

**MAHINDRA & MAHINDRA LIMITED**

Margin beat in Q1, Tractors to revive, UVs to continue their good run...

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M&M reported decent Q1 FY25 numbers wherein the topline was reported at ₹271 bn, a growth of 11.3% yoy and 6.7% qoq. Volumes rose by 11% yoy while realizations were 0.3% up yoy. Automotive division revenues came in at ₹189 bn, an increase of 14% yoy led by success of Thar, Bolero, XUV & Scorpio families with ~178K order book. Automotive segment reported strong EBIT margins, which rose by 200 bps yoy and 70 bps qoq to 9.5% on positive operating leverage, stable commodity basket and model mix. Tractor margins came at a strong 18.5% which were 270 bps up qoq and 100 bps up yoy on price hikes, MSPs improving and subdued RM basket costs. Overall EBITDA margins therefore came in higher at 15.2% (120 bps up qoq and 60 bps up yoy). Lower other income coupled with higher tax rate, led PAT to decline by 6% yoy at ₹26.1 bn. On a sequential basis, the growth was 21%.

**SUV demand remains strong on robust demand for XUV 3XO**

M&M's SUV order book has reduced from ~220K to ~178K qoq on enhanced capacity. With new launches like the XUV3XO at attractive price rates and cut in prices for XUV 700, the company was able to increase its SUV revenue market share at 21.6%, which was 130 bps up yoy and 120 bps up qoq. M&M is now banking on its recent launch of XUV 3XO and upcoming launch of 5 door Thar in CY 24. From ICE capacity of 39K p.m by FY23 end, the company ramped it upto 49K p.m by FY 24 end, which will be scaled up further to 64K and 72K by the end of FY25 and FY26 respectively. SUV as an industry is attracting bulk of the PV demand now (>50%) and since M&M is driving substantial part of it, we expect this segment to register 17%/12% growth in FY25E/FY26E respectively. M&M plans to launch 9 ICE SUVs by 2030. Management maintained its SUV business growth target at higher teens in FY25E as against a 24% growth in Q1.

Also on the CV side, the company has launched the Bolero Max Pick-up 2T soon and has plans to launch several CVs and pick-ups over the next 5 years with a capacity expansion plan for each of the existing model in place. Management mentioned that the pick-up segment for them has grown at 1.6%, whereas the industry remained flat in Q1. In the LCV business (<3.5 T market), M&M has gained about 160 bps market share to reach of 50.9%. The recent launch of Supro Profit Truck has strengthened offering in 0-2T 4W segment. M&M launched Jeeto CNG and Maxx Pick up in the LCV segment resulting in strong market share growth. We expect 5%/8% volume growth in CVs in FY25E/26E.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales(bn)	866	1,012	1,190	1,391
EBITDA margins(%)	14.0	15.2	16.3	17.4
PAT margins(%)	9.3	10.8	11.0	12.1
EPS	67.7	92.2	110.1	141.1
P/E	42.0	30.8	25.8	20.1
P/BV	7.8	6.5	5.4	4.4
EV/EBITDA	26.7	20.7	16.3	13.0
ROE%	18.6	21.0	20.9	22.0
Dividend yield %	0.4	0.6	0.8	1.0

**BUY**

Current Market Price (₹)	2,829
12M Price Target (₹)	3,257
Potential upside (%)	15

**Stock Data**

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	3,518
Free Float Market Cap (₹ bn) :	2,744
52-Week High / Low (₹) :	3,014 / 1,416
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

**Shareholding Pattern**

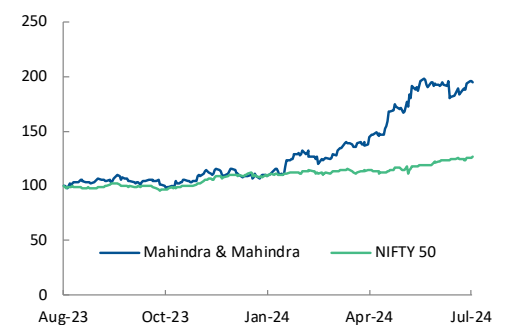
(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	18.56	18.59	19.32	19.34
FPIs	41.89	41.75	40.87	40.26
MFs	12.71	12.72	13.06	13.73
Insurance	10.81	10.88	10.51	10.53
Others	16.03	16.06	16.24	16.14

Source: BSE

**Price Performance**

(%)	1M	3M	6M	12M
M&M	1.4%	34.8%	76.1%	94.7%
Nifty 50	3.9%	10.4%	14.8%	26.4%

\* To date / current date : July 31, 2024

**M&M vs Nifty 50**

M&M has garnered 43.5% market share in the e-3W space with the success of E-Alfa, Jeeto, Treo Auto (recently launched Metal body) and Treo Zor launched few quarters ago. Despite increasing competition, we expect 5%/6% (on a high base) growth in FY25E/26E respectively.

#### **Tractor segment may see revival with above normal expected monsoons in CY24**

M&M witnessed about 6% yoy growth in tractor volumes in Q1 FY25, while in FY 24, they declined by 6%. M&M won market share by 180 bps yoy in Q1 at 44.7%. This was a strong revival against FY 24 as MSPs have improved and input inflation has reduced. Success of newly launched Oja, Target and Naya Swaraj Tractors in the 20HP and 30HP range led M&M to win market share. In the farm machinery segment, M&M sees a robust demand with 15 new products launches in the Rice Cultivators, Rice and Vegetable Transplantors, Rotavators space. Margin performance was high at 18.5%, which was a strong growth. Currently management expects tractors to grow at a conservative 5%, but has indicated that it can grow more than expected as monsoons are expected to be above normal and geographies like South which had received deficit rainfall last year are at a good surplus this year. We expect domestic FES segment to grow at 7%/8% in FY25E/26E respectively as against 6% fall in FY24. We believe that due to election year, first half of the year was soft while on expectations of strong monsoons and weakening El Nino (as predicted by MET departments), we believe H2 FY25 to be stronger than H1.

#### **Outlook and Valuation**

The farm segment is witnessing favourable metrics like good monsoon, improving terms of trade for the farmer and higher rural spending by the Indian Government. Improving margin performance is a significant positive for this segment and we believe it to be maintained at this level on operating leverage stemming from higher demand. Destocking in this remains bit of a challenge to our demand estimate of 7% this year. The SUV segment continues to do well, with good demand continuing for its new product and variant launches. The e3W business continues to gain momentum, while we now also await further ePV launches by the company. We value the stock at ₹3,257 on a SOTP basis, valuing the core business at 20x FY26EPS arriving at an intrinsic value of ₹2,816 and value of subsidiaries at ₹441. Maintain BUY.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q1FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Net sales	271,328	254,361	6.7%	243,683	11.3%
Raw material costs	199,394	184,462	8.1%	181,149	10.1%
Employee costs	11,753	11,112	5.8%	10,447	12.5%
Other expenses	19,018	23,114	-17.7%	16,613	14.5%
EBITDA	41,162	35,672	15.4%	35,474	16.0%
<i>EBITDA margins %</i>	15.2%	14.0%	120 bps	14.6%	60 bps
Other income	2,576	2,203	16.9%	6576	-60.8%
Depreciation	9,146	9,770	-6.4%	8281	10.4%
Interest expenses	529	387	36.8%	323	63.6%
PBT	34,062	27,718	22.9%	33445	1.8%
Tax	7,936	6,123	29.6%	5708	39.0%
Reported PAT	26,126	20,382	28.2%	27737	-5.8%
Exceptional items	-	1,213	N/A	-	N/A
Adjusted PAT	26,126	21,595	21.0%	27737	-5.8%
Adj EPS	21.84	18.06	21.0%	23.2	-5.8%

Source: Company, LKP Research

### SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
<b>M&amp;M</b>	<b>P/E (@20x FY 26E EPS)</b>	-	<b>2,816</b>
M&M Financial Services	Market cap	25%	57
Tech Mahindra	Market cap	25%	335
Mahindra Lifespaces	Market cap	30%	8
Mahindra Logistics	Market cap	30%	13
Mahindra Holiday & Resorts	Market cap	30%	14
Swaraj Engines	Market cap	30%	12
RBL	Market cap	25%	3
<b>Subsidiaries Total SOTP value</b>			<b>441</b>
<b>Total</b>			<b>3,257</b>

### Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	866,446	1,012,194	1,190,384	1,390,925
Raw Material Cost	645,582	740,064	862,384	997,126
Employee Cost	36,499	44,164	50,112	56,003
Other Exp	63,098	74,212	83,908	95,615
<b>EBITDA</b>	<b>121,268</b>	<b>153,754</b>	<b>193,981</b>	<b>242,182</b>
<i>EBITDA Margin(%)</i>	<i>14.0</i>	<i>15.2</i>	<i>16.3</i>	<i>17.4</i>
Other Income	9,327	19,384	15,000	20,000
Depreciation	31,545	34,389	37,095	42,555
Interest	2728	1388	1800	1650
<b>PBT</b>	<b>96,322</b>	<b>137,362</b>	<b>170,085</b>	<b>217,978</b>
<i>PBT Margin(%)</i>	<i>11.1</i>	<i>13.6</i>	<i>14.3</i>	<i>15.7</i>
Tax	15,821	27,652	39,120	50,135
<b>Adj PAT</b>	<b>80,501</b>	<b>109,711</b>	<b>130,966</b>	<b>167,843</b>
<i>Adj PAT Margins (%)</i>	<i>9.3</i>	<i>10.8</i>	<i>11.0</i>	<i>12.1</i>
Exceptional items	-14295	2533	0	0
<b>Reported PAT</b>	<b>66,206</b>	<b>112,243</b>	<b>130,966</b>	<b>167,843</b>
<i>Rep. PAT Margins (%)</i>	<i>7.6</i>	<i>11.1</i>	<i>11.0</i>	<i>12.1</i>

### Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
<b>Per Share Data (₹)</b>				
Adj. EPS	67.7	92.2	110.1	141.1
CEPS	82.1	119.0	141.2	176.8
BVPS	364.4	439.3	527.4	640.2
DPS	12.1	17.0	22.0	28.2
<b>Growth Ratios(%)</b>				
Total revenues	49.9	16.8	17.6	16.8
EBITDA	64.2	26.8	26.2	24.8
PAT	45.9	36.3	19.4	28.2
EPS Growth	45.9	36.3	19.4	28.2
<b>Valuation Ratios (X)</b>				
PE	42.0	30.8	25.8	20.1
P/CEPS	34.6	23.9	20.1	16.1
P/BV	7.8	6.5	5.4	4.4
EV/Sales	3.8	3.2	2.7	2.3
EV/EBITDA	26.7	20.7	16.3	13.0
<b>Operating Ratios (Days)</b>				
Inventory days	50.2	46.9	47.0	50.0
Receivable Days	15.2	15.9	15.5	15.2
Payables day	85.1	88.1	85.0	83.0
<b>Profitability Ratios (%)</b>				
ROE	18.6	21.0	20.9	22.0
Dividend payout	17.8	18.4	20.0	20.0
Dividend yield	0.4	0.6	0.8	1.0
<b>Net Debt/Equity (x)</b>	<b>0.05</b>	<b>0.02</b>	<b>0.01</b>	<b>0.01</b>

### Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
<b>Equity and Liabilities</b>				
Equity Share Capital	5,991	5,996	5,996	5,996
Reserves & Surplus	427,577	516,769	621,542	755,816
Total Networth	433,567	522,766	627,538	761,812
Total debt	49,128	40,010	38,010	36,010
Deferred tax liabilities	14,703	15,551	15,551	15,551
Current liabilities & Provisions	260,400	259,788	273,697	297,612
<b>Total Liabilities</b>	<b>757,798</b>	<b>838,114</b>	<b>954,796</b>	<b>1,110,985</b>
<b>Assets</b>				
Fixed assets	197,608	212,838	275,743	333,188
Non current Investments	175,391	215,487	230,487	250,487
Other non current assets	38,363	58,730	58,730	58,730
<b>Current Assets</b>	<b>346,436</b>	<b>351,058</b>	<b>389,835</b>	<b>468,578</b>
Cash and bank(i)	13,101	18,694	17,327	18,131
Bank deposits other than(i)	31,716	36,566	31,716	31,716
Inventories	88,814	95,048	111,047	136,593
Sundry Debtors	40,417	45,495	49,489	56,882
Loan, Advances & others	21,770	23,789	23,789	23,789
Other current assets	182,334	168,032	188,183	233,183
<b>Total Assets</b>	<b>757,798</b>	<b>838,114</b>	<b>954,796</b>	<b>1,110,985</b>

### Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	95,603	134,830	170,085	217,978
Depreciation	31,545	34,389	37,095	42,555
Interest	2,728	1,388	1,800	1,650
Chng in working capital	3,871	8,681	(5,083)	(7,025)
Tax paid	(19,380)	(28,509)	(39,120)	(50,135)
Other operating activities	(23,074)	0	0	0
<b>Cash flow from operations (a)</b>	<b>91,293</b>	<b>112,792</b>	<b>164,778</b>	<b>205,022</b>
Capital expenditure	(34,313)	(48,328)	(100,000)	(100,000)
Chng in investments	(43,801)	(13,284)	(40,000)	(65,000)
Other investing activities	30,579	9,785	4,849	0
<b>Cash flow from investing (b)</b>	<b>(47,535)</b>	<b>(51,826)</b>	<b>(135,151)</b>	<b>(165,000)</b>
Free cash flow (a+b)	43,758	60,966	29,627	40,022
Inc/dec in borrowings	(19,752)	(38,648)	(3,000)	(4,000)
Dividend paid (incl. tax)	(14,359)	(20,211)	(26,193)	(33,569)
Other financing activities	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>(37,838)</b>	<b>(55,375)</b>	<b>(30,993)</b>	<b>(39,219)</b>
<b>Net chng in cash (a+b+c)</b>	<b>5,920</b>	<b>5,591</b>	<b>(1,366)</b>	<b>804</b>
<b>Closing cash &amp; cash equivalents</b>	<b>13,102</b>	<b>18,693</b>	<b>17,327</b>	<b>18,131</b>

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