

01 August 2024

India | Equity Research | Q1FY25 results review

Mahindra and Mahindra

Automotives

Margin beat across segments

Mahindra & Mahindra's (M&M) EBITDA margin, at 14.9% (up ~200bps QoQ), was 110bps higher than consensus. Auto/FES segment's EBIT margin was up 70bps/270bps QoQ at 9.5%/18.5%. M&M is planning SUV capacity expansion to 64k units/month by end-FY25, from 49k units (as of FY24-end). The company also has an order backlog of ~178k units as of end-Q1. We believe, with the recently launched XUV3XO, monthly UV production levels should move over 45k units/month soon. Maintain **BUY** with an SoTP-based revised target price of INR 3,349 (earlier INR 3,365), implying 28x FY26E core EPS.

Conference call takeaways, and our views

- Auto EBIT margin came in at 9.5% vs. 8.8% in Q4FY24 driven by favourable mix, lower commodity cost and impact of earlier price hikes taking effect. Oder book (OB) stood at 178k (vs. 220k at end-Q4) with Thar/XUV700/Bolero adding fresh orders to the tune of ~5k/8k/6k units/month; brand Scorpio adding 12k units/month and 55k open bookings for XUV3XO. M&M has guided for mid-high-teens growth in FY25 based on the favourable response for XUV3XO, expected demand elasticity due to pricing action on XUV700 models and the upcoming Thar five-door launch. Cancellation rate continued at 10% in Q1FY25, similar to Q4 levels. Inventory levels are 4–5 days higher than average and M&M targets to reduce this by increasing retail throughput.
- M&M gained market share in tractors by 180bps YoY to 44.7% with industry growth at ~1% YoY in Q1. FES' EBIT margin was up 270bps QoQ to 18.5% and the company aims to sustain this at current levels. With favourable monsoon, H2FY25 is expected to see better growth and growth for FY25 could be higher than 5% as guided earlier. Exports were up 45% YoY in Q1 at 4.5k units. Despite muted growth in the end market, exports showed strong growth, and was partly driven by reallocation of supply chain from other partners. We build in ~6% volume growth for the domestic tractor industry in FY25E, followed by 15% growth in FY26E.

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Market Data

Market Cap (INR)	3,616bn
Market Cap (USD)	43,196mn
Bloomberg Code	MM IN
Reuters Code	MAHM.BO
52-week Range (INR)	3,014 / 1,416
Free Float (%)	78.0
ADTV-3M (mn) (USD)	115.7

Price Performance (%)	3m	6m	12m
Absolute	34.8	76.1	97.1
Relative to Sensex	25.1	62.1	74.2

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	7,94,288	9,87,634	11,98,119	15,03,999
EBITDA	45,918	1,29,194	1,65,460	2,06,512
EBITDA %	5.8	13.1	13.8	13.7
Net Profit	79,782	1,09,711	1,21,647	1,50,273
EPS (INR)	66.7	91.7	101.7	125.6
EPS % Chg YoY	55.1	37.5	10.9	23.5
P/E (x)	43.6	31.7	28.6	23.2
EV/EBITDA (x)	73.8	26.0	19.9	15.7
RoCE (%)	19.5	22.7	25.3	26.1
RoE (%)	19.4	22.9	21.4	22.3

Previous Reports

15-06-2024: [Company Update](#)16-05-2024: [Q4FY24 results review](#)

Exhibit 1: (M&M + MVML) Q1FY25 result summary

M&M+MVML (INR mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Operating income	2,70,388	2,40,561	12%	2,51,090	8%
Raw Material Costs	1,99,394	1,81,149	10%	1,84,462	8%
As % of sales	73.7%	75.3%	-156 bps	73.5%	28 bps
Gross profit	70,994	59,412	19%	66,627	7%
Gross margin	26.3%	24.7%	156 bps	26.5%	-28 bps
Employees Cost	11,753	10,447	13%	11,112	6%
As % of sales	4.3%	4.3%	0 bps	4.4%	-8 bps
Other expenditure	19,018	16,613	14%	23,114	-18%
As % of sales	7.0%	6.9%	13 bps	9.2%	-217 bps
EBITDA	40,222	32,351	24%	32,401	24%
EBITDA margin	14.9%	13.4%	143 bps	12.9%	197 bps
Depreciation & amortisation	9,146	8,281	10%	9,770	-6%
EBIT	31,076	24,070	29%	22,631	37%
EBIT margin	11.5%	10.0%	149 bps	9.0%	248 bps
Other Income (net)	3,515	9,699	-64%	5,474	-36%
Interest	529	323	64%	387	37%
PBT (before EO)	34,062	33,445	2%	27,718	23%
PBT margin	12.6%	13.9%	-131 bps	11.0%	156 bps
Tax expense	7,936	5,708	39%	6,123	30%
Effective tax rate	23.3%	17.1%	623 bps	22.1%	121
Adjusted PAT	26,126	27,737	-6%	21,595	21%
Adjusted PAT margin	9.7%	11.5%	-187 bps	8.6%	106 bps
Extraordinary gain/(loss)	-	-	-	(1,213)	N.M.
Reported PAT	26,126	27,737	-6%	20,382	28%

Source: Company data, I-Sec research

Exhibit 2: (M&M + MVML) Q1FY25 per vehicle matrix

Per vehicle matrix (INR)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Total Volumes	3,33,017	3,01,147	11%	2,86,924	16%
Net Realisation	8,11,934	7,98,814	2%	8,75,109	-7%
Raw Material per Vehicle	5,98,751	6,01,530	0%	6,42,896	-7%
EBITDA per vehicle	1,20,781	1,07,426	12%	1,12,926	7%

Source: I-Sec research, Company data

Exhibit 3: (M&M + MVML) Q1FY25 segmental earnings breakdown

Segmental	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Auto					
Revenue (INR mn)	1,89,471	1,66,210	14%	1,99,103	-5%
ASP (INR)	8,95,632	8,92,940	0%	9,24,858	-3%
EBIT margin	9.5%	7.5%	196 bps	8.8%	69 bps
FES					
Revenue (INR mn)	81,442	74,556	9%	52,270	56%
ASP (INR)	6,70,483	6,48,263	3%	7,29,573	-8%
EBIT margin	18.5%	17.5%	102 bps	15.8%	270 bps

Source: I-Sec research, Company data

Exhibit 4: M&M volume and margin assumptions

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Volumes	7,72,996	7,06,907	8,17,374	11,05,981	12,03,506	13,47,050	15,23,640
Auto (units)	4,71,081	3,52,409	4,62,676	6,98,436	8,25,120	9,42,631	10,59,024
Auto EBIT Margin (%)	6.1%	3.4%	3.8%	6.4%	8.4%	8.6%	8.6%
Tractor (units)	3,01,915	3,54,498	3,54,698	4,07,545	3,78,386	4,04,419	4,64,616
FES EBIT Margin (%)	19.0%	22.7%	18.1%	16.4%	16.3%	17.0%	18.0%
EBITDA Margin (%)	14.2%	15.6%	12.3%	12.3%	13.1%	13.8%	13.7%
Capex (INR mn)	47,755	35,974	38,811	33,485	49,619	71,887	97,760
Investment (INR mn)	(20,403)	19,486	(841)	3,313	40,097	17,000	17,000
OCF	21,360	45,047	42,522	71,831	88,654	1,52,042	1,56,469

Source: I-Sec research, Company data

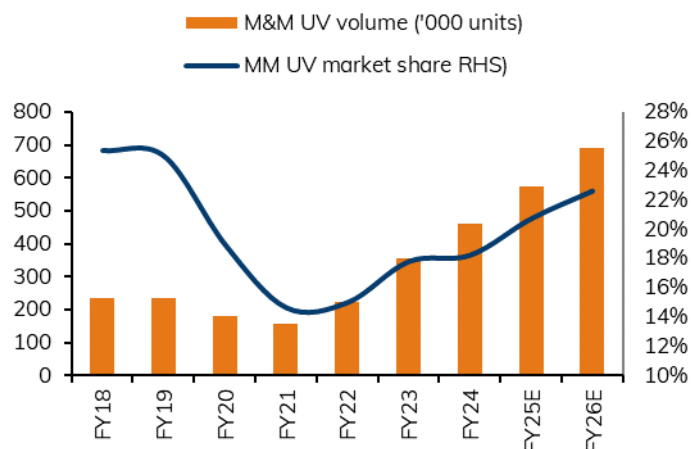
Exhibit 5: SoTP-based valuation

Particulars	CMP	Value (INR mn)	Holding (%)	Value/ share (INR)	Comments
Core M&M+ MVML business	2,904	34,75,194		2,904	DCF
Tech Mahindra	1,554	2,86,707	26%	240	20% holding co. discount
M&MFSL	303	1,55,415	52%	130	
Mahindra Holidays and Resorts	457	33,284	68%	28	
Mahindra Lifespace Developers	604	38,028	51%	32	
Mahindra Logistics	514	17,167	59%	14	
Value of listed investments		5,30,601		445	
SOTP valuation				3,349	

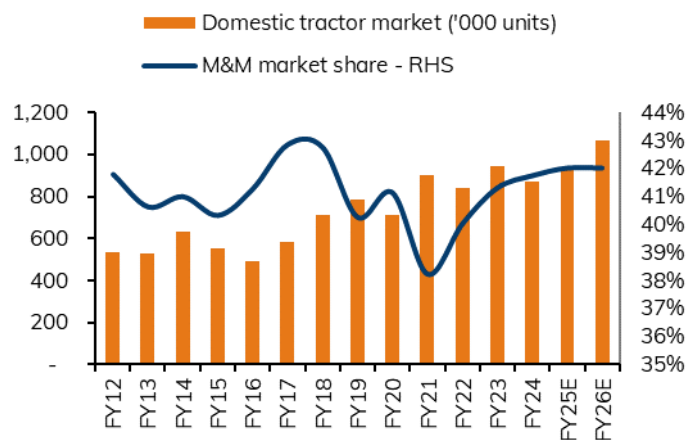
Source: Company data

Downside risks

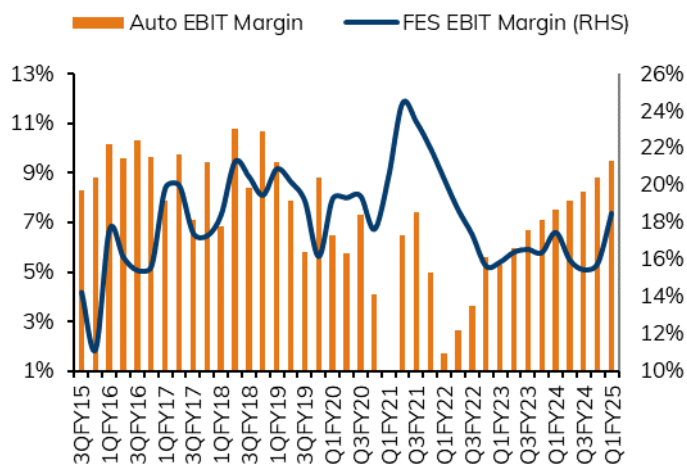
- Rising competitive intensity in UV space.
- Slowdown in domestic UV market post robust growth across FY22-24.
- Sharper-than-expected decline in tractor market in FY25 post general elections.
- Increase in EV launches FY25 onwards may put pressure on profitability in auto segment.
- Re-emergence of capital allocation in non-core areas.

Exhibit 6: Building in ~22% CAGR of UV wholesale in FY24-FY26E


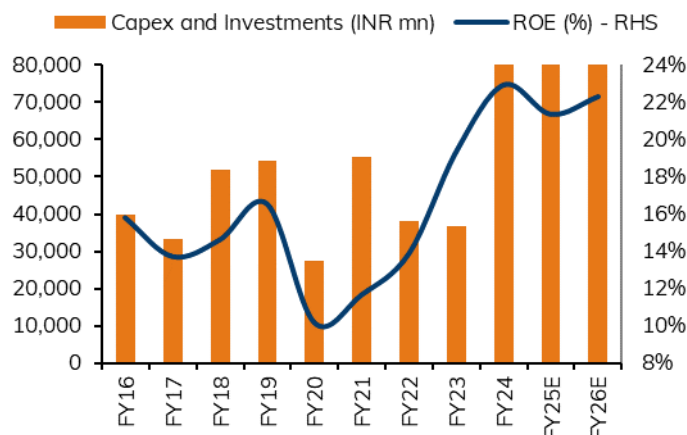
Source: I-Sec research, Company data

Exhibit 7: Factoring in 10% CAGR of tractor volume in FY24-26E; market share of M&M currently stands at ~42%


Source: I-Sec research, Company data

Exhibit 8: Auto EBITM continued to improve; FES EBITM consolidating on the back of weak demand


Source: I-Sec research, Company data

Exhibit 9: With controlled capex and investments, we expect RoE to sustain at ~20%


Source: I-Sec research, Company data

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	19.3	18.6	18.6
Institutional investors	67.1	67.9	68.0
MFs and others	13.7	12.7	14.5
FIs/Banks	0.2	0.1	0.1
Insurance	10.5	10.9	10.8
FIIIs	42.6	42.2	42.6
Others	13.6	13.5	13.4

Source: Bloomberg

Exhibit 11: Price chart


Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	7,94,288	9,87,634	11,98,119	15,03,999
Operating Expenses	99,596	1,18,376	2,05,957	2,59,728
EBITDA	45,918	1,29,194	1,65,460	2,06,512
EBITDA Margin (%)	5.8	13.1	13.8	13.7
Depreciation & Amortization	31,545	34,389	38,686	45,472
EBIT	14,374	94,806	1,26,774	1,61,040
Interest expenditure	2,728	1,388	713	713
Other Non-operating Income	25,452	43,944	34,000	37,400
Recurring PBT	37,097	1,37,362	1,60,061	1,97,727
Profit / Loss from Associates	-	-	-	-
Less: Taxes	15,821	27,652	38,415	47,455
PAT	21,276	1,09,711	1,21,647	1,50,273
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	6,981	1,07,178	1,21,647	1,50,273
Net Income (Adjusted)	79,782	1,09,711	1,21,647	1,50,273

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	3,84,799	4,09,788	5,38,537	6,76,835
of which cash & cash eqv.	1,40,298	1,39,726	2,10,919	2,60,659
Total Current Liabilities & Provisions	2,59,273	2,79,433	3,65,394	4,58,107
Net Current Assets	1,25,527	1,30,355	1,73,143	2,18,728
Investments	1,75,391	2,15,487	2,32,487	2,49,487
Net Fixed Assets	1,69,762	1,75,280	2,08,482	2,60,770
ROU Assets	-	-	-	-
Capital Work-in-Progress	27,846	37,558	37,558	37,558
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	4,98,525	5,58,681	6,51,670	7,66,543
Liabilities				
Borrowings	50,255	20,365	20,365	20,365
Deferred Tax Liability	14,703	15,551	15,551	15,551
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	5,991	5,996	5,996	5,996
Reserves & Surplus	4,27,577	5,16,769	6,09,759	7,24,632
Total Net Worth	4,33,567	5,22,766	6,15,756	7,30,628
Minority Interest	-	-	-	-
Total Liabilities	4,98,525	5,58,681	6,51,671	7,66,543

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	2,43,099	2,52,885	2,51,090	2,70,388
% growth (YOY)	17.2%	16.8	11.2	12.4
EBITDA	29,341	32,364	32,401	40,222
Margin %	12.1%	12.8%	12.9	14.9%
Extraordinaries	-	-	(1,213)	-
Adjusted Net Profit	34,519	24,540	21,595	26,126

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	71,831	88,654	1,52,042	1,56,469
Working Capital Changes	(171)	(11,204)	24,997	(2,588)
Capital Commitments	(33,485)	(49,619)	(71,887)	(97,760)
Free Cashflow	38,346	39,035	80,155	58,709
Other investing cashflow	22,139	3,848	17,000	20,400
Cashflow from Investing Activities	(11,346)	(45,771)	(54,887)	(77,360)
Issue of Share Capital	(2,084)	7,269	0	-
Interest Cost	(2,728)	(1,388)	(713)	(713)
Inc (Dec) in Borrowings	(17,080)	(29,891)	-	-
Dividend paid	(13,821)	(19,445)	(25,248)	(28,657)
Others	-	-	-	-
Cash flow from Financing Activities	(35,713)	(43,455)	(25,961)	(29,369)
Chg. in Cash & Bank balance	24,772	(572)	71,194	49,740
Closing cash & balance	1,40,297	1,39,725	2,10,919	2,60,659

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	66.7	91.7	101.7	125.6
Adjusted EPS (Diluted)	66.7	91.7	101.7	125.6
Cash EPS	93.0	120.4	134.0	163.6
Dividend per share (DPS)	16.3	21.1	23.9	29.6
Book Value per share (BV)	362.3	436.9	514.6	610.6
Dividend Payout (%)	24.4	23.0	23.6	23.6
Growth (%)				
Net Sales	37.7	24.3	21.3	25.5
EBITDA	(34.8)	181.4	28.1	24.8
EPS (INR)	55.1	37.5	10.9	23.5
Valuation Ratios (x)				
P/E	43.6	31.7	28.6	23.2
P/CEPS	31.3	24.1	21.7	17.8
P/BV	8.0	6.7	5.7	4.8
EV / EBITDA	73.8	26.0	19.9	15.7
EV / Sales	4.3	3.4	2.7	2.2
Profitability Ratios				
Gross Profit Margins (%)	18.3	25.1	31.0	31.0
EBITDA Margins (%)	5.8	13.1	13.8	13.7
EBIT Margins (%)	1.8	9.6	10.6	10.7
Net Profit Margins (%)	10.0	11.1	10.2	10.0
RoCE (%)	19.5	22.7	25.3	26.1
RoE (%)	19.4	22.9	21.4	22.3
Dividend Yield (%)	0.6	0.7	0.8	1.0
Operating Ratios				
Fixed Asset Turnover (x)	4.0	4.6	4.9	5.0
Inventory Turnover Days	9	8	8	8
Receivables Days	15	16	15	15
Payables Days	91	93	92	94
Effective Tax Rate (%)	16.5	20.1	24.0	24.0
Net Debt / Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(2.0)	(0.9)	(1.2)	(1.2)

Source Company data, I-Sec research

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