Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Mahindra & Mahindra Ltd

Inline operating performance, sanguine commentary

Automobiles	Sharekhan code: M&M
Reco/View: Buy ↔	CMP: Rs. 2,890 / Price Target: Rs. 3,490 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

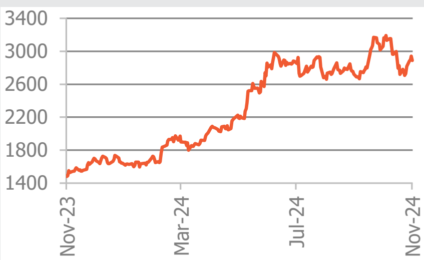
Company details

Market cap:	Rs. 3,59,283 cr
52-week high/low:	Rs. 3,221 / 1,474
NSE volume: (No of shares)	30.2 lakh
BSE code:	500520
NSE code:	M&M
Free float: (No of shares)	101.2 cr

Shareholding (%)

Promoters	18.5
FII	41.2
DII	27.1
Others	13.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.2	41.0	79.7	90.8
Relative to Sensex	-1.3	31.5	64.9	68.2

Sharekhan Research, Bloomberg

Summary

- M&M reported AEBITDA at Rs. 3,950 crore in Q2FY2025 vs. estimate of Rs. 3,914 crore. This was the consecutive second quarter when it held up blended AEBITDA margin above 14% level.
- Management has now guided for 6-8% growth in the tractor industry for FY2025 compared to 5% growth earlier.
- We maintain BUY with an SOTP-based unchanged PT of Rs. 3,490 due to healthy traction in its PV segment, market leadership in the tractor segment, opportunity to grow in the farm machinery segment, and its roadmap to play in the EV space.
- The stock trades at a P/E multiple of 23.1x and EV/EBITDA multiple of 15.4x its FY2027 estimates.

Mahindra & Mahindra (M&M) has come out with a decent performance in Q2FY2025. EBITDA and EBITDA margins came in close to estimates, while a miss in the bottom line was due to lower-than-expected other income. Going forward, management is looking for double-digit growth in the tractor industry in H2FY2025 on account of a healthy revival in rural markets. Hence, it has revised its growth guidance for the tractor industry to 6-8% for FY2025 now from 5% earlier. The company has maintained its mid to high-teens growth guidance for its PV portfolio. Revenue increased by 13.3% y-o-y to Rs. 27,553 crore (against estimate of Rs. 27,201 crore), driven by 14.7% y-o-y growth in revenue from the automotive segment and 9.8% y-o-y growth in revenue from the farm equipment segment. AEBITDA increased by 28.8% y-o-y to Rs. 3,950 crore (against our estimate of Rs. 3,914 crore). AEBITDA margin expanded by 170 bps y-o-y to 14.3% (against our estimate of 14.4%). APAT increased by 9.3% y-o-y to Rs. 3,886 crore (against our estimate of Rs. 4,028 crore). Management has highlighted that its international farm equipment business is facing macro challenges.

Key positives

- In a seasonally weak quarter for the tractor segment, M&M has held its blended AEBITDA margin above 14%, given this was the consecutive second quarter when the company had reported AEBITDA margin above 14% level.
- Gross margin expanded by 140 bps y-o-y and translated into 170 bps y-o-y expansion in EBITDA margin.
- Underlying EBIT margin in the core tractor business stood at 18.7% compared to 17.5% in the farm equipment segment.

Key negatives

- The international farm business is getting impacted by macro headwinds.
- Although BEVs will be part of a separate subsidiary but would deliver low margins initially.
- Retail offtake was healthy in the tractor segment during the festive segment, while the company is looking for an inventory correction in the next 3-5 months.

Management Commentary

- The tractor industry can grow by 6-8% in FY2025 and optimism continues for FY2026, backed by rising reservoir levels.
- Management has maintained its mid to high teen growth guidance for the PV portfolio.
- Rural markets are offering growth opportunities, while urban markets are facing headwinds.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 3,490: After reporting in-line operating results, management expressed optimism for the tractor sector and maintained a good outlook for its PV portfolio. Despite being a seasonally weak quarter for the tractor business, the company sustained its blended AEBITDA margin above 14% level for a consecutive second quarter in a row. Further, M&M has planned to unveil two of its BEVs by the last week of November. Along with healthy margins, the cash generation for H1FY2025 has been strong at Rs. 19,224 crore. Management aims to deliver healthy ROEs along with suitable growth across business lines. M&M is consistently focusing on improving its operating profitability. Historically, M&M's operating performance has largely depended on the tractor segment; however, we believe that the automobiles segment would substantially contribute to profitability in the coming period. We maintain our BUY rating on the stock with an SOTP-based unchanged PT of Rs. 3,490 due to healthy traction in its PV segment, market leadership in the tractor segment, opportunity to grow in the farm machinery segment, and its roadmap to play in the EV space.

Key Risks

Uneven distribution of monsoons can affect our volume estimates for M&M's farm equipment segment. Unsuccessful new launches and volatility in raw-material cost trend can also impact our projection adversely. Any deviation from the capital allocation strategy would raise concerns on its return ratios.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	84,960	98,763	1,17,872	1,31,934	1,47,539
Growth (%)	47.0	16.2	19.3	11.9	11.8
AEBITDA	10,442	12,919	15,441	18,735	20,951
AEBITDA margin (%)	12.3	13.1	13.1	14.2	14.2
APAT (Rs cr)	7,700	10,919	12,624	14,641	15,575
Growth (%)	52.9	41.8	15.6	16.0	6.4
AEPS	62	88	102	118	125
P/E (x)	46.7	32.9	28.5	24.5	23.1
P/B (x)	8.3	6.9	5.9	5.0	4.4
EV/EBITDA (x)	31.8	25.2	21.0	17.3	15.4
ROE (%)	17.8	20.9	20.7	20.5	18.9
ROCE (%)	16.5	20.4	20.2	20.1	18.6

Source: Company; Sharekhan estimates