

India

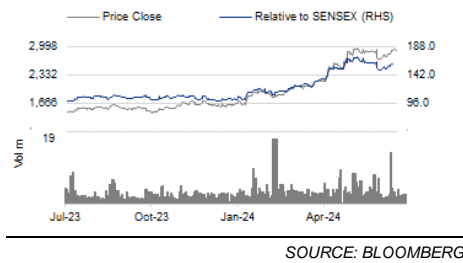
August 01, 2024 - 5:03 PM

HOLD (no change)

Consensus ratings*: Buy 35 Hold 5 Sell 1	
Current price:	Rs2,908
Target price: ▶	Rs2,455
Previous target:	Rs2,455
Up/downside:	-15.6%
InCred Research / Consensus:	-19.8%
Reuters:	
Bloomberg:	MM IN
Market cap:	US\$49,796m
	Rs3,615,933m
Average daily turnover:	US\$112.2m
	Rs8145.7m
Current shares o/s:	1,110.3m
Free float:	80.7%
*Source: Bloomberg	

Key financial forecast

	Mar-25F	Mar-26F	Mar-27F
Net Profit (Rsm)	112,538	121,524	137,724
Core EPS (Rs)	101.36	109.45	124.04
Core EPS Growth	10.0%	8.0%	13.3%
FD Core P/E	28.69	26.57	23.44
Recurring ROE	19.9%	18.5%	18.3%
P/BV (x)	5.29	4.60	4.02
DPS (Rs)	21.10	25.00	30.00
Dividend Yield	0.78%	0.93%	1.11%



Price performance	1M	3M	12M
Absolute (%)	1.4	34.8	97.1
Relative (%)	(1.4)	22.9	60.3

Major shareholders	% held
Mahindra Family	19.3
LIC	6.0
SBI Mutual Fund	3.7

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Mahindra & Mahindra

SUVs close to their peak, tractors hopeful

- 1QFY25 standalone EPS grew 10% yoy and 28% qoq to Rs23.5, which was below our estimate (2%) and Bloomberg consensus estimate (7%).
- Auto division's products seem to be peaking, as ASP & OB correct from Mar 2024 peak, despite the voluminous XUV300 launch. Thar 5-door is a hope.
- With the P/E valuation topping +3SD above the 10-year mean, we maintain HOLD rating on M&M with hopes on tractor industry's slow growth recovery.

Automotive ASP and order book reduction are areas of concern

- Net sales rose 11% yoy and 8% qoq to Rs270bn, 2-3% below InCred and Bloomberg consensus estimates. Lower ASP qoq disappoints.
- EBITDA rose 13% yoy and 24% qoq to Rs.40bn, which was 5% below InCred estimate but marginally above Bloomberg consensus estimate.
- The EBIT margin stood at 9.5% for the automotive segment (+196bp yoy & +69bp qoq) and for the farm equipment segment at 18.5% (+102bp yoy and +270bp qoq).

Management conference-call highlights

- Order book and capacity: Open bookings for the quarter stood at 178k units, down just 23% qoq, mainly led by ramp-up of the Scorpio-N and XUV700 models. Management plans to stop the disclosure on this parameter. Plans to exit FY25F with an additional capacity of 5k units for SUVs (THAR 5D, XUV3XO/4OO) and 10k per annum capacity for electric vehicles or EVs.
- XUV700: Management reiterates that the top-end price cut is as per its plan to revive the three-year old version in order to gain short-term volume. Considering the savings from semi-conductor costs & operating leverage, it expects a minimal EBITDA margin impact.
- Thar: Management plans to launch a Thar 5-door vehicle called Mahindra Thar ROXX on 15 Aug 2024. Management believes the new Thar 5-door is likely to cannibalize the old Thar 3-door and hence, clearing pending orders.
- The auto segment's inventory days are elevated by four-to-five days from the normal level. Management believes the sales volume in FY25F is likely to grow in mid-high teens led by the models like 3XO, Thar 5-door and new launches.
- Farm business outlook: The domestic industry outlook is improving, led by the farming community, in terms of favourable trade and price realization in mandis (markets), positive monsoon outlook, improved Government of India's spending on the rural sector and the start of Navratri festive season in 2HFY25F.

Maintain HOLD rating as SUVs near their peak while tractors recover

- We maintain our estimates, as we build in a 14% EBITDA growth for the remaining nine months of the fiscal year, in line with 1Q. The volume surprise coming from ASP easing (from its peak for product mix and a cheaper version launch) limits the PAT upside.
- We maintain our HOLD rating on Mahindra & Mahindra or M&M, as the rich valuation at +3SD above the mean P/E, we believe, factors in the best from the automotive division, while the tractor and pick-up truck segments' recovery will be gradual.

Figure 1: Results comparison

FYE Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Comments
Revenue	2,70,388	2,43,683	11.0	2,51,090	7.7	3% below our estimates.
Raw Materials	1,99,394	1,81,149	10.1	1,84,462	8.1	
RM as % of revenue	73.7	74.3	(59)	73.5	28	
EBITDA	40,222	35,474	13.4	32,401	24.1	4.5% below our estimates.
EBITDA margin (%)	14.9	14.6	32	12.9	197	22bp below our estimates.
Depn & amort.	9,146	8,281	10.4	9,770	(6.4)	
EBIT	31,076	27,193	14.3	22,631	37.3	
Interest expense	529	323	63.6	387	36.8	
Other Income	3,515	2,526	39.1	4,261	(17.5)	8% above our estimates.
Pre-tax profit	34,062	29,395	15.9	26,505	28.5	4% below our estimates.
Tax	7,936	5,708	39.0	6,123	29.6	
Tax rate (%)	23.3	19.4	388	23.1	19.7	
Normalised Net profit	26,126	23,687	10.3	20,382	28.2	2% below our estimates.
Exceptionals	0	4,050	nm	-	-	
Other Comprehensive income	-	-	nm	-	nm	
Reported Net profit	26,126	27,737	(5.8)	20,382	28.2	
Normalised EPS (Rs)	23.5	21.3	10.3	18.3	28.2	
Volumes (nos)	3,33,017	3,01,841	10.3	2,86,924	16.1	
Net realisation (Rs)	8,11,934	8,07,323	0.6	8,75,109	(7.2)	
EBITDA/Vehicle	1,20,781	1,17,525	2.8	1,12,926	7.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Financial performance of various business divisions

	1QFY25	1QFY24	yoy chg	4QFY24	qoq chg
Automotive					
Net sales	1,89,471	1,66,210	14.0%	1,99,103	-4.8%
EBIT	17,983	12,524	43.6%	17,514	2.7%
EBIT Margin (%)	9.5%	7.5%	196	8.8%	69
Farm Equipment					
Net sales	81,442	74,556	9.2%	52,270	55.8%
EBIT	15,058	13,027	15.6%	8,254	82.4%
EBIT Margin (%)	18.5%	17.5%	102	15.8%	270

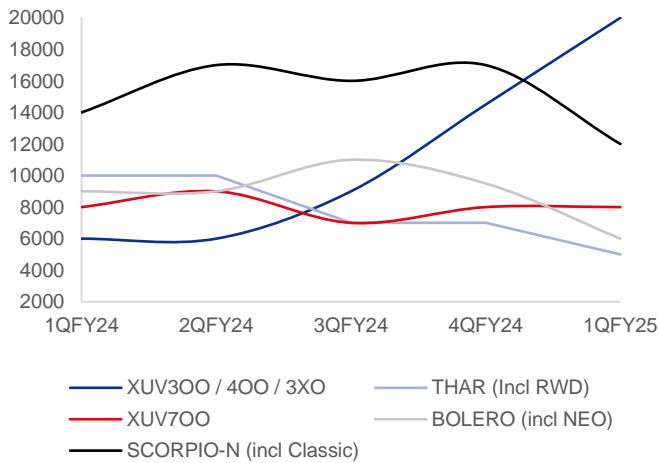
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: M&M's segment-wise sales volume performance

	1QFY25	1QFY24	yoy (%)	4QFY24	qoq (%)
Tractors	1,16,930	1,11,875	4.5%	67,369	73.6%
Passenger vehicles	1,24,248	1,00,173	24.0%	1,26,100	-1.5%
LCV	53,321	57,423	-7.1%	58,693	-9.2%
MHCV	9,201	4,522	103.5%	8,543	7.7%
3-wheelers	17,655	17,780	-0.7%	17,086	3.3%
Automotive exports	7,125	6,934	2.8%	4,858	46.7%
Tractor exports	4,537	3,134	44.8%	4,275	6.1%
Total	3,33,017	3,01,841	10.3%	3,02,139	10.2%

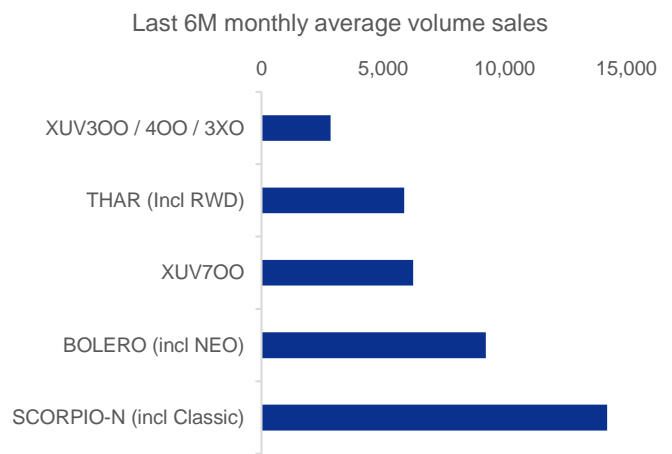
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: New monthly bookings trend for key models



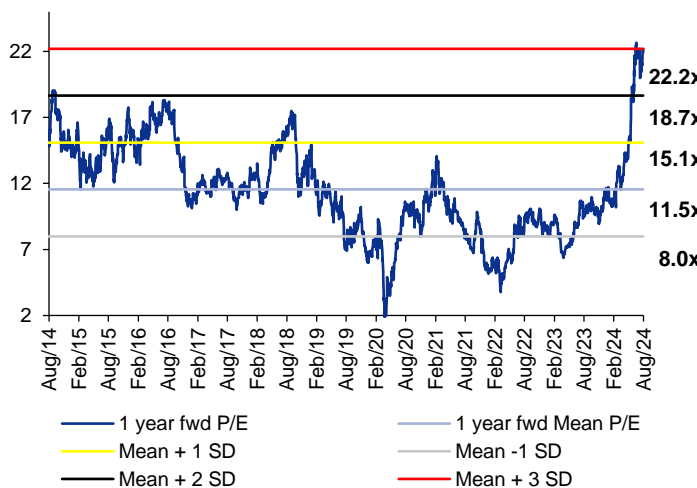
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Last six months' monthly average sales volume



SOURCE: *XUV3XO IS LAST 3 MONTHS, INCRED RESEARCH, COMPANY REPORTS

Figure 6: Forward P/E valuation adjusted for subsidiaries' valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Forward P/BV valuation adjusted for subsidiaries' valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	992,682	1,159,658	1,294,103	1,444,093
Gross Profit	252,619	289,914	320,938	363,911
Operating EBITDA	132,825	152,607	166,418	191,913
Depreciation And Amortisation	(34,389)	(40,845)	(49,125)	(57,405)
Operating EBIT	98,437	111,763	117,294	134,508
Financial Income/(Expense)	(1,388)	(1,200)	(1,000)	(1,000)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	32,955	35,591	39,506	43,062
Profit Before Tax (pre-EI)	130,004	146,154	155,800	176,570
Exceptional Items				
Pre-tax Profit	130,004	146,154	155,800	176,570
Taxation	(27,652)	(33,615)	(34,276)	(38,845)
Exceptional Income - post-tax				
Profit After Tax	102,352	112,538	121,524	137,724
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	102,352	112,538	121,524	137,724
Recurring Net Profit	102,352	112,538	121,524	137,724
Fully Diluted Recurring Net Profit	102,352	112,538	121,524	137,724

Balance Sheet

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	139,726	133,347	135,650	172,873
Total Debtors	45,495	69,897	74,455	90,998
Inventories	95,048	111,200	124,092	130,562
Total Other Current Assets	50,204	55,704	62,204	68,704
Total Current Assets	330,473	370,149	396,402	463,136
Fixed Assets	212,615	251,770	302,646	325,241
Total Investments	215,487	237,487	264,487	294,487
Intangible Assets				
Total Other Non-Current Assets				
Total Non-current Assets	428,103	489,258	567,133	619,728
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	185,920	202,543	218,629	239,712
Other Current Liabilities				
Total Current Liabilities	185,920	202,543	218,629	239,712
Total Long-term Debt	15,849	10,849	5,849	849
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	15,849	10,849	5,849	849
Total Provisions	34,265	36,015	37,515	39,015
Total Liabilities	236,033	249,406	261,992	279,575
Shareholders Equity	522,766	610,000	701,543	803,290
Minority Interests				
Total Equity	522,766	610,000	701,543	803,290

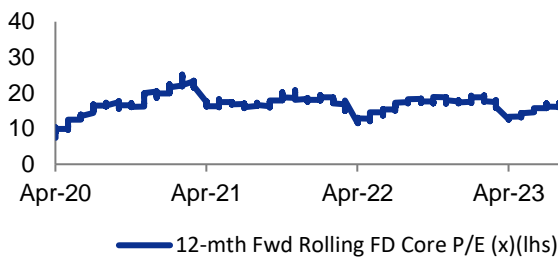
Cash Flow

(Rs mn)	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	132,825	152,607	166,418	191,913
Cash Flow from Invt. & Assoc.				
Change In Working Capital	3,151	(23,931)	(1,364)	(1,930)
(Incr)/Decr in Total Provisions	(12,929)	(3,750)	(5,000)	(5,000)
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	8,313			
Net Interest (Paid)/Received	31,567	34,391	38,506	42,062
Tax Paid	(27,652)	(33,615)	(34,276)	(38,845)
Cashflow From Operations	135,275	125,702	164,284	188,199
Capex	(44,544)	(79,777)	(100,000)	(80,000)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(29,083)	(32,533)	(37,000)	(37,000)
Cash Flow From Investing	(73,627)	(112,310)	(137,000)	(117,000)
Debt Raised/(repaid)	(30,588)	(5,000)	(5,000)	(5,000)
Proceeds From Issue Of Shares	6			
Shares Repurchased				
Dividends Paid	(28,482)	(25,304)	(29,981)	(35,977)
Preferred Dividends				
Other Financing Cashflow	10,502			
Cash Flow From Financing	(48,563)	(30,304)	(34,981)	(40,977)
Total Cash Generated	13,085	(16,912)	(7,697)	30,222
Free Cashflow To Equity	31,060	8,392	22,284	66,199
Free Cashflow To Firm	63,036	14,592	28,284	72,199

Key Ratios

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	16.8%	16.8%	11.6%	11.6%
Operating EBITDA Growth	27.2%	14.9%	9.1%	15.3%
Operating EBITDA Margin	13.4%	13.2%	12.9%	13.3%
Net Cash Per Share (Rs)	111.57	110.33	116.91	154.93
BVPS (Rs)	470.83	549.40	631.84	723.48
Gross Interest Cover	70.94	93.14	117.29	134.51
Effective Tax Rate	21.3%	23.0%	22.0%	22.0%
Net Dividend Payout Ratio	27.8%	22.5%	24.7%	26.1%
Accounts Receivables Days	15.79	18.16	20.36	20.91
Inventory Days	45.34	43.28	44.12	43.02
Accounts Payables Days	88.13	81.51	78.98	77.44
ROIC (%)	40.6%	38.5%	30.8%	29.3%
ROCE (%)	18.8%	18.8%	17.3%	17.4%
Return On Average Assets	14.5%	14.0%	13.4%	13.5%

12-mth Fwd Rolling FD Core P/E (x)



Key Drivers

	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg. main prod./serv.)	6.9%	4.7%	2.6%	1.9%
Unit sales grth (%. main prod./serv.)	9.3%	11.5%	8.8%	9.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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