

**BUY**

**TP: Rs 3,689 | ▲ 15%**

**MAHINDRA & MAHINDRA** | Automobiles

| 08 February 2025

**All the segments delivering healthy performance; Maintain BUY**

- **Automotive and tractor segment volume grew in double digits by ~16% /20% YoY; reflects strong show in festive/post-festive season**
- **Auto EBIT margin gained ~140bps YoY to 9.7% despite discount. FES segment at 18.1%, gained another healthy 140bps**
- **We revise upwards our earnings estimate and maintain BUY rating. We value MM at 24x 1Y forward P/E and raise TP to Rs 3,689 (from Rs 3,279)**

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**Volume aid double-digit topline growth:** MM's Q3FY25 revenue grew at a healthy 20%/11% YoY/QoQ to Rs 305.4bn, driven by healthy volume growth of 16%/20% YoY/QoQ and was supported by healthy product mix that offset soft prices and discounts. The blended realisations grew by ~3% indicating favorable product mix. Tractor segment grew by strong ~32% QoQ.

**Uptick in FES margin; automotive margin stays put despite discount:** The Farm Equipment segment (FES) EBIT margin gained 140bps to 18.1%, backed by overall buoyancy in the segment after a lull. The Automotive segment stayed put at 9.7% compared to 8.3% in Q3FY24 despite discounts aided by a better product mix that also helped offset cost inflation. The cost structure was well under check.

**FES gaining pace:** MM's Automotive business continued to dominate revenue with at 72% contribution in Q3FY25 (flat Q3FY24). FES revenue saw a healthy uptick of 21% YoY and contributed 26% to the revenue stream. The tractor volume gained by 32%/QoQ and revenue grew 26% in Q3FY25.

**Product pipeline remains strong:** Recently launched Thar Roxx has a volume capacity of 9000 units. MM is all set to open bookings on 14<sup>th</sup> Feb'25 across 250 dealers for the all-new EV BE 6 and XEV with production of 5k units per month in its initial phase. 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 revise our earnings estimates for FY25e/FY26e/FY27e 2%/7%/9% factoring in the healthy outlook from the Automotive and FES segment following healthy monsoons and 9M performance. We pencil in a 3Y EBITDA/PAT CAGR of 20%/17%. 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 3,689 (from Rs 3,344 earlier). This includes Rs 362/share as the value of subsidiaries. We maintain our BUY rating (upside of 15%) and upward bias to our earnings estimates.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 3,198
Market cap	US\$ 45.7bn
Free float	81%
3M ADV	US\$ 100.0mn
52wk high/low	Rs 3,271/Rs 1,623
Promoter/FPI/DII	19%/37%/29%

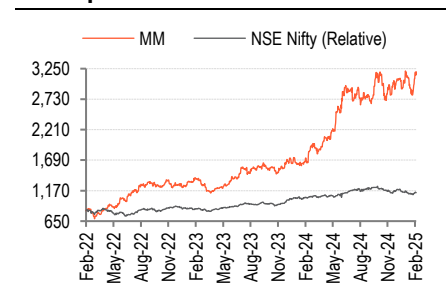
Source: NSE | Price as of 7 Feb 2025

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,87,634	11,36,914	13,06,400
EBITDA (Rs mn)	1,26,662	1,59,013	1,93,888
Adj. net profit (Rs mn)	1,07,178	1,22,118	1,52,335
Adj. EPS (Rs)	89.5	101.9	127.1
Consensus EPS (Rs)	89.5	102.4	116.8
Adj. ROAE (%)	22.4	21.4	22.3
Adj. P/E (x)	35.8	31.4	25.2
EV/EBITDA (x)	31.3	24.8	20.5
Adj. EPS growth (%)	63.7	13.9	24.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q3FY25	Q2FY25	Our view
Market	<p>MM's SUV revenue market share is up 200bps YoY, LCV volume market share is up 230bps YoY, tractor market share is up 240bps YoY.</p> <p>On the farm side some challenges faced in the international markets, yet gained a revenue growth of 12% YoY.</p>	<p>MM's SUV revenue market share is up 190bps YoY, LCV share is up 260bps, tractor market share is up 90bps.</p> <p>Tractor segment's market share reduced marginally to 42.5% from 44.7% MoM.</p> <p>MM has seen positive pick-up in the LCV segment in the month of Oct'24, backed by mandi arrivals.</p>	<p>All the segments are looking at healthy volume delivery including automotive segment, FES. The continued revival in the LCV segment is very encouraging.</p>
Order book	<p>No comments made with respect to order book.</p>	<p>From Q2FY25, MM will not disclose its order book.</p> <p>However, management has indicated that it intends to keep the order book minimum going forward.</p>	<p>The company's focus to bolster growth is a stated policy. The policy to revisit cancellations to clear old inventory stock faster for new product/series launches has been handy.</p>
Electric Vehicle	<p>MM is all set to open bookings on 14<sup>th</sup> Feb'25 across 250 dealers. MM to charge a price applicable at the time of delivery which enables the company to pass on any sudden spike in input cost.</p> <p>EV margins to be lower than ICE initially, however overtime management expects EV margins to be in line with the ICE margins.</p> <p>Management indicated that the Production Linked Incentive will be recorded in Mahindra Electric Automobile Limited (MEAL) that is in the subsidiary company books.</p> <p>MM to consciously keep showrooms selling ICE and EV the same despite initial fears of cannibalization.</p>	<p>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.</p> <p>Zeoan an E-4-wheeler was launched in early Oct'24.</p> <p>The Thar Roxx and Veero (multi-energy CV) were launched in Aug and Sep'24 respectively.</p>	<p>Efforts on expanding base a long-stated strategy. Availability of ICE and EV products in the same showroom will enable customer preference to be addressed under single roof.</p>
FES	<p>Highest ever Q3 market share at 44.2%; volumes at 121k, up 20% YoY. MM observed a marginal slowdown in international subsidiaries largely due to economic factors in those respective countries. The de-growth in the international markets was offset by the growth in the domestic markets.</p> <p>Managements expects industry to grow in FY25 at 7% due to healthy reservoir levels, good levels of kharif crop levels and improving MSP.</p>	<p>FES volumes dropped 23% MoM, 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.</p> <p>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.</p>	<p>Better monsoon predictions and actual monsoons have helped to turn the outlook in the FES segment in FY25. The growth estimates for the segment are revised upwards (earlier 5%).</p>
Margin	<p>Core organic profit performance was strong in Q3FY25 however overall profitability was impacted due to mark to market recognition (foreign currency impact).</p> <p>Price hike in YTD auto was 0.7%.</p> <p>PBIT for automotive at 9.7% and farm equipment to 18.1%.</p>	<p>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.</p> <p>PBIT for automotive remains 9.5%, but there</p>	<p>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. Adverse currency impact could continue to hit earnings in the short term</p>

Parameter	Q3FY25	Q2FY25	Our view
		is a slight decrease in farm equipment to 17.5%.	
Balance sheet information	MM has completed its Tractor Inventory correction in Q3FY25 and does not require any correction further.	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.	Inventory correction to help robust product pipeline across segments.

Source: Company, BOBCAPS Research

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

(Rs mn)	Q3FY25	3QFY24	YoY (%)	Q2FY25	QoQ (%)	3QFY25E
Volume	3,67,273	3,13,115	17.3	3,23,420	13.6	3,67,273
Avg. Realisation per Vehicle	8,31,486	8,10,657	2.6	8,51,934	(2.4)	7,83,780
Net Revenues	3,05,382	2,53,829	20.3	2,75,533	10.8	2,87,861
<b>Total Income (A)</b>	<b>3,05,382</b>	<b>2,53,829</b>	<b>20.3</b>	<b>2,75,533</b>	<b>10.8</b>	<b>2,87,861</b>
<b>Operating Expenses</b>						
Raw materials consumed	2,04,440	1,83,793	11.2	1,99,394	2.5	2,10,858
Employee Expenses	11,526	11,262	2.3	11,753	(1.9)	11,514
Other Expenses	20,069	18,703	7.3	19,018	5.5	20,798
<b>Total Expenditure (B)</b>	<b>2,36,035</b>	<b>2,13,758</b>	<b>10.4</b>	<b>2,30,166</b>	<b>2.6</b>	<b>2,43,171</b>
<b>EBITDA (A-B)</b>	<b>44,681</b>	<b>32,950</b>	<b>35.6</b>	<b>39,497</b>	<b>13.1</b>	<b>44,690</b>
Other Income	6,901	7,412	(6.9)	20,433	(66.2)	2,908
Depreciation	10,451	8,312	25.7	9,614	8.7	9,899
EBIT	41,131	32,050	28.3	50,317	(18.3)	37,699
Finance Costs	614	348	76.5	551	11.4	575
PBT after excep items	40,517	31,702	27.8	49,765	(18.6)	37,124
Tax expense	10,036	6,805	47.5	10,902	(7.9)	9,095
<b>Reported PAT</b>	<b>30,481</b>	<b>24,897</b>	<b>22.4</b>	<b>38,863</b>	<b>(21.6)</b>	<b>28,029</b>
<b>Adjusted PAT</b>	<b>30,481</b>	<b>24,897</b>	<b>22.4</b>	<b>38,863</b>	<b>(21.6)</b>	<b>28,029</b>
EPS (Rs)	23.9	20.0	19.1	30.9	(22.8)	23.8
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>	
Gross Margin	25.6	24.9	72	25.8	(22)	26.8
EBITDA Margin	14.6	13.0	165	14.3	30	15.5
EBIT Margin	13.5	12.6	84	18.3	(479)	13.1
PBT Margin	13.3	12.5	78	18.1	(479)	12.9
Tax Rate	24.8	21.5	330	21.9	286	24.5
Adj PAT Margin	10.0	9.8	17	14.1	(412)	9.7

Source: Company, BOBCAPS Research

## Valuation methodology

We revise our earnings estimates for FY25e/FY26e/FY27e 2%/7%/9% factoring in the healthy outlook from the FES and automotive segment following healthy monsoons and 9M performance. We pencil in a 3Y EBITDA/PAT CAGR of 20%/17%. 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.

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. The capacity expansion plan are right measures to address the market preferences especially in the automotive segment and will help MM to maintain its leadership in the SUV segment.

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 3,689 (from Rs 3,344). This includes Rs 362/share as the value of subsidiaries. We maintain our BUY rating (upside of 15%) and upward bias to our earnings estimates.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	11,36,914	13,06,400	14,91,038	11,24,218	12,77,570	14,32,670	1.1	2.3	4.1
EBITDA	1,59,013	1,93,888	2,22,525	1,56,309	1,81,302	2,02,987	1.7	6.9	9.6
Adj PAT	1,22,118	1,52,335	1,70,678	1,19,982	1,42,360	1,55,370	1.8	7.0	9.9
Adj EPS (Rs)	101.9	127.1	142.5	100.1	118.8	129.7	1.8	7.0	9.8

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

Parameter	FY25E	FY26E	FY27E
Volume (units)	13,91,553	15,35,715	17,07,402
Revenue (Rs mn)	11,36,914	13,06,400	14,91,038
EBITDA (Rs mn)	1,59,013	1,93,888	2,22,525
EBITDA margin (%)	14.0	14.8	14.9
Adj. PAT (Rs mn)	1,22,118	1,52,335	1,70,678
EPS (Rs)	101.9	127.1	142.5

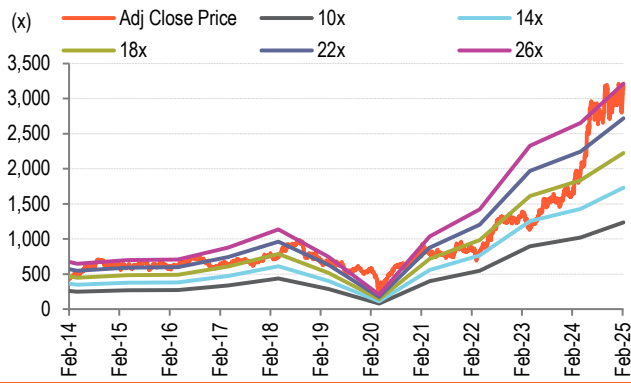
Source: Company, BOBCAPS Research

**Fig 5 – Valuation summary**

Business	Value (Rs/sh)	Valuation basis
Core Business	3,327	24x 1-year forward EPS
Subsidiaries	362	30% holding company discount
<b>Total</b>	<b>3,689</b>	-

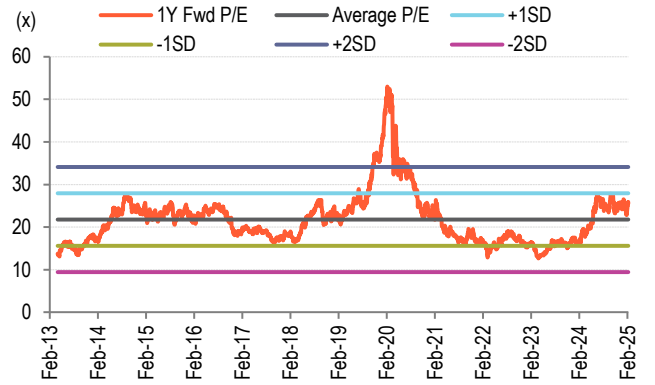
Source: BOBCAPS Research| Note: Valuations include partial FY27 earnings

**Fig 6 – P/E band: We value MM at 24x 1-year forward core business EPS**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 7 – 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>11,36,914</b>	<b>13,06,400</b>	<b>14,91,038</b>
EBITDA	1,04,424	1,26,662	1,59,013	1,93,888	2,22,525
Depreciation	31,545	34,389	35,830	38,585	42,018
EBIT	98,331	1,36,217	1,56,662	1,94,338	2,20,170
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	1,54,580	1,92,220	2,17,840
Income taxes	15,821	27,652	32,462	39,886	47,162
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>1,22,118</b>	<b>1,52,335</b>	<b>1,70,678</b>
Adjustments	14,295	0	0	0	0
<b>Adjusted net profit</b>	<b>65,486</b>	<b>1,07,178</b>	<b>1,22,118</b>	<b>1,52,335</b>	<b>1,70,678</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,81,336	1,99,990	2,37,160	2,71,235	3,09,361
Other current liabilities	59,797	60,729	42,536	48,688	62,752
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	6,12,683	7,39,857	8,85,375
Shareholders' fund	4,33,567	5,22,766	6,18,679	7,45,854	8,91,371
<b>Total liab. and equities</b>	<b>7,43,095</b>	<b>8,22,563</b>	<b>9,19,514</b>	<b>10,82,535</b>	<b>12,77,077</b>
Cash and cash eq.	44,818	55,259	25,634	50,558	90,447
Accounts receivables	40,417	45,495	56,846	65,320	74,552
Inventories	88,814	95,048	1,13,691	1,37,172	1,52,831
Other current assets	1,15,271	1,29,520	1,81,906	2,09,024	2,38,566
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>9,19,514</b>	<b>10,82,535</b>	<b>12,77,077</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>42,248</b>	<b>1,31,118</b>	<b>1,68,677</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>(33,788)</b>	<b>20,688</b>	<b>35,228</b>
<b>Closing cash &amp; cash eq.</b>	<b>44,818</b>	<b>55,259</b>	<b>25,634</b>	<b>50,558</b>	<b>90,447</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	54.7	89.5	101.9	127.1	142.5
Adjusted EPS	54.7	89.5	101.9	127.1	142.5
Dividend per share	16.3	21.0	21.0	21.0	21.0
Book value per share	361.9	436.3	516.4	622.5	744.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.6	4.0	3.5	3.0	2.7
EV/EBITDA	37.8	31.3	24.8	20.5	17.8
Adjusted P/E	58.5	35.8	31.4	25.2	22.5
P/BV	8.8	7.3	6.2	5.1	4.3

### 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	98.7	98.9	98.9
EBIT margin (EBIT/Revenue)	11.6	13.8	13.8	14.9	14.8
Asset turnover (Rev./Avg TA)	180.6	192.3	192.5	186.9	179.3
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	12.4	22.4	21.4	22.3	20.8

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	47.9	16.2	15.1	14.9	14.1
EBITDA	51.4	21.3	25.5	21.9	14.8
Adjusted EPS	37.6	63.7	13.9	24.7	12.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.3	12.8	14.0	14.8	14.9
EBIT margin	11.6	13.8	13.8	14.9	14.8
Adjusted profit margin	7.7	10.9	10.7	11.7	11.4
Adjusted ROAE	15.9	22.4	21.4	22.3	20.8
ROCE	16.9	21.0	20.9	22.0	20.7
<b>Working capital days (days)</b>					
Receivables	15	16	16	17	17
Inventory	32	34	34	35	35
Payables	90	94	94	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	1.5
Net interest coverage ratio	(36.0)	(98.2)	(75.3)	(91.8)	(94.5)
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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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

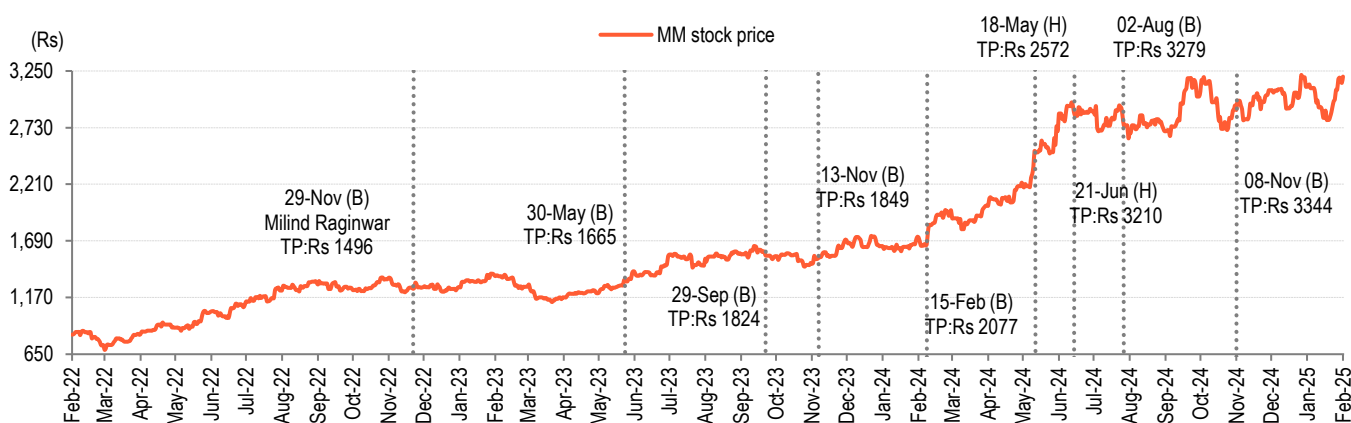
**HOLD** – Expected return from -6% to +15%

**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.

### 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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