

**BUY**  
 TP: Rs 3,279 | ▲ 19%

**MAHINDRA & MAHINDRA** | Automobiles

02 August 2024

**Healthy performance to continue; upgrade to BUY**

- Automotive segment grew by ~14% YoY and tractor volume an encouraging 5% YoY in a dull quarter
- Gross margin gained ~181bps YoY to 26.5% (flat QoQ). EBITDA margin improved by 172bps/227bps YoY/QoQ to 15.2%
- Raise FY25 earnings by 3%, and introduce FY27 estimates. We upgrade to BUY, valuing MM at 20x 1Y forward P/E and higher TP of Rs 3,279

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**Steady topline growth in challenging quarter:** MM's Q1FY25 revenue grew at a steady 12.8%/8.1% YoY/QoQ to Rs 271.3bn, driven by healthy volume uptick of 10.3%/14.1% YoY/QoQ. The automotive segment grew by ~14% YoY and tractor volume by an encouraging 5% YoY in a dull quarter. Despite the volume gains, the blended realisation/vehicle stayed positive at 2.3% YoY (-5.26% QoQ).

**Uptick in EBITDA margin:** Inventory-adjusted raw material cost stayed benign at 73.5% of sales from 75.3%/73.5% YoY/QoQ in Q1FY25, yielding nominal gross margin gains of ~181bps YoY to 26.5% (flat QoQ). EBITDA grew 27.2% YoY to Rs 41.2bn with margin gains of 172bps/227bps YoY/QoQ to 15.2%. Other expenses rose 14.5% YoY but decreased 17.7% QoQ to Rs 19.0bn.

**FES segment gaining pace:** MM's automotive business continued to dominate revenue with a 70% contribution in Q1FY25. However, the Farm Equipment segment (FES) saw a healthy uptick of 9.2% YoY as tractor volumes rose 4.7% YoY. The tractor volume may gain traction following normal monsoons.

**Product pipeline remains strong:** MM is planning to launch the new Thar Roxx in Q2FY25, besides the 3XO in 4QFY24 with encouraging initial bookings. MM has plans for a strong launch pipeline, including nine ICE SUVs (six new launches), seven LCVs (five ICE + two EVs) and seven EVs categorised as Born EV (BEV) spread over the next six years in two tranches (till FY27 and beyond till FY30).

**Overall healthy performance, upgrade to BUY:** We raise our FY25 estimates by 3% to factor in the healthy outlook from the FES and automotive segment following healthy monsoons and Q1 performance. We introduce FY27E earnings as we pencil in a 3Y EBITDA/PAT CAGR of 17%/13%. We expect FES to revive stronger, and the automotive segment to maintain strong momentum benefitting from MM's focus on driving volumes and market share. We continue to value MM's core business at 24x 1-year P/E, a 10% premium to its long-term average (22x), resulting in a revised SOTP-based TP of Rs 3,279 (from Rs 3,210). This includes Rs 362/share as the value of subsidiaries. We upgrade MM to BUY from HOLD with an upside of 19%.

**Key changes**

	Target	Rating
	▲	▲

Ticker/Price	MM IN/Rs 2,750
Market cap	US\$ 41.1bn
Free float	81%
3M ADV	US\$ 112.7mn
52wk high/low	Rs 3,014/Rs 1,416
Promoter/FPI/DII	19%/37%/29%

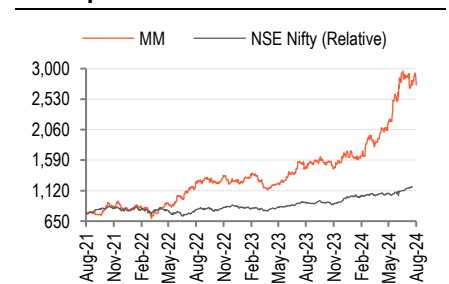
Source: NSE | Price as of 2 Aug 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,87,634	11,24,218	12,77,570
EBITDA (Rs mn)	1,26,662	1,56,309	1,81,302
Adj. net profit (Rs mn)	1,07,178	1,19,982	1,42,360
Adj. EPS (Rs)	89.5	100.1	118.8
Consensus EPS (Rs)	89.5	99.6	115.1
Adj. ROAE (%)	22.4	21.1	21.1
Adj. P/E (x)	30.7	27.5	23.1
EV/EBITDA (x)	26.9	21.6	18.8
Adj. EPS growth (%)	63.7	11.9	18.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q1FY25	Q4FY24	Our view
Market	MM's SUV revenue market share is up 130bps YoY, LCV share is up 160bps, tractor market share is up 180bps. Tractor volume was up as it gained market share to ~44.7%. Farm segment gained share domestically and LCV too gained market share in Q1FY25.	MM's SUV revenue market share grew 130bps YoY to 20.4% in FY24, LCV share by 350bps to 49.0%, and FES share 40bps to 41.6% in FY24 over FY23.	All the segments are looking at healthy volume delivery including automotive segment, FES. The revival in the LCV segment is very encouraging.
Order book	MM has seen good traction in markets where it has a presence with its new products especially following the response to XUV700 and Scorpio. The order book of certain models, however, is soft due to customers preferring lower waiting periods.	The company's order book as on 1 Feb 2024 stood at ~220 units, led by the Scorpio family (~86k open bookings), followed by the Thar series (~59k), XUV700 (~8k), Bolero (~10k). The newly launched XUV 3XO had bookings of 50k (launched in Jan'24). MM has a cancellation rate of ~10% per month.	The company's focus on lowering the wait period will bolster growth. The policy to revisit cancellations to clear old inventory stock faster for new product/series launches has been handy.
Electric Vehicle	MM has plans for a strong launch pipeline, including nine ICE SUVs (six new launches), seven LCVs (five ICE + two EV) and seven EVs categorised as Born EV (BEV) spread over the next six years in two tranches (till FY27 and beyond till FY30). MM will report BEV (Battery electric vehicle) margins separately from internal combustion engine (ICE) margins.	MM's EV penetration in the three-wheeler (3W) L5 category was ~11.0% in FY24. As per management, EV industry penetration in India is currently at 2% and the charging ecosystem remains weak and can be developed in a phased manner unlike in China where needs are assessed and worked on beforehand.	Aggressive programme of ~24 launches in the next six years with clear policy of focus on growth over earnings augurs well for MM.
FES	FES volumes rose 4.7%/64.2% YoY/QoQ to ~120.5k units in Q1FY25. Tractor volumes were up as MM gained market share besides 19.7% core tractor margin. MM expects good monsoons and higher spending by government in rural areas to be good drivers of growth for tractors.	FES volume fell 20% YoY to ~71k units in Q4FY24. MM continues to be the #2 player in rotavators with 20.3% market share in FY24. Management expects tractor industry volumes to improve significantly on predictions of normal monsoon in FY25. Products launched in North American markets: rotary tillers, loaders & backhoes.	Better monsoon predictions and actual monsoons have helped to turn the outlook in the FES segment in FY25
Margin	Margin expansion remained key theme for Q1FY25. Improved profitability drives significant 23% margin increase in automotive and agricultural sectors. This growth is underpinned by substantial PBIT enhancements of 9.5% and 18.5% respectively.	EBIT margin in the auto segment expanded 170bps YoY to 8.8% in Q4FY24, while FES saw margins maintained at 16.2% YoY in FY24 despite the inclusion of 0.2% one-time impact from Cricket World Cup sponsorship.	We expect MM's automotive segment to improve and FES weakness earlier to reverse. The low base effect will be handy.
Balance sheet information	Rs 50bn capex is primarily for the farm business which is regular capex. This is besides the capex earmarked for the EV and the automotive segments.	MM generated operating cash of Rs 150bn in FY24. It had capital expenditure of Rs 50bn. In addition to that, EV capex was Rs 30bn and debt repayment of Rs 35bn in FY24.	We see no concerns on the balance sheet given a prudent capital allocation policy.

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance (Standalone)**

(Rs mn)	Q1FY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Volume	3,32,042	3,01,147	10.3	2,91,109	14.1
Avg. Realisation per Vehicle	8,17,148	7,98,814	2.3	8,62,528	(5.3)
Net Revenues	2,71,328	2,40,561	12.8	2,51,090	8.1
<b>Total Income (A)</b>	<b>2,71,328</b>	<b>2,40,561</b>	<b>12.8</b>	<b>2,51,090</b>	<b>8.1</b>
<b>Operating Expenses</b>					
Raw materials consumed	1,99,394	1,81,149	10.1	1,84,462	8.1
Employee Expenses	11,753	10,447	12.5	11,112	5.8
Other Expenses	19,018	16,613	14.5	23,114	(17.7)
<b>Total Expenditure (B)</b>	<b>2,30,166</b>	<b>2,08,209</b>	<b>10.5</b>	<b>2,18,689</b>	<b>5.2</b>
<b>EBITDA (A-B)</b>	<b>41,162</b>	<b>32,351</b>	<b>27.2</b>	<b>32,401</b>	<b>27.0</b>
Other Income	2,576	9,699	(73.4)	5,474	(53.0)
Depreciation	9,146	8,281	10.4	9,770	(6.4)
EBIT	34,591	33,769	2.4	28,105	23.1
Finance Costs	529	323	63.6	387	36.8
PBT after excep items	34,062	33,445	1.8	27,718	22.9
Tax expense	7,936	5,708	39.0	6,123	29.6
<b>Reported PAT</b>	<b>26,126</b>	<b>27,737</b>	<b>(5.8)</b>	<b>21,595</b>	<b>21.0</b>
<b>Adjusted PAT</b>	<b>26,126</b>	<b>27,737</b>	<b>(5.8)</b>	<b>21,595</b>	<b>21.0</b>
EPS (Rs)	21.0	22.3	(5.8)	16.4	28.2
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Gross Margin	26.5	24.7	181	26.5	(2)
EBITDA Margin	15.2	13.4	172	12.9	227
EBIT Margin	12.7	14.0	(129)	11.2	156
PBT Margin	12.6	13.9	(135)	11.0	151
Tax Rate	23.3	17.1	623	22.1	121
Adj PAT Margin	9.6	11.5	(190)	8.6	103

Source: Company, BOBCAPS Research

## Valuation methodology

We raise our FY25 earnings estimates by 3% to factor in the healthy outlook from the FES and automotive segment following healthy monsoons and Q1 performance. We introduce FY27E earnings as we pencil in a 3Y EBITDA/PAT CAGR of 17%/13%. FES has indicated early signs of revival after predictions of actual normal/above normal monsoons and expected steady policy framework following the reinstatement of the existing government. Further, domestic agricultural market dynamics call for healthy tractor demand in the medium term.

We believe MM's aggressive growth plans will drive volume and market share in the automotive segment likely helping it to maintain strong momentum. MM has a strong focus on launch programmes in the automotive segment, including electric vehicles and in FES. Despite the strong capex for the automotive segment and FES, MM's capital allocation policy continues to imply less debt stress that will comfort the balance sheet health and keep the return ratios moving at a good pace.

Factoring in the same, we continue to value MM's core business at 24x P/E 1-year forward earnings, 10% premium to its long-term average (22x) resulting in a revised SOTP-based TP of Rs 3,279 (from Rs 3,210). We value MM's core business at Rs 2,848 and value its other businesses at Rs 362/share (Rs 319 earlier) given the healthy traction in these businesses. At our TP the stock offers 19% upside following the recent rationalisation in the valuations and, hence, we upgrade the stock to BUY from our earlier HOLD rating on the stock.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	11,24,218	12,77,570	14,32,670	11,32,898	12,84,925	NA	(0.8)	(0.6)	NA
EBITDA	1,56,309	1,81,302	2,02,987	1,59,261	1,89,763	NA	(1.9)	(4.5)	NA
Adj PAT	1,19,982	1,42,360	1,55,370	1,16,835	1,42,164	NA	2.7	0.1	NA
Adj EPS (Rs)	100.1	118.8	129.7	97.5	118.7	NA	2.7	0.1	NA

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY25E	FY26E	FY27E
Volume (units)	13,80,870	15,06,980	16,53,399
Revenue (Rs mn)	11,24,218	12,77,570	14,32,670
EBITDA (Rs mn)	1,56,309	1,81,302	2,02,987
EBITDA margin (%)	13.9	14.2	14.2
Adj. PAT (Rs mn)	1,19,982	1,42,360	1,55,370
EPS (Rs)	100.1	118.8	129.7

Source: Company, BOBCAPS Research

**Fig 5 – Valuation summary**

Business	Value (Rs/sh)	Valuation basis
Core Business	2,917	24x 1-year forward EPS
Subsidiaries	362	30% holding company discount
<b>Total</b>	<b>3,279</b>	-

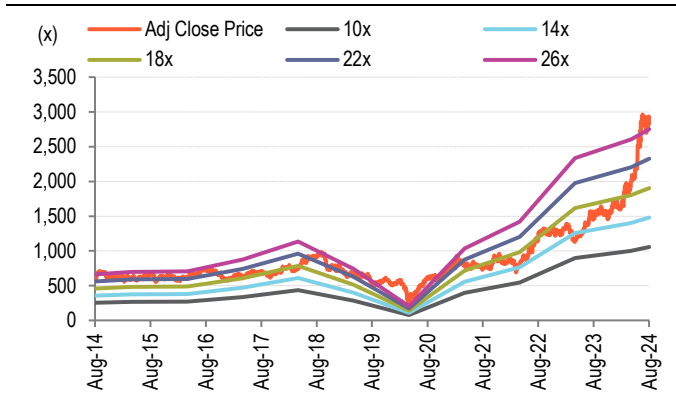
Source: BOBCAPS Research| Note: Valuations include partial FY27 earnings

**Fig 6 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Maruti Suzuki	MSIL IN	HOLD	13,305	471.3	526.9	16	15.8
Mahindra & Mahindra	MM IN	BUY	3,279	100.1	118.8	21.1	21.1
Tata Motors	TTMT IN	NOT RATED	-	66.5	80.1	25.9	24.4

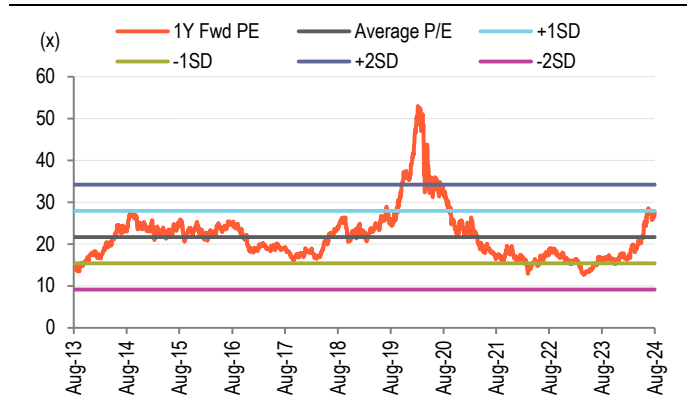
Source: BOBCAPS Research

**Fig 7 – P/E band: We value MM at 24x FY26E core business EPS**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 8 – P/E 1Y fwd MM will continue to trade at premium**



Source: Company, Bloomberg, BOBCAPS Research

### Key risks

**Key downside risks to our estimates are:**

- accelerated launches by competitors in the high-end automotive segment,
- slower-than-expected recovery in the farm equipment segment, and,
- commodity inflation sustaining for longer than expected in the high-end segment.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>8,49,603</b>	<b>9,87,634</b>	<b>11,24,218</b>	<b>12,77,570</b>	<b>14,32,670</b>
EBITDA	1,04,424	1,26,662	1,56,309	1,81,302	2,02,987
Depreciation	31,545	34,389	35,830	38,585	42,018
EBIT	98,331	1,36,217	1,53,958	1,81,752	2,00,633
Net interest inc./(exp.)	(2,728)	(1,388)	(2,082)	(2,118)	(2,330)
Other inc./(exp.)	25,452	43,944	33,479	39,035	39,664
Exceptional items	(14,295)	0	0	0	0
EBT	81,308	1,34,830	1,51,876	1,79,634	1,98,303
Income taxes	15,821	27,652	31,894	37,274	42,933
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>51,191</b>	<b>1,07,178</b>	<b>1,19,982</b>	<b>1,42,360</b>	<b>1,55,370</b>
Adjustments	14,295	0	0	0	0
<b>Adjusted net profit</b>	<b>65,486</b>	<b>1,07,178</b>	<b>1,19,982</b>	<b>1,42,360</b>	<b>1,55,370</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,81,336	1,99,990	2,34,512	2,65,607	2,98,053
Other current liabilities	59,797	60,729	42,187	49,443	62,217
Provisions	18,139	18,714	1,978	2,176	2,394
Debt funds	50,255	20,365	19,160	14,583	11,199
Other liabilities	0	0	0	0	0
Equity capital	5,991	5,996	5,996	5,996	5,996
Reserves & surplus	4,27,577	5,16,770	6,10,547	7,27,746	8,57,957
Shareholders' fund	4,33,567	5,22,766	6,16,543	7,33,743	8,63,953
<b>Total liab. and equities</b>	<b>7,43,095</b>	<b>8,22,563</b>	<b>9,14,380</b>	<b>10,65,551</b>	<b>12,37,815</b>
Cash and cash eq.	44,818	55,259	24,436	42,656	69,425
Accounts receivables	40,417	45,495	56,211	63,878	71,633
Inventories	88,814	95,048	1,12,422	1,34,145	1,46,849
Other current assets	1,15,271	1,29,520	1,79,875	2,04,411	2,29,227
Investments	2,70,871	2,99,954	3,42,488	3,95,098	4,87,786
Net fixed assets	1,88,106	1,94,378	1,98,549	2,19,964	2,27,945
CWIP	9,503	18,460	15,950	20,950	20,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(14,703)	(15,551)	(15,551)	(15,551)	(15,551)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>7,43,095</b>	<b>8,22,563</b>	<b>9,14,380</b>	<b>10,65,551</b>	<b>12,37,815</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>74,304</b>	<b>90,834</b>	<b>41,050</b>	<b>1,24,413</b>	<b>1,55,558</b>
Capital expenditures	(33,485)	(49,619)	(37,490)	(65,000)	(49,550)
Change in investments	(19,773)	(29,083)	(42,534)	(52,610)	(92,688)
Other investing cash flows	25,452	43,944	33,479	39,035	39,664
<b>Cash flow from investing</b>	<b>(27,806)</b>	<b>(34,758)</b>	<b>(46,545)</b>	<b>(78,575)</b>	<b>(1,02,575)</b>
Equities issued/Others	968	800	(794)	0	0
Debt raised/repaid	(17,080)	(29,891)	(1,204)	(4,577)	(3,384)
Interest expenses	(2,728)	(1,388)	(2,082)	(2,118)	(2,330)
Dividends paid	(19,469)	(25,160)	(25,160)	(25,160)	(25,160)
Other financing cash flows	8,963	7,229	(251)	0	0
<b>Cash flow from financing</b>	<b>(29,347)</b>	<b>(48,410)</b>	<b>(29,491)</b>	<b>(31,856)</b>	<b>(30,874)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>17,152</b>	<b>7,666</b>	<b>(34,987)</b>	<b>13,983</b>	<b>22,109</b>
<b>Closing cash &amp; cash eq.</b>	<b>44,818</b>	<b>55,259</b>	<b>24,436</b>	<b>42,656</b>	<b>69,425</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	54.7	89.5	100.1	118.8	129.7
Adjusted EPS	54.7	89.5	100.1	118.8	129.7
Dividend per share	16.3	21.0	21.0	21.0	21.0
Book value per share	361.9	436.3	514.6	612.4	721.1

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.0	3.4	3.0	2.7	2.4
EV/EBITDA	32.4	26.9	21.6	18.8	16.8
Adjusted P/E	50.3	30.7	27.5	23.1	21.2
P/BV	7.6	6.3	5.3	4.5	3.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	63.0	79.5	79.0	79.3	78.4
Interest burden (PBT/EBIT)	82.7	99.0	98.6	98.8	98.8
EBIT margin (EBIT/Revenue)	11.6	13.8	13.7	14.2	14.0
Asset turnover (Rev./Avg TA)	180.6	192.3	190.7	184.6	176.5
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	12.4	22.4	21.1	21.1	19.4

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	47.9	16.2	13.8	13.6	12.1
EBITDA	51.4	21.3	23.4	16.0	12.0
Adjusted EPS	37.6	63.7	11.9	18.7	9.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.3	12.8	13.9	14.2	14.2
EBIT margin	11.6	13.8	13.7	14.2	14.0
Adjusted profit margin	7.7	10.9	10.7	11.1	10.8
Adjusted ROAE	15.9	22.4	21.1	21.1	19.4
ROCE	16.9	21.0	20.6	20.8	19.3
<b>Working capital days (days)</b>					
Receivables	15	16	17	17	17
Inventory	32	34	34	35	36
Payables	90	94	95	96	96
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.4	0.4	0.4	0.4
Current ratio	1.1	1.2	1.3	1.4	1.4
Net interest coverage ratio	(36.0)	(98.2)	(74.0)	(85.8)	(86.1)
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

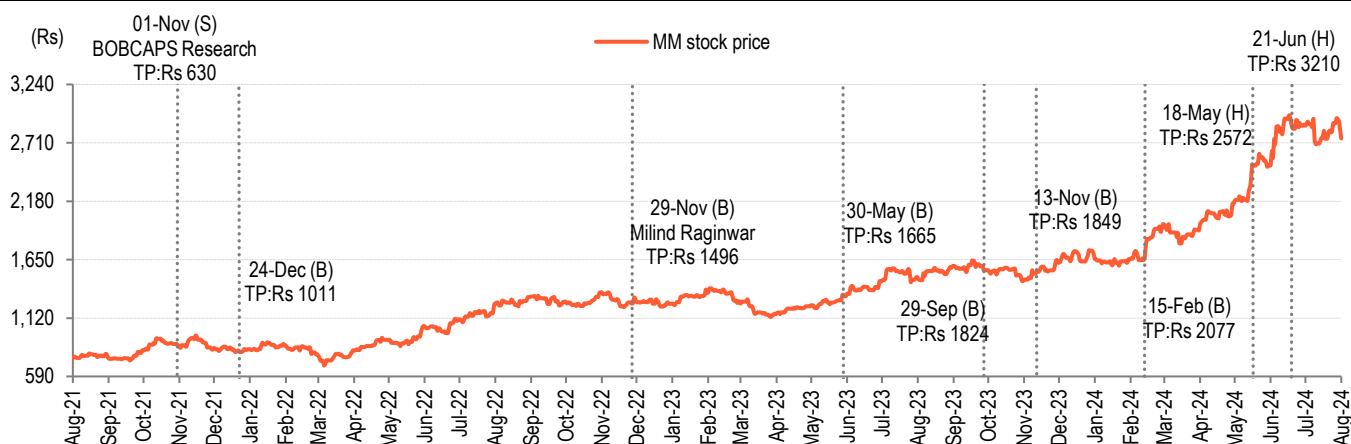
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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