

Mahindra & Mahindra Ltd.

BUY

Sector: Automobile

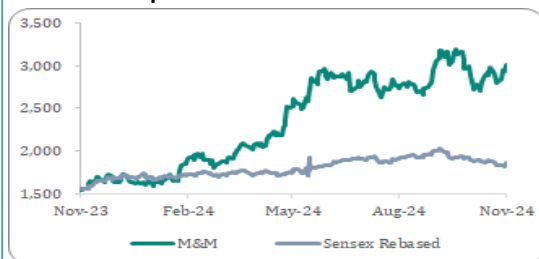
27th November 2024

| | | | | | |
|--------------------|-----------------|-----------------|-------------------|---------------|------------------|
| Key Changes | Target ▲ | Rating ● | Earnings ▼ | Target | Rs. 3,382 |
| Stock Type | Bloomberg Code | Sensex | NSE Code | BSE Code | Time Frame |
| Large Cap | MM:IN | 80,004 | M&M | 500520 | 12 Months |
| | | | | CMP | Rs. 2,988 |
| | | | | Return | +13% |

Data as of: 26-11-2024

| Company Data | | | |
|---------------------------|---------------|---------|--------|
| Market Cap (Rs.cr) | 374,675 | | |
| 52 Week High — Low (Rs.) | 3,221 - 1,545 | | |
| Enterprise Value (Rs. cr) | 483,955 | | |
| Outstanding Shares (cr) | 124.4 | | |
| Free Float (%) | 70 | | |
| Dividend Yield (%) | 0.7 | | |
| 6m average volume (cr) | 0.4 | | |
| Beta | 1.6 | | |
| Face value (Rs.) | 5.0 | | |
| Shareholding (%) | Q4FY24 | Q1FY25 | Q2FY25 |
| Promoters | 18.2 | 18.1 | 18.1 |
| FII's | 41.8 | 41.9 | 41.2 |
| MFs/Institutions | 26.1 | 26.2 | 27.1 |
| Public | 8.6 | 8.5 | 8.4 |
| Others | 5.3 | 5.3 | 5.2 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoter Pledge | 0.1 | 0.1 | 0.1 |
| Price Performance | 3 Month | 6 Month | 1 Year |
| Absolute Return | 10.2% | 19.5% | 95.2% |
| Absolute Sensex | -2.4% | 6.6% | 19.8% |
| Relative Return | 12.6% | 12.9% | 75.4% |

*over or under performance to benchmark index



| Y.E March (cr) | FY24A | FY25E | FY26E |
|-------------------|---------|---------|---------|
| Sales | 139,078 | 156,524 | 168,591 |
| Growth (%) | 14.6 | 12.5 | 7.7 |
| EBITDA | 24,892 | 28,579 | 31,508 |
| EBITDA Margin (%) | 17.9 | 18.3 | 18.7 |
| PAT Adjusted | 11,269 | 13,523 | 15,576 |
| Growth (%) | 24.8 | 20.0 | 15.2 |
| Adjusted EPS | 90.6 | 108.7 | 125.3 |
| Growth (%) | 24.8 | 20.0 | 15.2 |
| P/E | 21.2 | 27.7 | 24.1 |
| P/B | 3.6 | 4.8 | 4.0 |
| EV/EBITDA | 13.8 | 16.9 | 15.4 |
| ROE (%) | 18.5 | 18.6 | 17.7 |
| D/E | 1.4 | 1.2 | 1.1 |

Automotive business drives topline growth

Mahindra & Mahindra Ltd (M&M) manufactures automobiles, farm equipment, automotive components and agricultural tractors, implements and engines.

- In Q2FY25, consolidated revenue from operations rose 10.1% YoY to Rs. 37,924cr, driven by growth in the automotive and financial services segments.
- The automotive segment's revenue increased 15.3% YoY to Rs. 21,755cr, as total auto volume, including exports, grew 8.9% YoY to 231,038, aided by higher passenger vehicle sales. The company reported highest-ever quarterly passenger vehicle volume of 135,962, up 18.5% YoY.
- Financial services revenue rose to Rs. 4,429 (vs Rs. 3,799cr in Q2FY24). Financial services AUM rose 20% YoY and asset quality improved. On the other hand, the farm equipment segment's revenue declined 2.1% YoY to Rs. 8,194cr due to challenges in the international business.
- EBITDA increased 24.5% YoY to Rs. 7,133cr, driven by higher topline, and growth in total cost of sales was lower than revenue growth. As a result, EBITDA margin improved 220bps YoY to 18.8%.
- The company's reported PAT increased 35.3% YoY to Rs. 3,361cr. PAT growth was partly offset by higher total tax expense.

Outlook & Valuation

The company continued to report healthy revenue on account of higher volume in the automotive segment and growth in the market share. The farm equipment segment is expected to perform well in H2FY25 due to surplus rain, hike in MPS of key rabi crops, and spending of the Government of India on rural development. Moreover, strong bookings for new launches, capacity expansion, and ongoing cost-efficiency initiatives for margin expansion are expected to drive its long-term performance. Therefore, **we maintain our BUY rating on the stock with a revised target price of Rs. 3,382 based on 27x FY26E adjusted EPS.**

Quarterly Financials Consol.

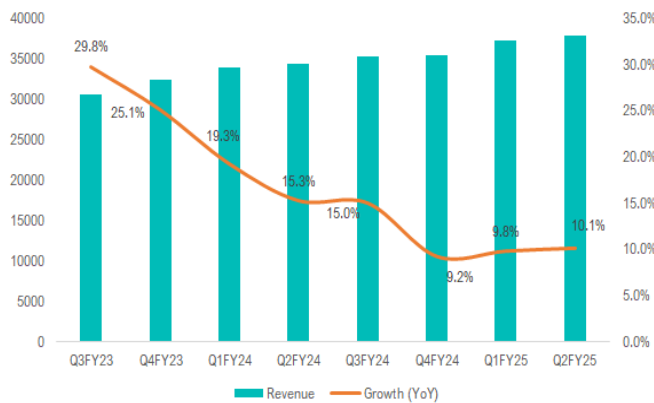
| Rs.cr | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) | H1FY25 | H1FY24 | YoY (%) |
|---------------|--------|--------|---------|--------|---------|--------|--------|---------|
| Sales | 37,924 | 34,436 | 10.1 | 37,218 | 1.9 | 75,141 | 68,327 | 10.0 |
| EBITDA | 7,133 | 5,730 | 24.5 | 7,243 | -1.5 | 14,377 | 11,975 | 20.0 |
| Margin (%) | 18.8 | 16.6 | 220bps | 19.5 | -70bps | 19.1 | 17.5 | 160bps |
| EBIT | 5,831 | 4,591 | 27.0 | 5,995 | -2.7 | 11,827 | 9,709 | 21.8 |
| PBT | 4,740 | 3,568 | 32.9 | 4,621 | 2.6 | 9,361 | 8,036 | 16.5 |
| Rep. PAT | 3,361 | 2,484 | 35.3 | 3,546 | -5.2 | 6,907 | 6,168 | 12.0 |
| Adj PAT | 3,171 | 2,348 | 35.1 | 3,283 | -3.4 | 6,453 | 5,856 | 10.2 |
| Adj. EPS (Rs) | 25.5 | 18.9 | 35.1 | 26.4 | -3.4 | 51.9 | 47.1 | 10.2 |



Key concall highlights

- The SUV segment regained its top position, with a revenue market share of 21.9% in Q2FY25, up 190bps YoY.
- The farm equipment segment's volume increased 3.7% YoY to 93,382, driven by higher domestic (+2.8% YoY) and export volume (+3.7% YoY). Moreover, the segment reported its highest-ever market share of 42.5%, up 90bps YoY.
- The company launched its new brand THAR ROXX on 15 August 2024, which witnessed a blockbuster opening with 176,218 bookings within 60 minutes.
- M&M increased its SUV capacity to 54,000, up 10% compared with March 2024. Additionally, the company guided that the capacity would improve further.
- Its subsidiaries are not performing well in the international business due to a slowdown in the US market and hyperinflation in Turkey.
- Growth gems and investment revenue increased to Rs. 397cr (vs. 248cr in Q2FY24). The company expects 5x growth from this business in the long term.
- Tech Mahindra TCV declined 6% YoY to USD 603mn during the quarter. However, EBIT margin improved 490bps YoY to 9.6%.

Revenue



SUV Volume and Market Share



EBITDA



PAT



Change in Estimates

| Year / Rs cr | Old estimates | | New estimates | | Change -% | |
|--------------|---------------|---------|---------------|---------|-----------|---------|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 151,640 | 161,201 | 156,524 | 168,591 | 3.2 | 4.6 |
| EBITDA | 28,597 | 31,980 | 28,579 | 31,508 | -0.1 | -1.5 |
| Margins (%) | 18.9 | 19.8 | 18.3 | 18.7 | -60bps | -110bps |
| Adj. PAT | 12,721 | 15,323 | 13,523 | 15,576 | 6.3 | 1.7 |
| EPS | 113.7 | 136.9 | 108.7 | 125.3 | -4.3 | -8.5 |



Consolidated Financials

Profit & Loss

| Y.E March (Rs. cr) | FY22A | FY23A | FY24A | FY25E | FY26E |
|--|---------------|----------------|----------------|----------------|----------------|
| Sales | 90,171 | 121,362 | 139,078 | 156,524 | 168,591 |
| % change | 21.4 | 34.6 | 14.6 | 12.5 | 7.7 |
| EBITDA | 14,683 | 20,325 | 24,892 | 28,579 | 31,508 |
| % change | -3.9 | 30.5 | 27.8 | 16.5 | 11.6 |
| Depreciation | 3,508 | 4,357 | 4,724 | 5,058 | 5,517 |
| EBIT | 11,175 | 15,968 | 20,168 | 23,521 | 25,991 |
| Interest | 5,018 | 5,830 | 7,488 | 8,576 | 8,912 |
| Other Income | 3,204 | 3,922 | 3,298 | 3,328 | 3,415 |
| PBT | 9,362 | 14,060 | 15,978 | 18,274 | 20,495 |
| % change | 75.1 | 50.2 | 13.6 | 14.4 | 12.2 |
| Tax | 2,109 | 2,686 | 3,708 | 3,655 | 4,099 |
| Tax Rate (%) | 22.5 | 19.1 | 23.2 | 20.0 | 20.0 |
| Reported PAT | 7,253 | 11,374 | 12,270 | 14,619 | 16,396 |
| PAT att. to common shareholders | 6,577 | 10,282 | 11,269 | 13,523 | 15,576 |
| Adj.* | -414 | -1,250 | - | - | - |
| Adj. PAT | 6,163 | 9,032 | 11,269 | 13,523 | 15,576 |
| % change | 107.5 | 46.5 | 24.8 | 20.0 | 15.2 |
| No. of shares (cr) | 124.3 | 124.4 | 124.4 | 124.4 | 124.4 |
| Adj EPS (Rs.) | 49.6 | 72.6 | 90.6 | 108.7 | 125.3 |
| % change | 85.3 | 46.5 | 24.8 | 20.0 | 15.2 |
| DPS (Rs.) | 11.6 | 16.3 | 21.1 | 22.8 | 26.2 |

Balance Sheet

| Y.E March (Rs. cr) | FY22A | FY23A | FY24A | FY25E | FY26E |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash | 11,118 | 11,273 | 12,013 | 15,078 | 16,754 |
| Accts. Receivable | 6,374 | 7,028 | 7,459 | 9,078 | 9,947 |
| Inventories | 11,596 | 16,855 | 18,590 | 20,232 | 21,964 |
| Other Cur. Assets | 46,061 | 56,169 | 60,203 | 70,344 | 73,616 |
| Investments | 19,211 | 21,007 | 21,573 | 23,085 | 29,994 |
| Gross Fixed Assets | 36,032 | 34,962 | 44,635 | 55,319 | 67,015 |
| Net Fixed Assets | 21,902 | 20,351 | 21,409 | 25,074 | 28,957 |
| CWIP | 3,036 | 1,223 | 3,461 | 4,154 | 4,984 |
| Intangible Assets | 7,783 | 9,535 | 11,299 | 12,626 | 14,153 |
| Def. Tax -Net | - | - | - | - | - |
| Other Assets | 45,309 | 60,836 | 78,714 | 78,039 | 77,805 |
| Total Assets | 174,113 | 205,892 | 236,301 | 259,538 | 280,224 |
| Current Liabilities | 30,246 | 36,840 | 40,062 | 42,109 | 43,408 |
| Provisions | 1,498 | 1,816 | 1,763 | 1,917 | 2,083 |
| Debt Funds | 74,667 | 88,767 | 105,225 | 111,942 | 115,405 |
| Other Liabilities | 10,876 | 11,387 | 11,741 | 12,656 | 13,446 |
| Equity Capital | 556 | 557 | 557 | 1,966 | 3,374 |
| Res. & Surplus | 46,567 | 55,809 | 65,633 | 76,532 | 89,273 |
| Shareholder Funds | 47,123 | 56,366 | 66,191 | 78,498 | 92,647 |
| Minority Interest | 9,703 | 10,716 | 11,319 | 12,415 | 13,235 |
| Total Liabilities | 174,113 | 205,892 | 236,301 | 259,538 | 280,224 |
| BVPS | 379 | 453 | 532 | 631 | 745 |

Cash Flow

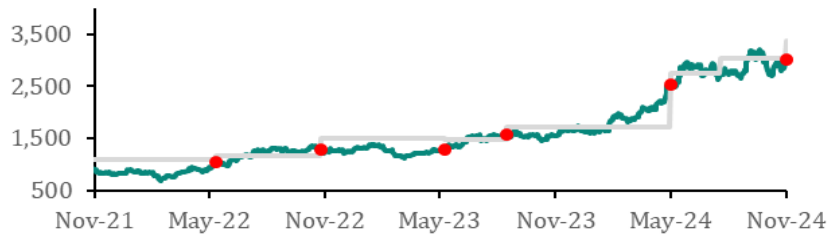
| Y.E March (Rs. cr) | FY22A | FY23A | FY24A | FY25E | FY26E |
|-------------------------|---------------|---------------|---------------|----------------|----------------|
| Net inc. + Depn. | 10,761 | 15,731 | 16,994 | 19,677 | 21,913 |
| Non-cash adj. | -2,268 | -21,661 | -23,335 | -9,656 | -2,620 |
| Other adjustments | | | | | |
| Changes in W.C | 755 | -1,144 | 712 | -1,493 | -2,056 |
| C.F. Operation | 9,248 | -7,074 | -5,630 | 8,529 | 17,237 |
| Capital exp. | -5,920 | -6,167 | -9,673 | -10,683 | -11,697 |
| Change in inv. | 847 | -5,271 | 668 | -1,829 | -7,071 |
| Other invest.CF | 1,847 | 2,890 | 3,407 | 2,231 | 1,882 |
| C.F - Investment | -3,226 | -8,547 | -5,598 | -10,282 | -16,886 |
| Issue of equity | -239 | 387 | 1,408 | 1,408 | 1,408 |
| Issue/repay debt | -3,926 | 17,816 | 13,717 | 6,717 | 3,463 |
| Dividends paid | -1,037 | -1,522 | -2,247 | -2,624 | -2,835 |
| Other finance.CF | -680 | -734 | -597 | -684 | -710 |
| C.F - Finance | -5,883 | 15,946 | 12,281 | 4,818 | 1,326 |
| Chg. in cash | 139 | 325 | 1,054 | 3,065 | 1,677 |
| Closing Cash | 11,118 | 11,273 | 12,013 | 15,078 | 16,754 |

Ratios

| Y.E March | FY22A | FY23A | FY24A | FY25E | FY26E |
|--------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 16.3 | 16.7 | 17.9 | 18.3 | 18.7 |
| EBIT margin (%) | 12.4 | 13.2 | 14.5 | 15.0 | 15.4 |
| Net profit mgn.(%) | 7.3 | 8.5 | 8.1 | 8.6 | 9.2 |
| ROE (%) | 15.4 | 20.2 | 18.5 | 18.6 | 17.7 |
| ROCE (%) | 8.5 | 10.2 | 11.0 | 11.6 | 11.7 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 25.4 | 20.8 | 19.3 | 20.9 | 21.2 |
| Inventory (days) | 80.6 | 82.0 | 80.0 | 78.3 | 80.1 |
| Payables (days) | 132.3 | 116.0 | 110.5 | 106.2 | 102.0 |
| Current ratio (x) | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 |
| Quick ratio (x) | 0.5 | 0.5 | 0.4 | 0.5 | 0.5 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 2.7 | 3.4 | 3.5 | 3.1 | 2.8 |
| Total asset T.O (x) | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 |
| Int. covge. ratio (x) | 2.2 | 2.7 | 2.7 | 2.7 | 2.9 |
| Adj. debt/equity (x) | 1.3 | 1.3 | 1.4 | 1.2 | 1.1 |
| Valuation | | | | | |
| EV/Sales (x) | 1.9 | 1.9 | 2.5 | 3.1 | 2.9 |
| EV/EBITDA (x) | 11.8 | 11.4 | 13.8 | 16.9 | 15.4 |
| P/E (x) | 16.3 | 16.0 | 21.2 | 27.7 | 24.1 |
| P/BV (x) | 2.1 | 2.6 | 3.6 | 4.8 | 4.0 |



Recommendation Summary -last 3 years



| Dates | Rating | Target |
|-----------|--------|--------|
| 11-Nov-21 | BUY | 1,095 |
| 2-Jun-22 | BUY | 1,173 |
| 15-Nov-22 | BUY | 1,512 |
| 31-May-23 | BUY | 1,486 |
| 6-Sep-23 | HOLD | 1,728 |
| 22-May-24 | HOLD | 2,754 |
| 8-Aug-24 | BUY | 3,026 |
| 27-Nov-24 | BUY | 3,382 |

Rating Criteria

| Ratings | Large caps | Midcaps | Small Caps |
|-------------------|----------------------------|---------------------------|---------------------------|
| Buy | Upside is above 10% | Upside is above 15% | Upside is above 20% |
| Accumulate | - | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold | Upside is between 0% - 10% | Upside is between 0%-10% | Upside is between 0%-10% |
| Reduce/sell | Downside is more than 0% | Downside is more than 0% | Downside is more than 0% |
| Not rated/Neutral | | | |

Definition:

Buy: Acquire at Current Market Price -CMP, with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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