

BUY
 TP: Rs 3,344 | ▲ 16%

MAHINDRA & MAHINDRA | Automobiles

08 November 2024

Auto and Farm segments on healthy trajectory; maintain BUY

- Automotive segment grew by ~9% YoY and tractor volume at 3% YoY in the monsoon quarter; festive season sales were encouraging
- Auto EBIT margin gained ~30bps YoY to 9.3% despite price cut offers. FES segment at 18.3%, gained a healthy 220bps
- We maintain our earnings estimates and BUY rating. We value MM at 20x 1Y forward P/E and raise TP to Rs 3,344 (from Rs 3,279)

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Healthy products aid double-digit topline growth: MM's Q2FY25 revenue grew at a healthy 18.1%/6% YoY/QoQ to Rs 287.1bn, driven by healthy realisation uptick of 10.4%/8.7% YoY/QoQ and was supported by healthy product mix that offset soft prices. The automotive segment volume grew by ~9% YoY and tractor volume by 3% YoY with better product mix. Festive season sales gained further momentum.

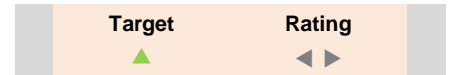
Uptick in FES margin; automotive margin stays put despite price cuts: The Farm Equipment segment (FES) EBIT margin gained 200bps to 18.3%, backed by overall buoyancy in the segment after a lull. The Automotive segment stayed put at 9.3% compared to 9% in Q2FY24 despite price cuts due to a better product mix that helped offset cost inflation. The cost structure was well under check.

FES gaining pace: MM's Automotive business continued to dominate revenue with a 73% contribution in Q2FY25 (71% Q2FY24). FES saw a healthy uptick of 9.8% YoY and contributed 22% to the revenue stream. The tractor volume may gain traction following normal monsoons, and MM guided for 7% YoY gains.

Product pipeline remains strong: MM had a strong response to the launch of the new Thar Roxx (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 (BEV) spread over the next six years in two tranches (till FY27, and beyond till FY30).

Overall healthy performance continues; maintain BUY: We maintain our estimates factoring in the healthy outlook from the FES and automotive segment following healthy monsoons and H1 performance. We pencil in a 3Y EBITDA/PAT CAGR of 17%/13%. We expect FES's revival to be stronger, and the automotive segment to maintain strong momentum as a result of 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 3,344 (from Rs 3,279). This includes Rs 362/share as the value of subsidiaries. We maintain our BUY rating (upside of 16%) and upward bias to our earnings estimates.

Key changes



Ticker/Price	MM IN/Rs 2,891
Market cap	US\$ 42.9bn
Free float	81%
3M ADV	US\$ 112.5mn
52wk high/low	Rs 3,222/Rs 1,474
Promoter/FPI/DII	19%/37%/29%

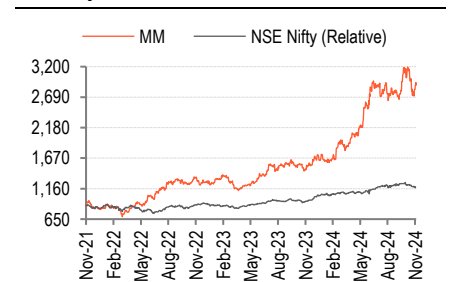
Source: NSE | Price as of 7 Nov 2024

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	100.2	115.7
Adj. ROAE (%)	22.4	21.1	21.1
Adj. P/E (x)	32.3	28.9	24.3
EV/EBITDA (x)	28.3	22.7	19.8
Adj. EPS growth (%)	63.7	11.9	18.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Market	MM's SUV revenue market share is up 190bps YoY, LCV share is up 260bps, tractor market share is up 90bps. Tractor segment's market share reduced marginally to 42.5% from 44.7% QoQ. MM has seen positive pick-up in the LCV segment in the month of Oct'24, backed by mandi arrivals.	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.	All the segments are looking at healthy volume delivery including automotive segment, FES. The revival in the LCV segment is very encouraging.
Order book	From Q2FY25, MM will not disclose its order book. However, management has indicated that it intends to keep the order book minimum going forward.	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 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 is all set to launch the EV BE 6E and XEV 9E on 26 November 2024 and expects them to be in the market by early 2025. Phase 1 capacity for the EV segment will add about 100k capacity annually. EV segment margins (separate subsidiary) are expected to be significantly lower going forward in Q3 due to the high marketing costs related to new product launches and no revenue being generated. MM will file for PLI incentives in Q3FY25 for some of the variants. Zeoan an E-4-wheeler was launched in early Oct'24. The Thar Roxx and Veero (multi-energy CV) were launched in Aug and Sep'24 respectively.	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 (Battery Electric Vehicle/BEV) spread over the next six years in two tranches (till FY27, and beyond till FY30). MM will report BEV margins separately from internal combustion engine (ICE) margins.	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 dropped 23% QoQ, however gained 3.68% YoY to 92.38k units. Farm consolidated revenue numbers dipped by 2% YoY mainly due to exports being affected in North America where the tractor demand has experienced degrowth for 11 quarters now and hyperinflation experienced in Turkey. Due to healthy monsoon and high reservoir levels MM has revised its FY25 outlook to 6-7%, ie, it expects H2FY25 to grow at about 13-15% for tractors and mid- to high-teen growth for FY25.	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.	Better monsoon predictions and actual monsoons have helped to turn the outlook in the FES segment in FY25.
Margin	MM is careful in balancing growth and margin. Despite the price cut on XUV700 MM has managed to maintain its margins due to normalisation of chips cost and improving product mix. Rubber prices have spiked, however the impact is marginal. PBIT for automotive remains 9.5%, but there is a slight decrease in farm equipment to 17.5%.	Margin expansion remained a 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.	Better product mix, prudent pass through of commodity inflation and timely softening of prices helped to guard margins in the automotive segment which is commendable.
Balance sheet information	Auto inventory levels currently at the dealers are below 30 days due to the festive month. On the inventory levels of tractors, management believes it requires some correction and shall be normalised in the next 4-5 months.	Rs 50bn capex is primarily for the farm business which is regular capex. This is besides the capex earmarked for the EV and automotive segments.	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)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	2QFY25E
Volume	3,23,420	3,02,139	7.0	3,32,042	(2.6)	3,24,420
Avg. Realisation per Vehicle	8,87,958	8,04,593	10.4	8,17,148	8.7	8,13,063
Net Revenues	2,87,183	2,43,099	18.1	2,71,328	5.8	2,63,774
Total Income (A)	2,87,183	2,43,099	18.1	2,71,328	5.8	2,63,774
Operating Expenses						
Raw materials consumed	2,04,440	1,83,793	11.2	1,99,394	2.5	1,93,874
Employee Expenses	11,526	11,262	2.3	11,753	(1.9)	10,551
Other Expenses	20,069	18,703	7.3	19,018	5.5	19,783
Total Expenditure (B)	2,36,035	2,13,758	10.4	2,30,166	2.6	2,24,208
EBITDA (A-B)	51,148	29,341	74.3	41,162	24.3	39,566
Other Income	6,772	22,819	(70.3)	2,576	162.9	17,151
Depreciation	9,614	8,158	17.8	9,146	5.1	9,241
EBIT	48,307	44,001	9.8	34,591	39.6	47,476
Finance Costs	551	329	67.4	529	4.2	511
PBT after excep items	47,755	43,672	9.3	34,062	40.2	46,965
Tax expense	10,902	9,153	19.1	7,936	37.4	11,037
Reported PAT	36,853	34,519	6.8	26,126	41.1	35,928
Adjusted PAT	36,853	34,519	6.8	26,126	41.1	35,928
EPS (Rs)	30.9	27.8	11.3	21.0	47.0	28.9
Key Ratios (%)			(bps)		(bps)	
Gross Margin	28.8%	24.4%	442	26.5%	230	26.5%
EBITDA Margin	17.8%	12.1%	574	15.2%	264	15.0%
EBIT Margin	16.8%	18.1%	(128)	12.7%	407	18.0%
PBT Margin	16.6%	18.0%	(134)	12.6%	407	17.8%
Tax Rate	22.8%	21.0%	187	23.3%	(47)	23.5%
Adj PAT Margin	12.8%	14.2%	(137)	9.6%	320	13.6%

Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY25/FY26/FY27 estimates factoring in the healthy outlook from the FES and automotive segments following healthy monsoons and H1 performance. 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 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. EV segment margins (separate subsidiary) are expected to be significantly lower in Q3 due to high marketing costs related to the new product launch and revenue generation in subsequent quarters. M&M will file for Production-Linked Incentives in Q3FY25 for some of the variants

Despite the strong capex for the automotive segment and FES, we believe MM's capital allocation policy continues to imply less debt stress that will result in balance sheet health and keep the return ratios moving at a good pace.

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 3,344 (from Rs 3,279). This includes Rs 362/share as the value of subsidiaries. We maintain BUY rating (upside of 16%) and upward bias to our earnings estimates

Fig 3 – 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

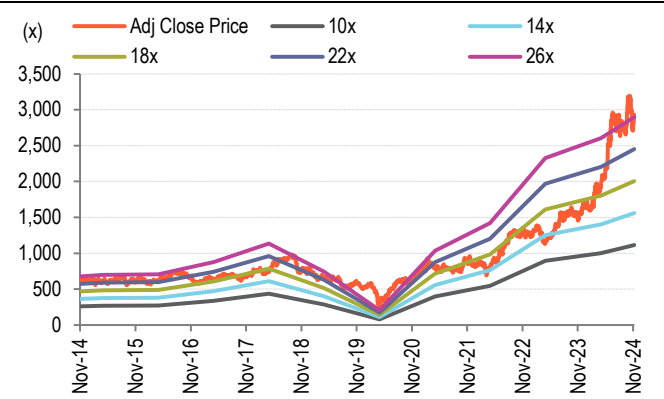
Source: Company, BOBCAPS Research

Fig 4 – Valuation summary

Business	Value (Rs/sh)	Valuation basis
Core Business	2,982	24x 1-year forward EPS
Subsidiaries	362	30% holding company discount
Total	3,344	-

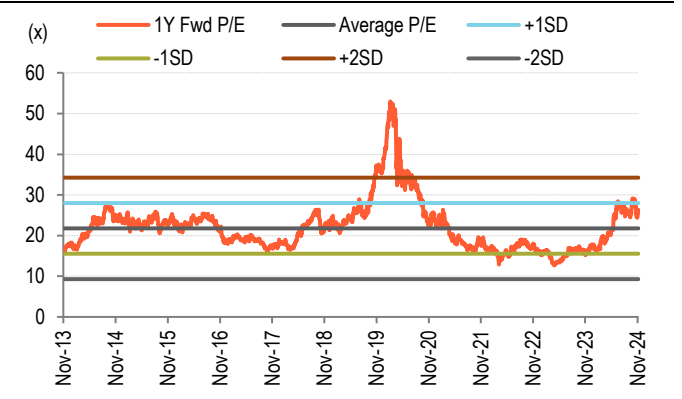
Source: BOBCAPS Research | Note: Valuations include partial FY27 earnings

Fig 5 – P/E band: We value MM at 24x 1-year forward core business EPS



Source: Company, Bloomberg, BOBCAPS Research

Fig 6 – 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
Total revenue	8,49,603	9,87,634	11,24,218	12,77,570	14,32,670
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
Reported net profit	51,191	1,07,178	1,19,982	1,42,360	1,55,370
Adjustments	14,295	0	0	0	0
Adjusted net profit	65,486	1,07,178	1,19,982	1,42,360	1,55,370

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
Total liab. and equities	7,43,095	8,22,563	9,14,380	10,65,551	12,37,815
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
Total assets	7,43,095	8,22,563	9,14,380	10,65,551	12,37,815

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	74,304	90,834	41,050	1,24,413	1,55,558
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
Cash flow from investing	(27,806)	(34,758)	(46,545)	(78,575)	(1,02,575)
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
Cash flow from financing	(29,347)	(48,410)	(29,491)	(31,856)	(30,874)
Chg in cash & cash eq.	17,152	7,666	(34,987)	13,983	22,109
Closing cash & cash eq.	44,818	55,259	24,436	42,656	69,425

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	4.2	3.6	3.2	2.8	2.5
EV/EBITDA	34.1	28.3	22.7	19.8	17.7
Adjusted P/E	52.9	32.3	28.9	24.3	22.3
P/BV	8.0	6.6	5.6	4.7	4.0

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	15	16	17	17	17
Inventory	32	34	34	35	36
Payables	90	94	95	96	96
Ratios (x)					
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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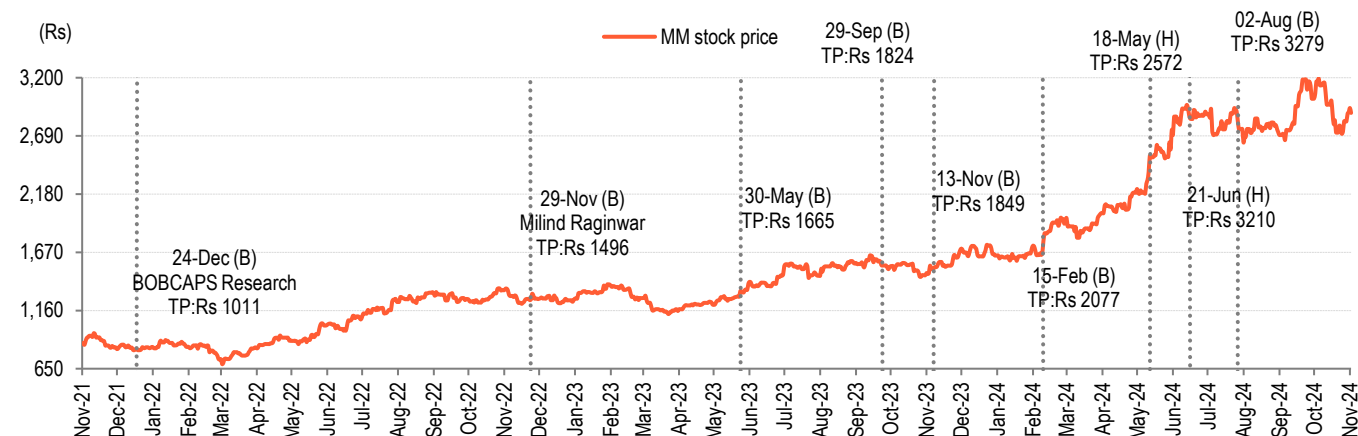
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): MAHINDRA & MAHINDRA (MM IN)



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

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