

Mahindra & Mahindra

REDUCE

Choice

In Q1FY25, M&M delivered a decent set of performance on a quarterly basis backed by healthy growth in both the segments. Revenue for the quarter grew by 12% on YoY basis to Rs.270bn (vs CEBPL est. of Rs.294bn) which is lower than our estimates. Automotive business grew by 13% YoY to Rs.189bn and FES segment grew by 9% YoY to Rs.81.4bn. Margin during the quarter came at 14.9% (excluding investments from JV& Subsidiary) (+126bps YoY/+178bps QoQ) led by RM cost. EBITDA grew by (22.4% YoY/+22% QoQ) to Rs.40bn (vs CEBPL est. of Rs.39bn) and APAT for the quarter stood at Rs.26bn (-5.3% YoY/+30.6% QoQ). Management expects to maintain high teen growth going forward while maintaining the margin despite reduction in prices of XUV700.

- The Automotive segment margin continued to expand driven by RM cost benefit, with the EBIT margin increased by 178bps YoY to 9.5%. Farm Equipment segment's EBIT margin came in at 18.5% expanded 101.7bps YoY/269bps QoQ. The AUTO/FES EBIT mix stood at 54:46 in Q1FY25 compared to 68:32 in Q4FY24.
- Successful launch of XUV3X0:** Since launch M&M received ~55k booking for its newly launched vehicle XUV3X0 which has capacity of around 9000/month. In this Compaq SUV segment XUV3X0 is competing with its rivals like Nexon, Brezza, Venue, Sonet, Magnite, Kiger etc. It's a very competitive segment where base model pricing starts from Rs.7lakh and goes up to Rs.15 lakh. M&M with the XUV3X0 launch is aiming to maintain their market share in the segment which is roughly around 50% of the SUV segment. With XUV3X0, the company is offering some of the features which are available in XU700 which might attract some customers from the large SUV segment. However, the net target market is in favor of 3X0. We have to wait on how new bookings takes place within the portfolio and how mix takes shape in coming quarters.
- Order book for XUV3X0-55k, XUV700-13k, THAR-42K, Bolero & neo-8K, Scorpio-N-58k. The company is investing in product development, with a focus on the SUV segment and has a wide and strong product portfolio, with many new products in the pipeline. Management is focusing on capitalizing on its market leadership of the Auto and Farm sectors, unlocking potential in MMFSL and TechMahindra, and focusing on growth gems with 5X growth over 7-8 years.

Outlook and Valuations: Company is increasing its capacity significantly from current 49k/month to 72k/month by FY26, in line with increasing SUV demand which is expected to grow 10-11% in FY25. We expect the Automotive segment to register healthy growth in coming years. Additionally, in the tractor segment, a series of launches are underway in various categories, which will support the growth of the Farm Equipment segment. Further, launches in the Farm machinery segment (high margin) are also expected to do well going forward. Additionally, management's capital allocation to remain on core business will further create shareholders in coming years. We arrive at a REDUCE rating on the stock with a SOTP TP of Rs.3,005 (based on 22x FY26E Core EPS + subsidiary valuation).

Quarterly performance

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Volumes (units)	3,33,017	3,01,147	10.6	2,86,924	16.1
Net Sales	2,70,388	2,41,372	12.0	2,51,828	7.4
Material Expenses	1,99,394	1,81,152	10.1	1,84,348	8.2
Employee Expenses	11,753	10,564	11.3	11,223	4.7
Other Operating Expenses	19,018	16,802	13.2	23,274	(18.3)
EBITDA	40,222	32,855	22.4	32,983	21.9
Depreciation	9,146	8,404	8.8	9,882	(7.4)
EBIT	31,076	24,451	27.1	23,101	34.5
Interest Cost	529	327	61.6	397	33.4
Exceptional Item	0	-	NA	-	NA
PBT	34,062	33,414	1.9	26,244	29.8
RPAT	26,126	27,594	(5.3)	20,001	30.6
APAT	26,126	27,594	(5.3)	20,001	30.6
Adj. EPS	21	22	(5.3)	16	30.6

Margin Analysis	Q1FY25	Q1FY24	YoY (bps)	Q4FY24	QoQ (bps)
Material Exp % of Sales	73.7	75.1	(131)	73.2	54
Employee Exp. % of Sales	4.3	4.4	(3)	4.5	(11)
Other Op. Exp % of Sales	7.0	7.0	7	9.2	(221)
EBITDA Margin (%)	14.9	13.6	126	13.1	178
Tax Rate (%)	23.3	17.4	588	23.8	(49)
APAT Margin (%)	9.7	11.4	(177)	7.9	172

Source: Company, CEBPL

August 1, 2024

CMP (Rs)	2,907
Target Price (Rs)	3,005
Potential Upside (%)	3.4

Company Info

BB Code	MM IN EQUITY
ISIN	INE101A01026
Face Value (Rs.)	5.0
52 Week High (Rs.)	3,014
52 Week Low (Rs.)	1,419
Mkt Cap (Rs bn.)	3,615
Mkt Cap (\$ bn.)	43.4
Shares o/s (Mn.)/Free Float	1,243.5/78
Adj. TTM EPS (Rs)	85
FY26E EPS (Rs)	138.8

Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	18.55	18.58	19.33
FII's	41.90	41.75	40.86
DII's	26.18	26.13	26.26
Public	13.37	13.54	13.55

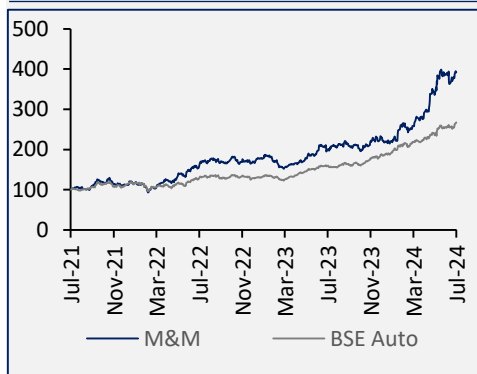
Relative Performance (%)

YTD	3Y	2Y	1Y
BSE AUTO	167.6	109.5	67.1
M&M	291.2	149.6	97.0

Year end March (INR bn)

Particular	FY24	FY25E	FY26E
Revenue	991.0	1,165.2	1,369.9
Gross Profit	251.0	292.5	356.2
EBITDA	131.5	164.3	205.5
EBITDA (%)	13.3	14.1	15.0
EPS (INR)	85.6	108.2	138.8

Rebased Price Performance



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CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	Choice Est.	Deviation (%)
Revenue	2,70,388	2,94,942	(8.3)
EBIDTA	40,222	39,227	2.5
EBIDTA Margin (%)	14.88	13.30	158bps
PAT	26,126	26,013	0.4

Source: Company, CEBPL

Changes in Estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	11,65,225	11,65,225	0.0	13,69,902	13,69,902	0.0
EBITDA	1,64,297	1,64,297	0.0	2,05,485	2,05,485	0.0
EBITDA margin(%)	14.1	14.1	0bps	15.0	15.0	0bps
APAT	1,34,526	1,38,304	(2.7)	1,72,662	1,77,544	(2.7)
EPS	108.2	111.2	(2.7)	138.8	142.8	(2.7)

Source: Company, CEBPL

Management Call – Highlights

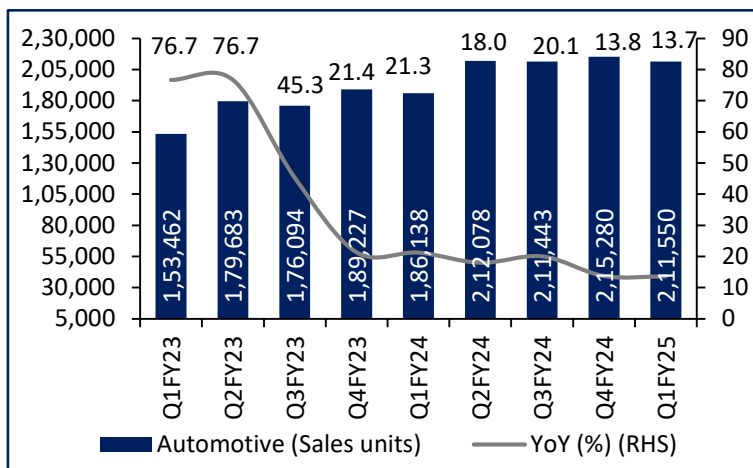
Automotive segment

- Reduction in prices of XUV700 was to pass on the some of the RM cost benefit and to make brand more accessible. Expect reduction in prices to get mitigated by operating leverage and lower cost of semi-conductors.
- Thar 3 door to see some moderation in volume due to 5 door launch.
- Expect to achieve mid teen growth in FY25.
- Management expects the value proposition of X7A and X7L is better hence expects ASP to be better
- Market leadership in SUVs with 21.6% revenue market share and in LCVs < 3.5T.
- Expect EV margin to normalize by 2030, however initially it will be lower.
- Scorpio brand is better than expectation.
- Didn't see any impact of price reduction of Hybrid tax in UP.
- Can work on hybrid technology if industry demand.
- Expecting LCV to improve led by recovery in rural market.
- Tax rate would be in the range of 23-24% .
- Rs.900cr receivable as PLI benefit

Tractor and FES segment

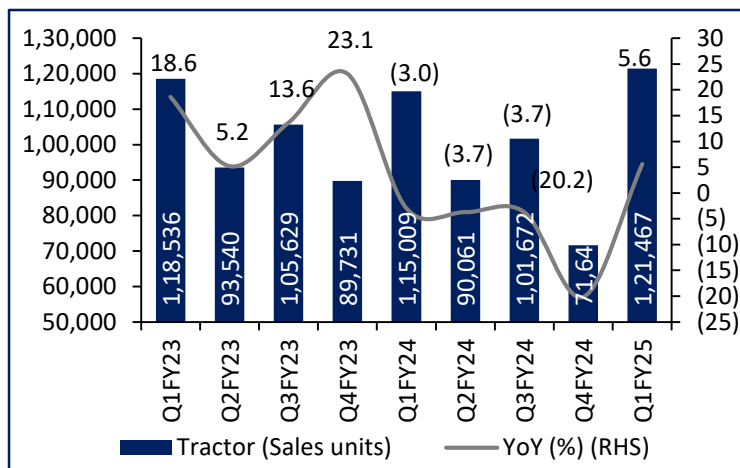
- Market share at 44.7% in Q1, seen improvement in farming payroll and monsoon season and increased govt. spending. Expect H2 to better
- Core tractor margin is around 19.7%
- Oja brand in USA is growing at healthy rate and streamlining the supply chain, expect growth to sustain in North America market.

Automotive volume grew 13.7% YoY



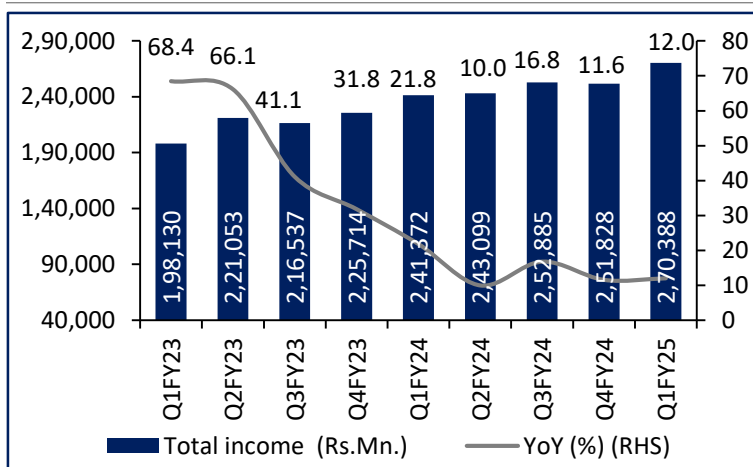
Source: Company, CEBPL

Tractor (Sales units)



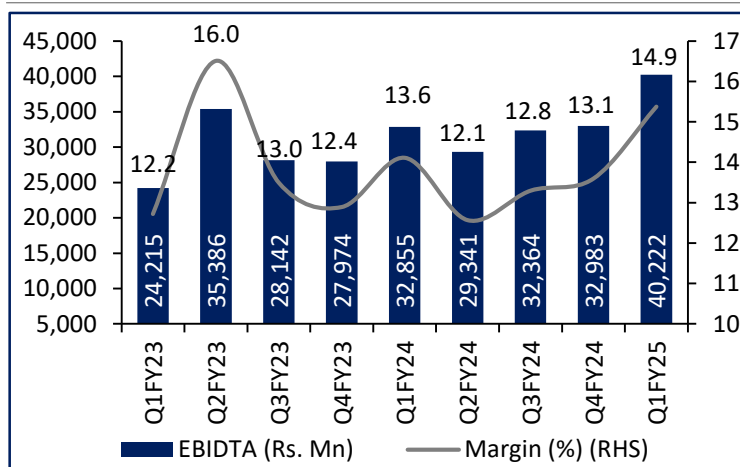
Source: Company, CEBPL

Revenue grew 12.0% YoY



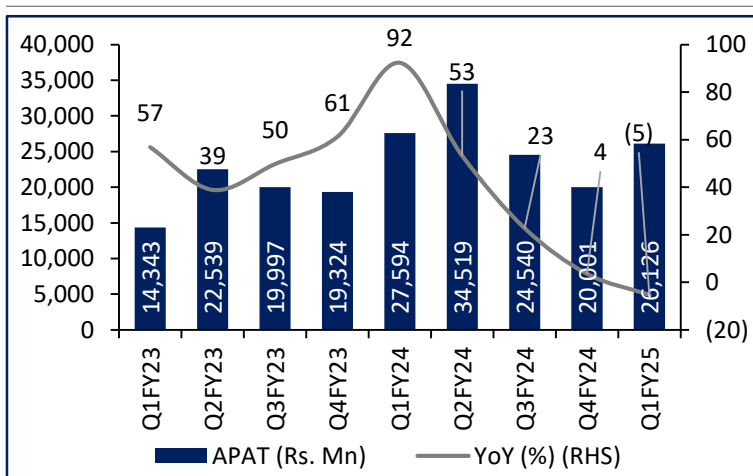
Source: Company, CEBPL

Margin improved sequentially and YoY



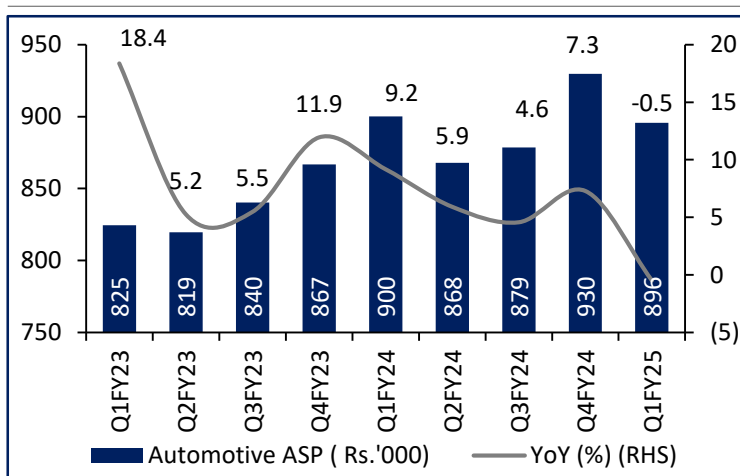
Source: Company, CEBPL

Adjusted PAT trend



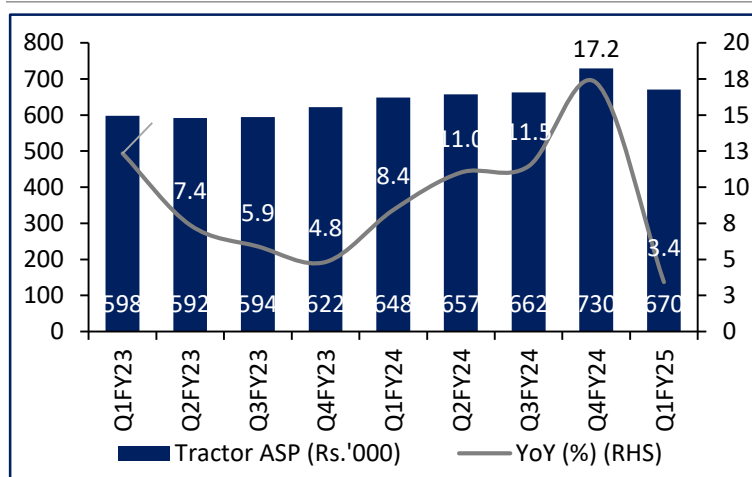
Source: Company, CMIE, CEBPL

Automotive ASP trend



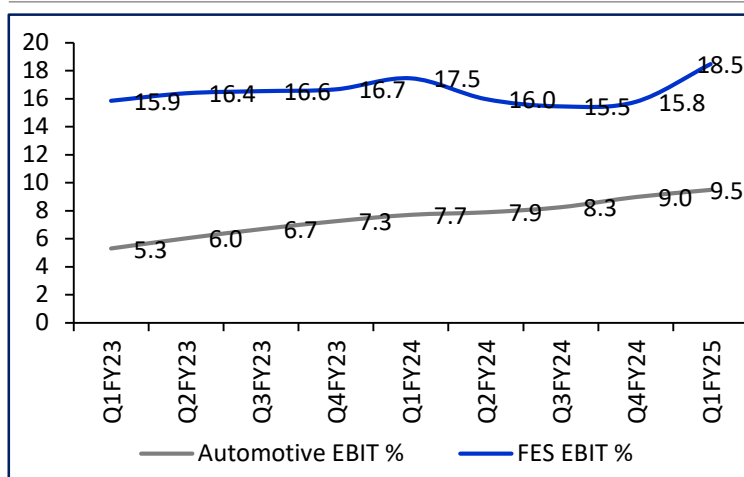
Source: Company, CMIE, CEBPL

Tractor ASP improved



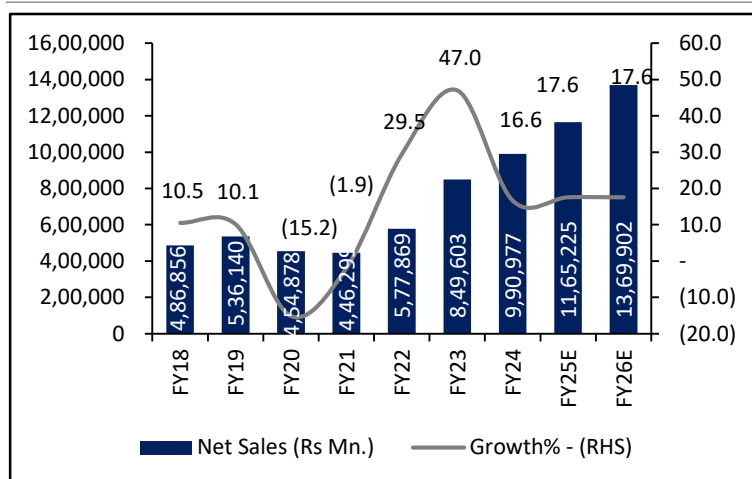
Source: Company, CMIE, CEBPL

Automotive & FES margin improved sequentially



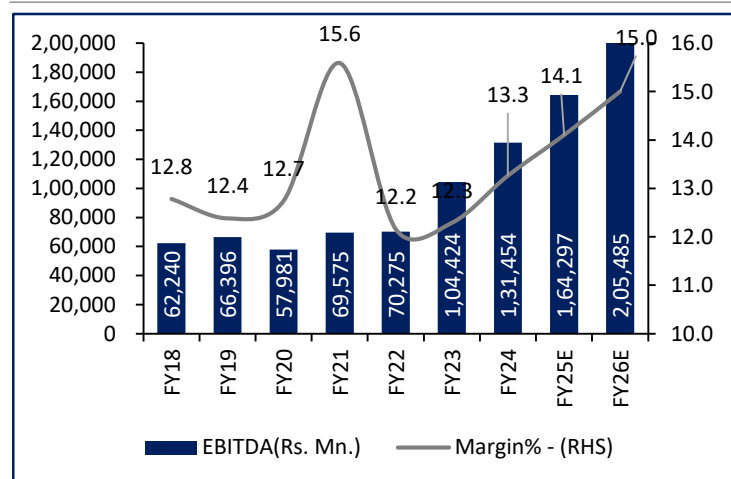
Source: Company, CMIE, CEBPL

Revenue to grow on account of healthy order book



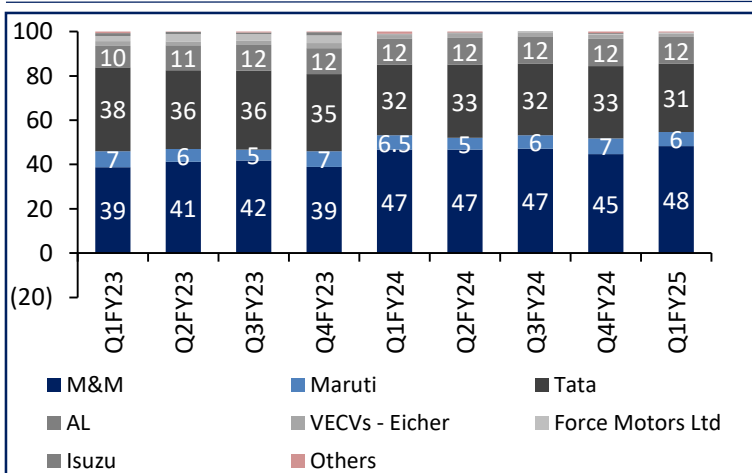
Source: Company, CEBPL

Margins to improve on account of Oplev benefit and product mix



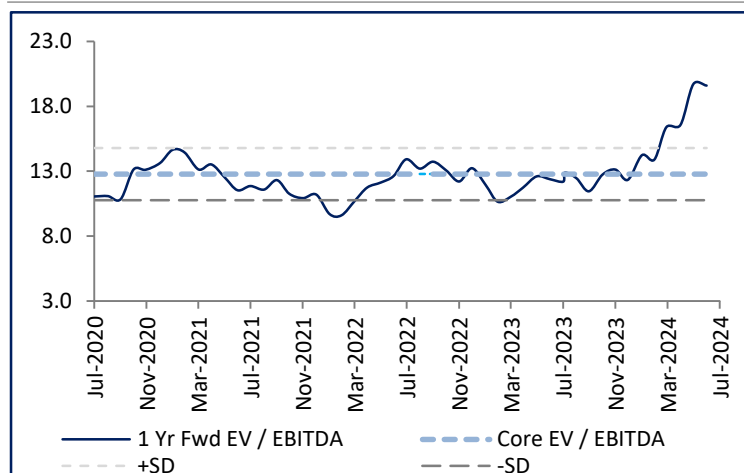
Source: Company, CEBPL

LCV (goods) market share (%)



Source: Company, CEBPL

1 year Fwd EV/EBITDA



Source: Company, CEBPL

Income statement (in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	5,77,869	8,49,603	9,90,977	11,65,225	13,69,902
Gross profit	1,52,265	2,04,020	2,51,028	2,92,471	3,56,174
EBITDA	70,275	1,04,424	1,31,454	1,64,297	2,05,485
Depreciation	24,984	31,545	34,880	40,235	47,245
EBIT	45,291	72,879	96,574	1,24,062	1,58,240
Interest expense	2,262	2,728	1,405	584	605
Other Income	20,538	25,452	39,409	51,232	66,601
EO item	(2,087)	(14,295)	-	-	-
Reported PAT	48,699	65,486	1,06,423	1,34,526	1,72,662
Minority Interest	-	-	-	-	-
Adjusted PAT	50,264	76,208	1,06,423	1,34,526	1,72,662
EPS	40	61	86	108	139
NOPAT	35,875	58,698	76,370	95,528	1,21,845

Balance sheet (in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	3,81,981	4,33,567	5,22,766	6,39,261	7,92,648
Minority Interest	-	-	-	-	-
Deferred tax	17,622	14,703	15,551	15,551	15,551
Total debt	64,978	46,437	15,849	13,349	10,849
Other liabilities & provisions	19,840	25,812	28,662	32,089	35,304
Total Net Worth & liabilities	4,84,420	5,20,520	5,82,827	7,00,250	8,54,351
Net Fixed Assets	1,49,040	1,69,762	1,75,280	2,35,280	3,55,280
Capital Work in progress	52,627	27,846	37,558	37,558	37,558
Investments	2,42,045	2,70,871	2,99,954	3,19,954	3,35,954
Cash & bank balance	36,506	44,818	55,259	75,270	82,672
Loans & Advances & other assets	39,115	38,363	58,730	64,153	72,251
Net Current Assets	1,594	13,678	11,304	43,304	53,308
Total Assets	4,84,420	5,20,520	5,82,827	7,00,250	8,54,351
Capital Employed	4,46,958	4,80,005	5,38,615	6,52,610	8,03,497
Invested Capital	3,57,825	4,07,341	4,45,797	5,39,782	6,83,267
Net Debt	28,472	1,620	(39,410)	(61,921)	(71,823)
FCFF	36,852	56,980	64,941	52,073	35,638

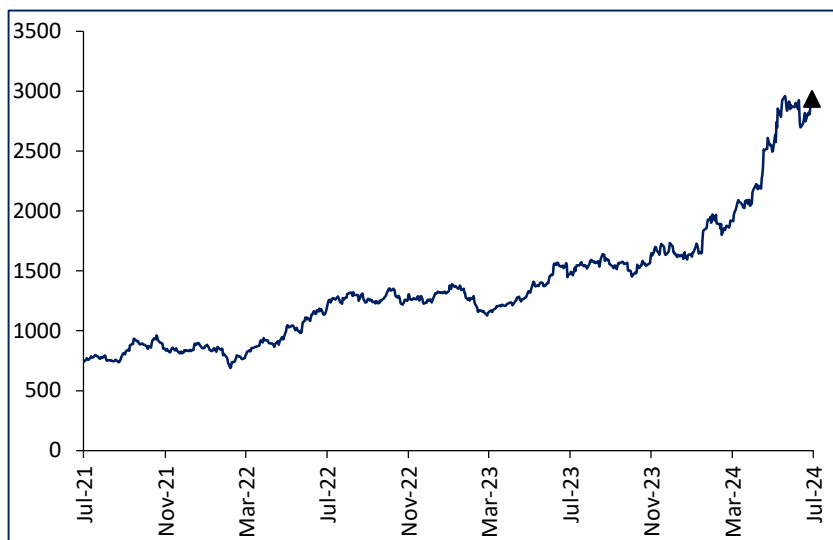
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	69,767	91,293	1,15,051	1,52,308	2,02,883
Capex	(32,916)	(34,313)	(50,110)	(1,00,235)	(1,67,245)
FCF	36,852	56,980	64,941	52,073	35,638
CFI	(39,636)	(47,535)	(76,332)	(1,20,235)	(1,83,245)
CFF	(31,660)	(37,838)	(55,375)	(21,115)	(22,380)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenue	29.5	47.0	16.6	17.6	17.6
EBITDA	1.0	48.6	25.9	25.0	25.1
PAT	52.3	51.6	39.6	26.4	28.3
Margin ratios (%)					
EBITDA margins	12.2	12.3	13.3	14.1	15.0
PAT Margins	8.7	9.0	10.7	11.5	12.6
Performance Ratios (%)					
OCF/EBITDA (X)	1.0	0.9	0.9	0.9	1.0
OCF/IC	19.5	22.4	25.8	28.2	29.7
RoE	13.2	17.6	20.4	21.0	21.8
ROCE	10.1	15.2	17.9	19.0	19.7
RoIC(Post tax)	10.0	14.4	17.1	17.7	17.8
ROIC(Pre tax)	12.7	17.9	21.7	23.0	23.2
Turnover Ratio (Days)					
Inventory	38	38	35	34	35
Debtors	19	17	17	17	17
Payables	82	74	68	74	74
Cash Conversion Cycle	(22)	(13)	(16)	(20)	(19)
Financial Stability ratios (x)					
Net debt to Equity	0.1	0.0	(0.1)	(0.1)	(0.1)
Net debt to EBITDA	0.4	0.0	(0.3)	(0.4)	(0.3)
Interest Cover	20.0	26.7	68.7	212.5	261.6
Valuation metrics					
Fully diluted shares (mn)	1,244	1,244	1,244	1,244	1,244
Price (Rs)	2907	2907	2907	2907	2907
Market Cap(Rs. Mn)	36,15,190	36,15,190	36,15,190	36,15,190	36,15,190
PE(x)	72	47	34	27	21
EV (Rs.mn)	36,43,662	36,16,810	35,75,780	35,53,269	35,43,368
EV/EBITDA (x)	52	35	27	22	17
Book value (Rs/share)	307	349	420	514	637
Price to BV (x)	9.5	8.3	6.9	5.7	4.6
EV/OCF (x)	52	40	31	23	17

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. 1098
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

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OUTPERFORM	The security is expected to generate more than 25% returns over the next 12 months
BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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