financial Stability ratios (x)					
Net debt to Equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net debt to EBITDA	0.0	(0.3)	(0.3)	(0.4)	(0.4)
Interest Cover	26.7	68.7	218.5	265.7	424.1
Valuation metrics					
Fully diluted shares (mn)	1,244	1,244	1,244	1,244	1,244
Price (Rs)	2890	2890	2890	2890	2890
Market Cap(Rs. Mn)	35,93,864	35,93,864	35,93,864	35,93,864	35,93,864
PE(x)	47	34	26	21	17
EV (Rs.mn)	35,95,484	35,54,454	35,40,462	35,16,362	34,85,385
EV/EBITDA (x)	34	27	22	18	14
Book value (Rs/share)	349	420	498	591	701
Price to BV (x)	8.3	6.9	5.8	4.9	4.1
EV/OCF (x)	39	31	25	19	15

Source: Company, CEBPL

Historical recommendations and target price: M&M



M&M

1.	14-02-2022	ADD,	Target Price Rs. 971
2.	30-05-2022	ADD,	Target Price Rs. 1,098
3.	08-08-2022	Neutral,	Target Price Rs.1,216
4.	14-11-2022	ADD,	Target Price Rs.1,440
5.	10-02-2023	ADD,	Target Price Rs.1,545
6.	27-05-2023	ADD,	Target Price Rs.1,450
7.	05-08-2023	ADD,	Target Price Rs.1,465
8.	12-11-2023	ADD,	Target Price Rs.1,743
9.	15-02-2024	ADD,	Target Price Rs.1,821
10.	17-05-2024	BUY,	Target Price Rs.2,569
11.	01-08-2024	REDUCE,	Target Price Rs.3,005
12.	08-11-2024	BUY,	Target Price Rs.3,466

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CHOICE RATING DISTRIBUTION & METHODOLOGY

BUY	The security is expected to generate greater than or = 15% over the next 24 months
HOLD	The security expected to show upside or downside returns by 14% to -5% overhead 24 months
SELL	The security expected to show Below -5% next 24 months

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