

**MAHINDRA & MAHINDRA LIMITED**

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M&M's net revenues increased by 13% yoy, driven by (1) 1% yoy increase in volumes and (2) 12% yoy increase in ASPs. M&M's standalone Q2 FY25 EBITDA of ₹39.5 bn (+29% yoy and -2% qoq), was slightly below street estimates due to higher-than-expected other expenses, partly offset by better gross margins. EBITDA margin came in at 14.3% (+140 bps yoy and -60 bps qoq). Gross margins declined by 50 bps on a qoq basis owing to lower mix of the tractor segment. Other expenses grew by 6% qoq despite low single digit volume decline due to higher marketing spends. Adj. PAT grew by 8.8% yoy and 48% on higher other income sequentially.

**SUV demand remains strong**

The company's SUV volumes grew by 19% in Q2FY25 led by robust demand for the recently launched XUV 3XO and steady demand trends for XUV 700 and Scorpio models. Strong growth in XUV 700 is also led by pricing discounts offered by the company from July 2024 in anticipation of demand slowdown supported by the reduction in chip procurement costs and cost reduction efforts using value engineering. The company's pricing strategy worked out well as the company was able to post strong volume growth while maintaining the EBIT margins at 9.5% on a qoq basis in Q2FY25, which we believe is commendable. Also, the company expects the volume growth likely to sustain over the coming quarters and aims to grow its SUV segment volumes by mid to high teens on a yoy basis in FY2025E. We expect the company's SUV volumes to grow by mid-teens in FY2025E led by strong demand for new launches (Thar Roxx, EVs) and existing product line-up (XUV 3XO, XUV 700, Scorpio).

The company highlighted that they will launch nine ICE SUVs (including three refreshes) and seven BEVs by FY2030E. The company is planning to expand the monthly SUV capacity to 64k and 72k units by FY2025E and FY2026E, respectively. 15k monthly run rate increase in capacity in FY2025E will be used to enhance the capacity of ICE SUVs for Thar 5-door and XUV3XO by 7k units each and 8k units for BEVs. The additional capacity to be built in FY2026E is primarily to enhance the BEV production rate. However, the company is planning to recalibrate the capacity expansion strategy between ICE and EV as the company's ICE products are seeing strong traction in the domestic market. The company is planning to unveil the two new BEVs (BE 6e, XEV 9e) on November 26, 2024 and will be up for sale from Q4FY25E.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales (₹ bn)	850	988	1,129	1,315
EBITDA margins (%)	12.3	13.1	14.8	15.9
PAT margins (%)	9.5	11.1	11.6	12.1
EPS (₹)	67.7	92.2	109.9	133.9
P/E (x)	41.4	30.3	25.5	20.9
P/BV (x)	7.7	6.4	5.3	4.4
EV/EBITDA (x)	30.5	24.2	18.6	14.8
ROE (%)	18.6	21.0	20.8	21.1
Dividend yield (%)	0.4	0.6	0.8	1.0

**BUY**

Current Market Price (₹)	2,799
12M Price Target (₹)	3,262
Potential upside (%)	17

**Stock Data**

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	3,479
Free Float Market Cap (₹ bn) :	2,490
52-Week High / Low (₹) :	3,222 / 1,513
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

**Shareholding Pattern**

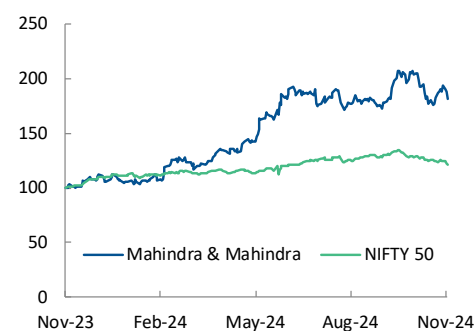
(%)	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	18.54	18.56	18.59	19.32
FPIs	41.19	41.89	41.75	40.87
MFs	12.92	12.71	12.72	13.06
Insurance	11.61	10.81	10.88	10.51
Others	15.74	16.03	16.06	16.24

Source: BSE

**Price Performance**

(%)	1M	3M	6M	12M
M&M	-10.7%	3.0%	28.1%	81.7%
Nifty 50	-5.6%	-2.4%	6.6%	21.2%

\* To date / current date : November 13, 2024

**M&M vs Nifty 50**

We expect the company's UV segment volumes to grow by 16%/15% during FY25E/26E led by (1) continued strong demand in the SUV segment, (2) new launches at attractive price points and (3) ramp-up of export volumes. Also, we expect the total standalone volumes to grow by 11%/12% during the same period. Within which, we expect the 3Ws to grow by 4%/6% in FY25E/26E. We expect CV business volumes to grow at 4%/8% during the same period. 3W sales growth shall be led by (1) pick-up in electrification of 3W and (2) launch of EV Jeeto on the back of strong increase in infra spending and growing need for last mile delivery services.

#### Tractor segment posed for a strong growth in second half

Domestic tractor industry volumes grew by 1% on a yoy basis in H1FY25; however, the company expects the demand trends in H2FY25E to remain strong with double-digit yoy volume growth, led by (1) increased reservoir levels, especially in southern and central regions, which bode well for the upcoming Rabi season, (2) hike in MSPs for key crops and (3) a favorable base. Overall, the company has guided for the domestic tractor industry volumes to grow by 6-7% yoy in FY2025E; however, we believe there is an upside risk to domestic industry growth estimates based on the industry volume growth in October 2024. We expect M&M to continue to outperform the domestic industry's growth, driven by newer launches (OJA platform and strengthening of the Swaraj brand). We expect the company's tractor segment volumes to grow by 7-8% CAGR over FY2024-26E. We anticipate ~18% EBIT margin over FY2025-26E. During the festive season, the company's volumes grew by double digit, driven by positive farm sentiment. The company's market share improved by 90 bps yoy to 42.5% in Q2FY25 and is expected to improve further. Tractor segment EBIT margin came in at 17.5% (-100 qoq) due to negative operating leverage, partly offset by lower mix of farm implement business (loss making business). Farm implement segment revenues increased by 13% yoy to ₹2.5 bn.

#### Strong growth capex plans

The company plans to invest an overall capex of ₹370 bn over FY2025-27E in the standalone entity, which encompasses M&M, MEAL and LMM Co. The breakup of capex between the segments – Auto ICE – ₹140 bn, Auto EV (MEAL) – ₹120 bn, Farm – ₹50 bn and investments in Auto and growth gems – ₹60 bn. As the company's auto division is expected to generate sufficient operating cash to satisfy the capital investment needs, M&M and BII have mutually agreed to extend the timeframe for the final tranche of BII's planned investment of ₹7.3 bn and will jointly assess whether additional investment is required by Dec 31, 2024. BII has invested ₹12 bn and Temasek has invested ₹3 bn so far in MEAL Temasek will invest the balance ₹9 bn as per the agreed timelines. The company reiterated its stance of using the cash flow generated from the auto and tractor businesses to deploy in the respective businesses in the coming years.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Net sales	2,75,533	2,70,388	1.9%	2,43,948	12.9%
Raw material costs	2,04,440	1,99,394	2.5%	1,83,792	11.2%
Employee costs	11,526	11,753	-1.9%	11,262	2.3%
Other expenses	20,069	19,018	5.5%	17,384	15.4%
EBITDA	39,498	40,222	-1.8%	31,509	25.4%
EBITDA margins %	14.3%	14.9%	(60 bps)	12.9%	140 bps
Other income	20,433	3,515	481.3%	21868	-6.6%
Depreciation	9,614	9,146	5.1%	8158	17.8%
Interest expenses	551	529	4.2%	329	67.4%
PBT	49,766	34,062	46.1%	44890	10.9%
Tax	10,901	7,936	37.4%	9153	19.1%
Reported PAT	38,410	26,126	47.0%	34417	11.6%
Exceptional items	455	-	N/A	1,319	N/A
Adjusted PAT	38,865	26,126	48.8%	35737	8.8%
Adj EPS	32.50	21.84	48.8%	29.9	8.8%

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>-</b>	<b>2,812</b>
M&M Financial Services	Market cap	25%	48
Tech Mahindra	Market cap	25%	361
Mahindra Lifespaces	Market cap	30%	6
Mahindra Logistics	Market cap	30%	10
Mahindra Holiday & Resorts	Market cap	30%	12
Swaraj Engines	Market cap	30%	11
RBL	Market cap	25%	2
<b>Subsidiaries Total SOTP value</b>			<b>450</b>
<b>Total</b>			<b>3,262</b>

### Outlook and Valuation

We expect M&M to continue to outperform industry growth across automotive and tractor segments including domestic PV and CV segments given successful newer launches and strong brand equity. The tractor segment is expected to witness uptick during 2HFY25E, driven by a favorable monsoon and higher reservoir levels. M&M continues to execute well by maintaining leadership position in all three segments, improved return ratio as well as cash flow generation and well-preparedness for an EV transition. Retain BUY with a target price of ₹3,128. (The standalone business is value stands at ₹2,812 @21x FY26E earnings , while the subsidiaries are valued at ₹450).

### Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	8,49,603	9,87,634	11,29,189	13,14,766
Raw Material Cost	6,45,582	7,40,064	8,29,954	9,53,205
Employee Cost	36,499	44,164	47,426	53,905
Other Exp	63,098	74,212	84,689	98,607
<b>EBITDA</b>	<b>1,04,424</b>	<b>1,29,194</b>	<b>1,67,120</b>	<b>2,09,048</b>
EBITDA Margin(%)	12.3	13.1	14.8	15.9
Other Income	26,170	43,944	45,000	45,000
Depreciation	31,545	34,389	40,224	45,214
Interest	2728	1388	2010	1890
<b>PBT</b>	<b>96,322</b>	<b>1,37,362</b>	<b>1,69,886</b>	<b>2,06,944</b>
PBT Margin(%)	11.3	13.9	15.0	15.7
Tax	15,821	27,652	39,074	47,597
<b>Adj PAT</b>	<b>80,500</b>	<b>1,09,711</b>	<b>1,30,812</b>	<b>1,59,347</b>
Adj PAT Margins (%)	9.5	11.1	11.6	12.1
Exceptional items	-14295	2533	0	0
<b>Reported PAT</b>	<b>66,205</b>	<b>1,12,243</b>	<b>1,30,812</b>	<b>1,59,347</b>
Rep. PAT Margins (%)	7.8	11.4	11.6	12.1

### Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
<b>Per Share Data (₹)</b>				
Adj. EPS	67.7	92.2	109.9	133.9
CEPS	82.1	119.0	143.7	171.9
BVPS	364.4	439.3	527.3	634.4
DPS	12.1	17.0	22.0	26.8
<b>Growth Ratios(%)</b>				
Total revenues	47.0	16.2	14.3	16.4
EBITDA	41.4	23.7	29.4	25.1
PAT	45.9	36.3	19.2	21.8
EPS Growth	45.9	36.3	19.2	21.8
<b>Valuation Ratios (X)</b>				
PE	41.4	30.3	25.5	20.9
P/CEPS	34.1	23.5	19.5	16.3
P/BV	7.7	6.4	5.3	4.4
EV/Sales	3.8	3.2	2.8	2.4
EV/EBITDA	30.5	24.2	18.6	14.8
<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
Net Debt/Equity (x)	0.05	0.02	0.01	0.01
<b>Profitability Ratios (%)</b>				
ROE	18.6	21.0	20.8	21.1
Dividend payout	17.8	18.4	20.0	20.0
Dividend yield	0.4	0.6	0.8	1.0

### 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	4,27,577	5,16,769	6,21,419	7,48,896
Total Networth	4,33,567	5,22,766	6,27,415	7,54,893
Total debt	49,128	40,010	38,010	36,010
Deferred tax liabilities	14,703	15,551	15,551	15,551
Current liabilities & Provisions	2,60,400	2,59,788	2,66,145	2,87,624
<b>Total Liabilities</b>	<b>7,57,798</b>	<b>8,38,114</b>	<b>9,47,121</b>	<b>10,94,078</b>
<b>Assets</b>				
Fixed assets	1,97,608	2,12,838	2,72,614	3,27,400
Non current Investments	1,75,391	2,15,487	2,30,487	2,50,487
Other non current assets	38,363	58,730	58,730	58,730
<b>Current Assets</b>	<b>3,46,436</b>	<b>3,51,058</b>	<b>3,85,289</b>	<b>4,57,460</b>
Cash and bank(i)	13,101	18,694	18,494	15,159
Bank deposits other than(i)	31,716	36,566	31,716	31,716
Inventories	88,814	95,048	1,06,871	1,30,576
Sundry Debtors	40,417	45,495	47,952	54,752
Loan, Advances & others	21,770	23,789	23,789	23,789
Other current assets	1,82,334	1,68,032	1,88,183	2,33,183
<b>Total Assets</b>	<b>7,57,798</b>	<b>8,38,114</b>	<b>9,47,121</b>	<b>10,94,078</b>

### Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	95,603	1,34,830	1,69,886	2,06,944
Depreciation	31,545	34,389	40,224	45,214
Interest	2,728	1,388	2,010	1,890
Chng in working capital	3,871	8,681	(6,922)	(7,026)
Tax paid	(19,380)	(28,509)	(39,074)	(47,597)
Other operating activities	(23,074)	0	0	0
<b>Cash flow from operations (a)</b>	<b>91,293</b>	<b>1,12,792</b>	<b>1,66,124</b>	<b>1,99,425</b>
Capital expenditure	(34,313)	(48,328)	(1,00,000)	(1,00,000)
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>(1,35,151)</b>	<b>(1,65,000)</b>
Free cash flow (a+b)	43,758	60,966	30,973	34,425
Inc/dec in borrowings	(19,752)	(38,648)	(3,000)	(4,000)
Dividend paid (incl. tax)	(14,359)	(20,211)	(26,162)	(31,869)
Other financing activities	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>(37,838)</b>	<b>(55,375)</b>	<b>(31,172)</b>	<b>(37,759)</b>
<b>Net chng in cash (a+b+c)</b>	<b>5,920</b>	<b>5,591</b>	<b>(200)</b>	<b>(3,335)</b>
<b>Closing cash &amp; cash equivalents</b>	<b>13,102</b>	<b>18,693</b>	<b>18,494</b>	<b>15,159</b>

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