

MAHINDRA & MAHINDRA LIMITED

Firing on all cylinders

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M&M's net revenues increased by 20.8% yoy, driven by (1) 17.3% yoy increase in volumes and (2) 3% yoy increase in ASPs. M&M's standalone Q3 FY25 EBITDA of ₹44.7 bn (+42% yoy and 13% qoq), was above street estimates due to lower-than-expected other expenses and benign RM basket. EBITDA margin came in at 14.6% (+30 bps yoy and 180 bps qoq). The company reported stellar margin performance for both Auto (9.7%) and FES (18.1%). Other expenses as a % of sales came in at 6.7% v/s 7.3% qoq and yoy, while RM as a % of sales was slightly up qoq, and declined by about 100 bps yoy. Adj. PAT grew by 24% yoy, while declined 22% qoq on lower other income sequentially.

Superior market share gains all over

The company's SUV volumes grew by 20% in Q3FY25 led by robust demand for the recently launched EV twins XEV 9e & BE 6e, XUV 3XO and steady demand trends for XUV 700, Thar (Roxx) and Scorpio models. M&M excelled its revenue market share to #1 position at 23% from 21.9% qoq. Also, the company expects the volume growth likely to sustain over the coming quarters and aims to grow its SUV segment volumes by mid to high teens in FY2025E. We also expect the company's SUV volumes to grow by mid-to high teens in FY2025E led by strong demand for new launches (Thar Roxx, EVs) at attractive price points and existing product line-up (XUV 3XO, XUV 700, Scorpio family and Bolero family particularly in rural areas). Solid exports traction also will be one of the main driving factors of the SUV segment. Also, we expect the total standalone auto volumes to grow by 12%/9%/8% during FY25E/26E/27E. Within which, we expect the 3Ws to grow by 6%/5%/4% in FY25E/26E/ FY27E. We expect CV business volumes to grow at 2%/4%/5% during the same period. 3W sales growth (Market share at 51.9%, +230 bps yoy) shall be led by (1) pick-up in electrification of 3W (25% of 3W portfolio) and (2) PLI incentive to the tune of ₹1.04 bn & recent new launches.

Tractor segment poised for a strong growth in the ensuing quarters

Domestic tractor volumes of M&M grew by 20% on a yoy basis in Q3 FY25, with 44.2% market share which was 240 bps up yoy. Therefore, the company expects the demand trends in H2 FY25E and FY 26E to remain buoyant with 7% industry volume growth target for FY 25E, led by (1) Increased reservoir levels, 2). Smooth progress on Rabi sowing (3) Hike in MSPs for key crops and (4) Record Khariff food grain production & 5).Favourable terms of trade.

Key Financials	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Total sales (bn)	850	988	1,136	1,298	1,474
EBITDA margins (%)	12.3	13.1	14.8	15.4	15.9
PAT margins (%)	9.5	11.1	11.6	11.8	12.0
EPS (₹)	67.7	92.2	110.6	128.5	149.2
P/E (x)	47.3	34.7	28.9	24.9	21.4
P/BV (x)	8.8	7.3	6.1	5.1	4.3
EV/EBITDA (x)	35.1	28.0	21.4	17.9	15.1
ROE (%)	18.6	21.0	21.0	20.4	19.9
Dividend yield (%)	0.4	0.5	0.7	0.8	0.9

BUY

Current Market Price (₹)	3,198
12M Price Target (₹)	3,891
Potential upside (%)	22

Stock Data

Sector :	Autos & FES
Face Value (₹) :	5
Total Market Cap (₹ bn) :	3,971
Free Float Market Cap (₹ bn) :	2,823
52-Week High / Low (₹) :	3,271 / 1,623
BSE Code / NSE Symbol :	500520 / M&M
Bloomberg :	MM IN

Shareholding Pattern

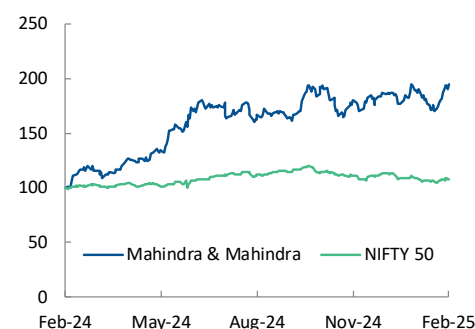
(%)	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	18.48	18.54	18.56	18.59
FPIs	38.91	41.19	41.89	41.75
MFs	14.98	12.92	12.71	12.72
Insurance	11.71	11.61	10.81	10.88
Others	15.92	15.74	16.03	16.06

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
M&M	2.9%	10.6%	19.3%	94.3%
Nifty 50	-0.6%	-2.6%	-3.0%	8.2%

* To date / current date : February 8, 2025

M&M vs Nifty 50

We expect M&M to continue to outperform the domestic industry's growth, driven by newer launches (OJA platform and strengthening of the Swaraj brand). We expect the company's tractor segment volumes to grow by 7-8% CAGR over FY2024-27E. We anticipate ~18%-19% EBIT margin over FY2025-26E. During the festive season, the company's volumes grew by double digit, driven by positive farm sentiment. Tractor segment EBIT margin came in at 18.1% (+60 bps qoq) due to positive operating leverage led by strong volumes, high margin products and higher contribution from farm machinery business. Farm machinery segment revenues increased by 12% yoy to ₹2.5 bn.

Strong growth capex plans

The company plans to invest an overall capex of ₹370 bn over FY2025-27E in the standalone entity, which encompasses M&M, MEAL and LMM Co. The breakup of capex between the segments – Auto ICE – ₹140 bn, Auto EV (MEAL) – ₹120 bn, Farm – ₹50 bn and investments in Auto and growth gems – ₹60 bn. As the company's auto division is expected to generate sufficient operating cash to satisfy the capital investment needs, M&M and BII have mutually agreed to extend the timeframe for the final tranche of BII's planned investment of ₹7.3 bn and will jointly assess whether additional investment is required by Dec 31, 2024. BII has invested ₹12 bn and Temasek has invested ₹3 bn so far in MEAL Temasek will invest the balance ₹9 bn as per the agreed timelines. The company reiterated its stance of using the cash flow generated from the auto and tractor businesses to deploy in the respective businesses in the coming years.

Outlook and Valuation

We expect M&M to continue to outperform industry growth across automotive and tractor segments including domestic PV and CV segments given successful newer launches and strong brand equity. The tractor segment is expected to witness further uptick during Q4 FY25E, driven by a favorable monsoon, robust crop season and higher reservoir levels. M&M continues to execute well by maintaining leadership position in all three segments, improved return ratio as well as cash flow generation and well-preparedness for an EV transition. Retain BUY with a target price of ₹3,891. (The standalone business is value stands at ₹3,432 @23x FY27E earnings, while the subsidiaries are valued at ₹459).

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q3FY25	Q2 FY25	% qoq	Q3 FY24	% yoy
Net sales	3,05,382	2,75,533	10.8%	2,52,885	20.8%
Raw material costs	2,27,268	2,04,440	11.2%	1,90,660	19.2%
Employee costs	12,850	11,526	11.5%	11,343	13.3%
Other expenses	20,584	20,069	2.6%	18,518	11.2%
EBITDA	44,681	39,498	13.1%	32,364	38.1%
<i>EBITDA margins %</i>	<i>14.6%</i>	<i>14.3%</i>	<i>30 bps</i>	<i>12.8%</i>	<i>180 bps</i>
Other income	6,901	20,433	-66.2%	7370	-6.4%
Depreciation	10,451	9,614	8.7%	8179	27.8%
Interest expenses	614	551	11.4%	348	76.4%
PBT	40,517	49,766	-18.6%	31207	29.8%
Tax	10,036	10,901	-7.9%	6668	50.5%
Reported PAT	29,643	38,410	-22.8%	24540	20.8%
Exceptional items	838	455	84.2%	-	N/A
Adjusted PAT	30,481	38,865	-21.6%	24540	24.2%
Adj EPS	25.49	32.50	-21.6%	20.5	24.2%

Source: Company, LKP Research

SOTP Valuation

Particulars	Basis	Subs Discount	Value per share (₹)
M&M	P/E (@23x FY 27E EPS)	-	3,432
M&M Financial Services	Market cap	25%	55
Tech Mahindra	Market cap	25%	364
Mahindra Lifespaces	Market cap	30%	5
Mahindra Logistics	Market cap	30%	9
Mahindra Holiday & Resorts	Market cap	30%	12
Swaraj Engines	Market cap	30%	12
RBL	Market cap	25%	2
Subsidiaries Total SOTP value			459
Total			3,891

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Total Revenues	8,49,603	9,87,634	11,35,983	12,98,125	14,73,783
Raw Material Cost	6,45,582	7,40,064	8,34,947	9,47,632	10,71,440
Employee Cost	36,499	44,164	47,711	53,223	58,951
Other Exp	63,098	74,212	85,199	97,359	1,09,060
EBITDA	1,04,424	1,29,194	1,68,125	1,99,911	2,34,331
EBITDA Margin(%)	12.3	13.1	14.8	15.4	15.9
Other Income	26,170	43,944	45,000	46,000	47,000
Depreciation	31,545	34,389	40,224	45,214	48,555
Interest	2728	1388	2010	2100	2200
PBT	96,322	1,37,362	1,70,892	1,98,597	2,30,577
PBT Margin(%)	11.3	13.9	15.0	15.3	15.6
Tax	15,821	27,652	39,305	45,677	53,033
Adj PAT	80,500	1,09,711	1,31,586	1,52,920	1,77,544
Adj PAT Margins (%)	9.5	11.1	11.6	11.8	12.0
Exceptional items	-14295	2533	0	0	0
Reported PAT	66,205	1,12,243	1,31,586	1,52,920	1,77,544
Rep. PAT Margins (%)	7.8	11.4	11.6	11.8	12.0

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Per Share Data (₹)					
Adj. EPS	67.7	92.2	110.6	128.5	149.2
CEPS	82.1	119.0	144.4	166.5	190.0
BVPS	364.4	439.3	527.8	630.6	750.0
DPS	12.1	17.0	22.1	25.7	29.8
Growth Ratios(%)					
Total revenues	47.0	16.2	15.0	14.3	13.5
EBITDA	41.4	23.7	30.1	18.9	17.2
PAT	45.9	36.3	19.9	16.2	16.1
EPS Growth	45.9	36.3	19.9	16.2	16.1
Valuation Ratios (x)					
PE	47.3	34.7	28.9	24.9	21.4
P/CEPS	38.9	26.9	22.1	19.2	16.8
P/BV	8.8	7.3	6.1	5.1	4.3
EV/Sales	4.3	3.7	3.2	2.8	2.4
EV/EBITDA	35.1	28.0	21.4	17.9	15.1
Operating Ratios (Days)					
Inventory days	50.2	46.9	47.0	48.0	53.0
Receivable Days	15.2	15.9	15.5	15.0	16.5
Payables day	85.1	88.1	85.0	84.0	83.0
Net Debt/Equity (x)	0.05	0.02	0.01	0.01	0.01
Profitability Ratios (%)					
ROE	18.6	21.0	21.0	20.4	19.9
Dividend payout	17.8	18.4	20.0	20.0	20.0
Dividend yield	0.4	0.5	0.7	0.8	0.9

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
Equity and Liabilities					
Equity Share Capital	5,991	5,996	5,996	5,996	5,996
Reserves & Surplus	4,27,577	5,16,769	6,22,039	7,44,374	8,86,410
Total Networth	4,33,567	5,22,766	6,28,035	7,50,371	8,92,406
Total debt	49,128	40,010	38,010	36,510	35,010
Deferred tax liabilities	14,703	15,551	15,551	15,551	15,551
Current liabilities & Provs	2,60,400	2,59,788	2,67,308	2,88,953	3,13,811
Total Liabilities	7,57,798	8,38,114	9,48,903	10,91,384	12,56,777
Assets					
Fixed assets	1,97,608	2,12,838	2,72,614	3,27,400	3,68,846
Non current Investments	1,75,391	2,15,487	2,30,487	2,50,487	2,75,487
Other non current assets	38,363	58,730	58,730	58,730	58,730
Current Assets	3,46,436	3,51,058	3,87,071	4,54,766	5,53,714
Cash and bank(i)	13,101	18,694	19,344	21,826	31,539
Bank deposits other than(i)	31,716	36,566	31,716	31,716	31,716
Inventories	88,814	95,048	1,07,514	1,24,620	1,55,579
Sundry Debtors	40,417	45,495	48,240	53,348	66,623
Loan, Advances & others	21,770	23,789	23,789	23,789	23,789
Other current assets	1,82,334	1,68,032	1,88,183	2,31,183	2,76,183
Total Assets	7,57,798	8,38,113	9,48,902	10,91,384	12,56,776

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E	FY 27E
PBT	95,603	1,34,830	1,70,892	1,98,597	2,30,577
Depreciation	31,545	34,389	40,224	45,214	48,555
Interest	2,728	1,388	2,010	2,100	2,200
Chng in working capital	3,871	8,681	(6,691)	1,432	(18,677)
Tax paid	(19,380)	(28,509)	(39,305)	(45,677)	(53,033)
Other operating activities	(23,074)	0	0	0	0
Cash flow from operations (a)	91,293	1,12,792	1,67,129	2,01,666	2,09,622
Capital expenditure	(34,313)	(48,328)	(1,00,000)	(1,00,000)	(90,000)
Chng in investments	(43,801)	(13,284)	(40,000)	(63,000)	(70,000)
Other investing activities	30,579	9,785	4,849	0	0
Cash flow from investing (b)	(47,535)	(51,826)	(1,35,151)	(1,63,000)	(1,60,000)
Free cash flow (a+b)	43,758	60,966	31,978	38,666	49,622
Inc/dec in borrowings	(19,752)	(38,648)	(3,000)	(3,500)	(2,200)
Dividend paid (incl. tax)	(14,359)	(20,211)	(26,317)	(30,584)	(35,509)
Other financing activities	0	0	0	0	0
Cash flow from financing (c)	(37,838)	(55,375)	(31,327)	(36,184)	(39,909)
Net chng in cash (a+b+c)	5,920	5,591	651	2,482	9,713
Closing cash & cash eqvlnts	13,102	18,693	19,344	21,826	31,539

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