

Mahindra & Mahindra | BUY



Mixed-bag; Tractors reviving; Auto momentum to moderate

Mahindra & Mahindra (M&M) reported 1QFY25 EBITDA margin of 14.9% (+130bps YoY), 90bps above JMFe. Domestic tractor industry is expected to grow by 5% during FY25. Positive monsoon forecast remains a key enabler. In the auto segment, gradual addition to SUV capacity (during FY25), high outstanding bookings (178k+ units) and new launches are expected to drive near-term sales growth momentum. Higher operating leverage and benign commodity costs are expected to support the margin performance. Driven by strong execution in autos and expected recovery in farm segment, we maintain BUY with a Jun'25 TP of INR 3,175 (SOTP valuation, 24x core business). Success of upcoming launches (EV and ICE) remains a key monitorable.

- 1QFY25 – Mixed performance:** M&M reported net sales of INR 270bn (+12% YoY, +8%QoQ), 4% below JMFe. EBITDA margin stood at 14.9% (+130bps YoY, +180bps QoQ), 90bps above JMFe. Auto EBIT margin stood at 9.5% (+180bps YoY, +50bps QoQ), 100bps above JMFe. Reported farm segment EBIT margin stood at 18.5% (+100bps YoY, +270bps QoQ), 150bps above JMFe. EBITDA stood at INR 40.2bn (+22%YoY & QoQ), 2% above JMFe. Adj. PAT for the quarter stood at INR 26.1bn (-5%YoY, +30% QoQ), c.3% below JMFe.
- FES segment - 1QFY25 update & outlook:** M&M's total tractor volume stood at c.121k units (+c.6% YoY, +c.70% QoQ). Its tractor market share improved by 180bps YoY to 44.7% during 1QFY25. The company is witnessing green shoots of revival in tractor demand led by 1) Favourable terms of trade and price realisation in mandis 2) above-normal monsoon forecast 3) Improved government spends on rural and 4) favourable festive base (Navratra in 2HFY25). Overall, the industry is expected to grow by 5%+ during FY25. With respect to international markets, M&M indicated of continued pressure in end-markets like US and EU. In respect of Farm Machinery (FM), revenue for 1Q grew by 34% YoY to INR 2.6bn. M&M is aiming for 40% CAGR growth in the medium-term in this category and expect significant improvement in its profitability over next ~24 months.
- Automotive segment - 1QFY25 update & outlook:** M&M's revenue market share for SUV segment increased by 130bps to 21.6% during 1Q (FY24: 20.4%). Recently launched 'XUV 3XO' has been received well owing to its features and competitive pricing. In FY25, M&M plans to launch 5-door Thar followed by multiple EV launches. FY24 exit SUV capacity stood at 49k units/month and the company plans to ramp this up to 64k / 72k units / month by FY25 / FY26. There would be additional EV capacity of 8k by FY26 end. Led by the ramp-up in capacity, the company plans to bring down its order book going forward (~178k units). Management indicated that the underlying demand remains muted and its new billing run-rate stands at c.41k units/month. However, M&M has guided for mid-to-high teen growth in SUV sales during FY25 led by new launch (3XO and Thar). Management indicated that recent price cut in XUV700 has been to increase its accessibility and drive growth. However, the company does not expect any significant impact on margins owing to this. Positive operating leverage is also expected to support Auto EBIT margin going ahead.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,175
Upside/(Downside)	9.2%
Previous Price Target	3,125
Change	1.6%

Key Data – MM IN

Current Market Price	INR2,908
Market cap (bn)	INR3,615.9/US\$43.2
Free Float	68%
Shares in issue (mn)	1,189.9
Diluted share (mn)	1,199.2
3-mon avg daily val (mn)	INR9,686.0/US\$115.7
52-week range	3,014/1,416
Sensex/Nifty	81,741/24,951
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	1.4	76.1	97.1
Relative*	-1.4	54.3	60.3

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	8,49,603	9,87,634	11,35,291	12,97,770	14,41,928
Sales Growth (%)	47.0	16.2	15.0	14.3	11.1
EBITDA	1,04,424	1,29,194	1,60,980	1,79,644	1,95,872
EBITDA Margin (%)	12.3	13.1	14.2	13.8	13.6
Adjusted Net Profit	79,782	1,07,178	1,22,155	1,39,665	1,55,801
Diluted EPS (INR)	66.6	89.4	101.9	116.5	129.9
Diluted EPS Growth (%)	56.9	34.2	14.0	14.3	11.6
ROIC (%)	35.9	42.3	45.6	44.7	45.0
ROE (%)	19.6	22.4	21.4	20.6	19.4
P/E (x)	43.7	32.5	28.5	25.0	22.4
P/B (x)	8.0	6.7	5.6	4.7	4.0
EV/EBITDA (x)	32.3	25.9	20.5	18.0	16.0
Dividend Yield (%)	0.4	0.7	0.7	0.7	0.7

Source: Company data, JM Financial. Note: Valuations as of 31/Jul/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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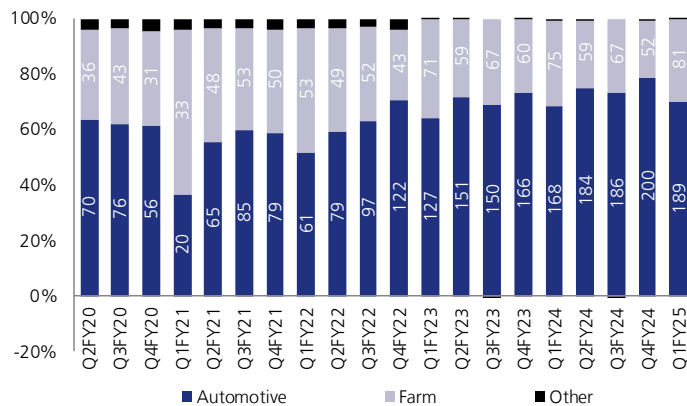
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- **Capex & capital allocation:** M&M has guided for INR 270bn / 50bn capex for Auto / Farm over FY25-27 largely towards new model launches and capacity expansion. The Company also indicated that both Auto and Farm segments are generating healthy cash flows and are self-sufficient to fund this capex. The company expects strong cash generation of INR 70bn in 'Services segment' (MMFSL & TechM) over FY25-27.
- **Other highlights:** 1) M&M indicated that it remains committed to EVs. While Hybrids may do well in the near-to-medium term, industry is expected to ultimately transition to EVs. If needed, M&M will be ready with Hybrids. Also, the company indicated that there was no impact on its demand owing to road-tax waiver on Hybrids in UP. 2) E3W volumes during 1QFY25 were 15.5k units (+6% YoY) and market share stood at 43.4%. The company indicated that with rise in competition, it expects EV penetration to increase (currently at 20%). 3) Current Auto inventory is 4-5 days higher than normal level and the company plans to reduce it with higher retail sales. 4) The company has accrued INR ~1bn of PLI incentives during the qtr (netted-off from COGS). 5) MHCV business has turned cash breakeven and the company expects improvement in profitability with volume ramp-up. 6) M&M remains committed to sustaining at least 18% ROE for its group operations.

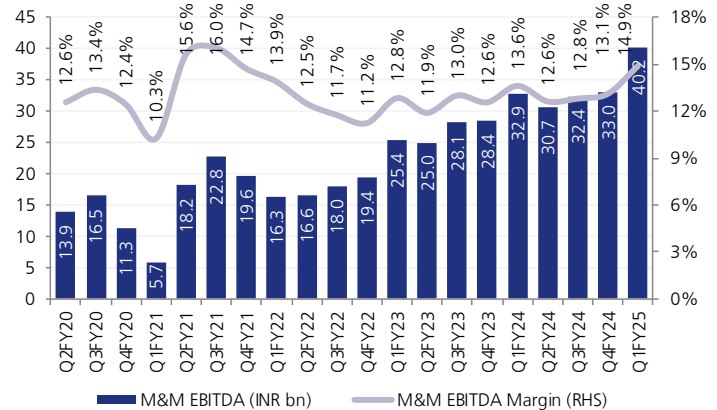
Exhibit 1. Quarterly financial result (standalone)

(INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	Q1FY25E	% A/E
Sales	270,388	241,372	12.0	251,828	7.4	280,958	-3.8
Cost of Goods Sold	199,394	181,152	10.1	184,348	8.2	207,066	-3.7
As a % of sales	73.7	75.1	-130bps	73.2	50bps	73.7	0bps
Staff Cost	11,753	10,564	11.3	11,223	4.7	12,081	-2.7
As a % of sales	4.3	4.4	0bps	4.5	-10bps	4.3	0bps
Other expenses	19,018	16,802	13.2	23,274	-18.3	22,477	-15.4
As a % of sales	7.0	7.0	10bps	9.2	-220bps	8.0	-100bps
Expenditure	230,166	208,517	10.4	218,845	5.2	241,624	-4.7
EBITDA	40,222	32,855	22.4	32,983	21.9	39,334	2.3
EBITDA Margin (%)	14.9	13.6	130bps	13.1	180bps	14.0	90bps
Other Income	3,515	9,290	-62.2	3,539	-0.7	5,000	-29.7
Interest	529	327	61.6	397	33.4	400	32.3
Depreciation	9,146	8,404	8.8	9,882	-7.4	9,500	-3.7
PBT	34,062	33,414	1.9	26,244	29.8	34,434	-1.1
Tax	7,936	5,819	36.4	6,243	27.1	7,576	4.8
Tax rate (%)	23.3	17.4	590bps	23.8	-50bps	22.0	130bps
PAT (Adjusted)	26,126	27,594	-5.3	20,001	30.6	26,859	-2.7
PAT Margin (%)	9.7	11.4	-180bps	7.9	170bps	9.6	10bps

Source: Company, JM Financial

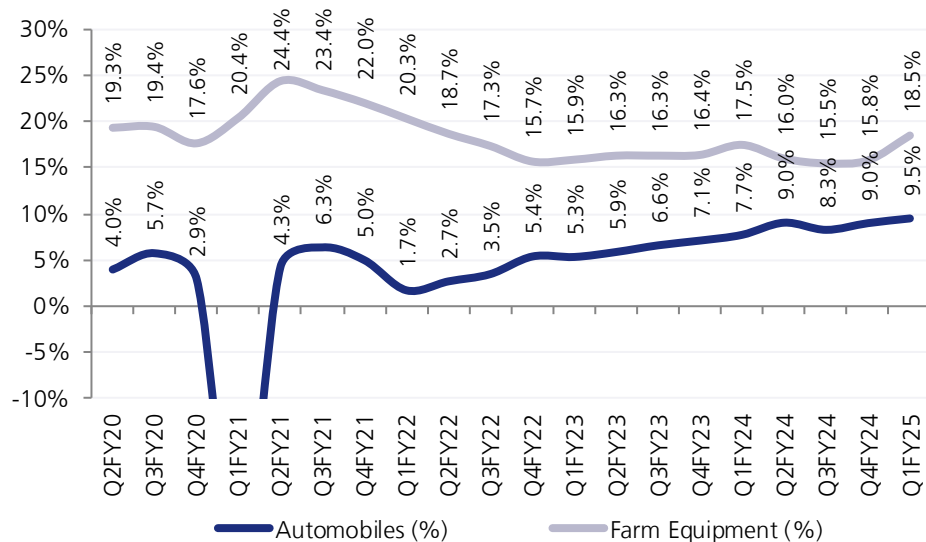
Exhibit 2. Standalone revenue mix (INR bn)

Source: Company, JM Financial

Exhibit 3. Standalone EBITDA trend

Source: Company, JM Financial

Exhibit 4. Segment-wise EBIT margin



Source: Company, JM Financial

Exhibit 5. M&M (standalone) - change in assumptions

M&M	New assumption			Old assumption			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR mn)	1,135,291	1,297,770	1,441,928	1,151,480	1,318,231	NA	-1%	-2%	NA
Auto Volume (mn units)	931,464	1,034,086	1,120,777	931,464	1,034,086	NA	0%	0%	NA
Growth (%)	13%	11%	8%	13%	11%	NA			
Tractor Volume (mn units)	404,159	425,164	447,299	404,159	425,164	NA	0%	0%	NA
Growth (%)	7%	5%	5%	7%	5%	NA			
EBITDA (INR mn)	160,980	179,644	195,872	157,066	182,346	NA	2.5%	-1.5%	NA
EBITDA margin (%)	14.2%	13.8%	13.6%	13.6%	13.8%	NA	60bps	-	NA
PAT (INR mn)	122,155	139,665	155,801	130,079	151,245	NA	-6.1%	-7.7%	NA
EPS (INR)	102	116	130	108	126	NA	-6.1%	-7.7%	NA

Source: Company, JM Financial

Exhibit 6. SOTP valuation

	Methodology	Value per share (INR)
Core business	20x Core EPS	2,440
PV EV Co.	Refer link	170
Listed subsidiaries:		
Tech Mahindra	25% discount to TP/CMP	295
Mahindra Finance	25% discount to TP/CMP	150
Mahindra Life	25% discount to TP/CMP	34
Mahindra Holiday	25% discount to TP/CMP	41
Mahindra Logistics	25% discount to TP/CMP	14
Swaraj Engines	25% discount to TP/CMP	13
EPC	25% discount to TP/CMP	1
CIE Automotive SA	25% discount to TP/CMP	17
Total subsidiary value		565
Total Value - SOTP		3,175

Source: JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	8,49,603	9,87,634	11,35,291	12,97,770	14,41,928	
Sales Growth	47.0%	16.2%	15.0%	14.3%	11.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	8,49,603	9,87,634	11,35,291	12,97,770	14,41,928	
Cost of Goods Sold/Op. Exp	6,45,582	7,40,064	8,42,386	9,69,434	10,81,446	
Personnel Cost	36,499	44,164	49,049	53,954	59,350	
Other Expenses	63,098	74,212	82,876	94,737	1,05,261	
EBITDA	1,04,424	1,29,194	1,60,980	1,79,644	1,95,872	
EBITDA Margin	12.3%	13.1%	14.2%	13.8%	13.6%	
EBITDA Growth	48.6%	23.7%	24.6%	11.6%	9.0%	
Depn. & Amort.	31,545	34,389	37,640	41,250	45,133	
EBIT	72,879	94,806	1,23,339	1,38,394	1,50,739	
Other Income	25,452	41,412	36,303	43,489	52,100	
Finance Cost	2,728	1,388	1,000	500	500	
PBT before Excep. & Forex	95,603	1,34,830	1,58,642	1,81,383	2,02,339	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	95,603	1,34,830	1,58,642	1,81,383	2,02,339	
Taxes	15,821	27,652	36,488	41,718	46,538	
Extraordinary Inc./Loss(-)	-14,295	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	65,486	1,07,178	1,22,155	1,39,665	1,55,801	
Adjusted Net Profit	79,782	1,07,178	1,22,155	1,39,665	1,55,801	
Net Margin	9.4%	10.9%	10.8%	10.8%	10.8%	
Diluted Share Cap. (mn)	1,198.1	1,199.2	1,199.2	1,199.2	1,199.2	
Diluted EPS (INR)	66.6	89.4	101.9	116.5	129.9	
Diluted EPS Growth	56.9%	34.2%	14.0%	14.3%	11.6%	
Total Dividend + Tax	13,838	25,304	23,985	23,985	23,985	
Dividend Per Share (INR)	11.6	21.1	20.0	20.0	20.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	95,603	1,34,830	1,58,642	1,81,383	2,02,339	
Depn. & Amort.	31,545	34,389	37,640	41,250	45,133	
Net Interest Exp. / Inc. (-)	2,728	1,388	1,000	500	500	
Inc (-) / Dec in WCcap.	-111	-4,272	-28,751	-13,146	-11,525	
Others	-14,295	0	0	0	0	
Taxes Paid	-15,821	-27,652	-36,488	-41,718	-46,538	
Operating Cash Flow	99,648	1,38,682	1,32,044	1,68,269	1,89,909	
Capex	-27,486	-49,619	-50,856	-49,983	-54,481	
Free Cash Flow	72,162	89,063	81,188	1,18,286	1,35,428	
Inc (-) / Dec in Investments	-28,826	-29,083	-25,000	-25,000	-25,000	
Others	-2,728	-1,388	-1,000	-500	-500	
Investing Cash Flow	-59,040	-80,090	-76,856	-75,483	-79,981	
Inc / Dec (-) in Capital	8	6	0	0	0	
Dividend + Tax thereon	-13,838	-25,304	-23,985	-23,985	-23,985	
Inc / Dec (-) in Loans	-17,175	-29,891	-6,000	-6,000	-6,000	
Others	-1,291	7,038	1,586	1,814	2,023	
Financing Cash Flow	-32,297	-48,151	-28,398	-28,171	-27,961	
Inc / Dec (-) in Cash	8,312	10,442	26,790	64,616	81,966	
Opening Cash Balance	36,505	44,818	55,259	82,049	1,46,664	
Closing Cash Balance	44,817	55,259	82,049	1,46,664	2,28,631	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	4,33,567	5,22,766	6,20,935	7,36,615	8,68,432	
Share Capital	5,991	5,996	5,996	5,996	5,996	
Reserves & Surplus	4,27,577	5,16,769	6,14,939	7,30,619	8,62,435	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	50,255	20,365	14,365	8,365	2,365	
Def. Tax Liab. / Assets (-)	19,465	19,184	20,771	22,585	24,608	
Total - Equity & Liab.	5,03,287	5,62,315	6,56,071	7,67,565	8,95,404	
Net Fixed Assets	1,97,608	2,12,838	2,26,054	2,34,786	2,44,135	
Gross Fixed Assets	3,66,490	4,06,397	4,53,955	4,99,811	5,49,794	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,96,728	2,31,116	2,68,757	3,10,007	3,55,140	
Capital WIP	27,846	37,558	40,856	44,983	49,481	
Investments	2,70,871	2,99,954	3,24,954	3,49,954	3,74,954	
Current Assets	2,89,319	3,25,322	4,06,384	5,17,418	6,40,568	
Inventories	88,814	95,048	1,08,864	1,24,444	1,38,267	
Sundry Debtors	40,417	45,495	62,208	71,111	79,010	
Cash & Bank Balances	44,818	55,259	82,049	1,46,664	2,28,631	
Loans & Advances	1,15,271	1,29,520	1,53,264	1,75,199	1,94,660	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	2,54,511	2,75,799	3,01,322	3,34,594	3,64,253	
Current Liabilities	1,71,456	1,85,920	2,07,712	2,39,039	2,66,658	
Provisions & Others	83,055	89,880	93,610	95,555	97,595	
Net Current Assets	34,808	49,522	1,05,063	1,82,824	2,76,315	
Total - Assets	5,03,287	5,62,315	6,56,071	7,67,565	8,95,404	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	9.4%	10.9%	10.8%	10.8%	10.8%	
Asset Turnover (x)	1.7	1.9	1.9	1.8	1.7	
Leverage Factor (x)	1.2	1.1	1.1	1.0	1.0	
RoE	19.6%	22.4%	21.4%	20.6%	19.4%	

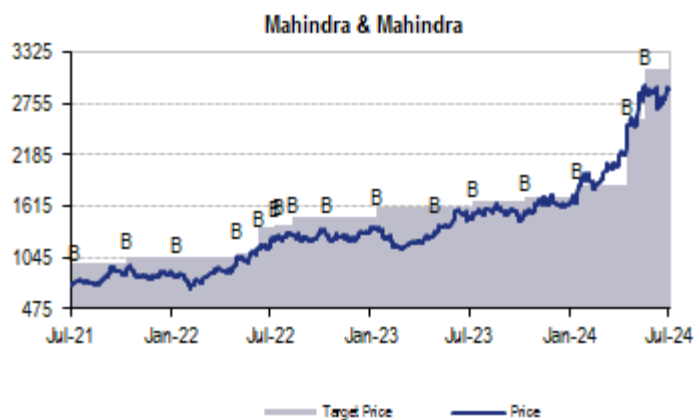
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	361.9	435.9	517.8	614.2	724.2	
ROIC	35.9%	42.3%	45.6%	44.7%	45.0%	
ROE	19.6%	22.4%	21.4%	20.6%	19.4%	
Net Debt/Equity (x)	-0.2	-0.2	-0.2	-0.3	-0.4	
P/E (x)	43.7	32.5	28.5	25.0	22.4	
P/B (x)	8.0	6.7	5.6	4.7	4.0	
EV/EBITDA (x)	32.3	25.9	20.5	18.0	16.0	
EV/Sales (x)	4.0	3.4	2.9	2.5	2.2	
Debtor days	17	17	20	20	20	
Inventory days	38	35	35	35	35	
Creditor days	84	79	78	78	78	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Aug-20	Buy	650	
10-Nov-20	Buy	740	13.8
7-Feb-21	Buy	950	28.4
30-May-21	Buy	980	3.2
7-Aug-21	Buy	980	0.0
9-Nov-21	Buy	1,060	8.2
11-Feb-22	Buy	1,060	0.0
30-May-22	Buy	1,100	3.8
10-Jul-22	Buy	1,375	25.0
7-Aug-22	Buy	1,400	1.8
15-Aug-22	Buy	1,400	0.0
12-Sep-22	Buy	1,500	7.2
13-Nov-22	Buy	1,500	0.0
12-Feb-23	Buy	1,600	6.7
28-May-23	Buy	1,600	0.0
6-Aug-23	Buy	1,675	4.7
12-Nov-23	Buy	1,725	3.0
14-Feb-24	Buy	1,850	7.2
16-May-24	Buy	2,575	39.2
17-Jun-24	Buy	3,125	21.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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