

CMP: INR 2900

Rating: Accumulate

Target Price: INR 3,369

Stock Info

BSE	500520
NSE	M&M
Bloomberg	MM IN
Reuters	MAHM.BO
Sector	Auto- Cars & Jeeps
Face Value (INR)	5
Equity Capital (INR mn)	5991
Mkt Cap (INR mn)	3147,993
52w H/L (INR)	3,221/1,475

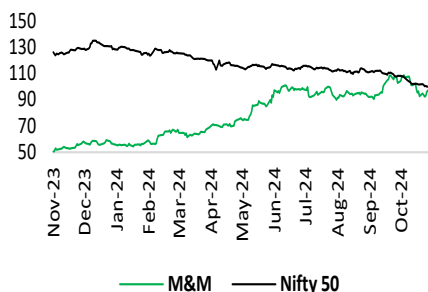
Shareholding Pattern %

(As on Sept, 2024)

Promoters	18.54
Public and others	81.46

Stock Performance (%)	1m	3m	12m
M&M	3.6	24.9	81.7
Nifty	21.6	12.1	21.6

M&M Vs Nifty



Mahindra & Mahindra (M&M) reported good Nos: In PAT JV includes gain on sale (including dilution) of investment of INR 1032.9 Mn in standalone. Mahindra & Mahindra (M&M) standalone revenue stood at INR 275,533 Mn, against our estimate of INR 276,400 Mn registering a growth 13.3% YoY/1.9% QoQ. EBITDA stood at INR 39,042 Mn, against our estimate of INR 41,300 Mn, Registering a growth of 33.1%YoY/ -2.9%QoQ. On the margins front, EBITDA margin is up 14 bps YoY/ down 5bps QoQ to 14.2%, in line with our estimate of 14.4% led by Automotive and Farm businesses. Standalone PAT grew by 47% QoQ/ +11.3% YoY to INR 38,408.8 Mn above our estimate of INR 29,570 Mn. Income from investments related to subsidiaries, associates and *JV includes gain on sale (including dilution) of investment of INR 2302.5 Mn consolidated financial results and *INR 1032.9 Mn in standalone financial results. #1 in SUVs with revenue MS at 21.9%, up 190 bps SUV volumes up 18% in Q2, 21% YTD Sep. #1 in Tractors MS at 42.5%, up 90 bps. #1 in electric 3 wheelers MS at 43.6%.

Investment Rationale

Strong Rural Momentum Drives Positive Outlook for Tractor Sales in H2FY25:

Rural momentum has shown significant improvement over the past six to seven weeks, especially since mid-to-late September. Based on this, revising annual growth outlook to 6-7%, with tractor sales expected to grow 13-15% in the H2FY25. Retail performance has been strong, particularly during the Navratri to Diwali period. There is a healthy mix of demand between urban and rural markets, contributing to the positive outlook.

Strong Festival Momentum Drives SUV Growth:

OEMs had a strong festival season, though not all saw billing growth due to varying levels of down stocking. Momentum is expected to sustain for the remainder of the year, with a projected 15-18% growth for the SUV portfolio. While ICE capacity is constrained due to strong demand for certain models, EV production will begin in phase one with a capacity of 100,000 units annually, though some cannibalization with ICE models is anticipated.

Impact of Electric Vehicle Launch on Margins:

The Born Electric (EV) portfolio is being launched through a separate subsidiary, leading to significantly lower percentage margins due to the denominator effect. In the initial phase, marketing costs and depreciation will be incurred without corresponding revenue, especially in Q3 during the buildup. These costs will be reflected in the consolidated subsidiary, not the standalone figures. Over time, unit margins for EVs are expected to align with ICE vehicles, but percentage margins will remain lower due to the GST difference and initial launch costs.

Outlook and valuation

The company posted strong numbers in Q2FY25, driven by the Automotive and Farm businesses. M&M regained the top position in the SUV category, with a revenue market share of 21.9%, an increase of 190 bps in Q2FY25. The company is optimistic about FY26 growth and has revised its outlook for the year to 6-7%, implying H2FY25 growth of 13-15% for tractors. Rural demand is expected to rise due to seasonal triggers, such as an increase in marriages, which will boost consumer spending on vehicles. We remain positive on the rural recovery. However, **we maintain our Accumulate rating on the stock with a revised SOTP-based target price of INR 3,369 per share (Previous TP INR 3,334).**

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Exhibit 2: Quarterly results summary Q2FY25

Quarterly results summary (MM + MVML) Q2FY25

INR Mn	Q2FY25	Q1FY25	Q2FY24	QoQ %	YoY %
Net Sales	275,533	270,388	243,099	1.9%	13.3%
Cost of material consumed	204,440	199,394	183,793	2.5%	11.2%
Staff Cost	11,526	11,753	11,262	-1.9%	2.3%
Other expenses	20,525	19,018	18,703	7.9%	9.7%
Total expenses	236,491	230,166	213,758	2.7%	10.6%
EBITDA	39,042	40,222	29,341	-2.9%	33.1%
Depreciation	9,614	9,146	8,158	5.1%	17.8%
EBIT	29,428	31,076	21,182	-5.3%	38.9%
Interest	551	529	329	4.2%	67.4%
Other Income	20,433	3,515	22,819	481.3%	-10.5%
Profit before exceptional items and tax	49,310	34,062	43,672	44.8%	12.9%
Extraordinary	-	-	-		
Profit/(loss) before tax	49,310	34,062	43,672	44.8%	12.9%
Tax	(10,901)	(7,936)	(9,153)	37.4%	19.1%
Reported PAT	38,408.8	26,126.3	34,518.8	47.0%	11.3%
EPS	32.01	21.78	28.80	47.0%	11.1%

Margins	Q2FY25	Q1FY25	Q2FY24	QoQ %	YoY %
Gross margins	25.8%	26.3%	24.4%	-5bps	14bps
EBITDA	14.2%	14.9%	12.1%	-7bps	21bps
PAT	13.9%	9.7%	14.2%	43bps	-3bps
Tax Rate	-22.1%	-23.3%	-21.0%	12bps	-11bps

Tractor Segment	Q2FY25	Q1FY25	Q2FY24	QoQ %	YoY %
Total Tractors Volume	89,306	116,930	86,849	-23.6%	2.8%
Total Automotive Volume	224,711	211,550	212,078	6.2%	6.0%
Total Volume (Auto + Farm)	318,093	333,017	302,139	-4.5%	5.3%
Aveg Relizations (Auto)	352,324	785,678	373,311	-55.2%	-5.6%
Aveg Relizations (FES)	525,074	613,797	544,437	-14.5%	-3.6%
Blended realisation	420,425	739,080	442,625	-43.1%	-5.0%

Source: Arianth Research, Company Filings

Conference call key takeaways

The company is optimistic about FY26 growth. The company is revising its outlook for the year to between 6% to 7% growth, which implies H2FY25 growth of 13% to 15% for tractors. Expecting 15% to 18% growth for the SUV portfolio. The company's endeavor is to try and first hit the F19. Rural demand is expected to increase in the next few months due to trigger points such as the increase in number of marriages, which can drive consumer spending on goods like vehicles.

Farm margins came in at 18.7%, which is considered a good margin, especially in a low volume quarter.

The services business contributed more in Q2FY25 to M&M than the tractor business.

Q2FY25 reflected the strength of the services portfolio. This trend continued through H1FY25, and in line with the strategy, expect it to persist for the rest of the year.

Tractor: In the commodity tractor segment, Rubber prices have spiked, which will impact tractor production costs, particularly for tires, but the outlook remains reasonably benign.

RM: Base metals have also seen some impact, but the overall outlook for commodity costs is reasonably benign.

Auto: Mid to high teen growth in the auto segment, but some margin impact is expected in Q3FY25 due to new launches but this is not a long-term issue. The company aims to "close the gap further with competitors" in terms of margin.

The company's product, particularly the three-door Thar, saw huge demand momentum after a price correction, making it attractive to people buying subcompact SUVs.

Inventory: There was an inventory buildup due to unforeseen circumstances such as heat waves and flooding, which led to a higher-than-expected inventory level. The industry has largely cleared out the excess inventory, and it is expected to be a fresh start post-January.

EV: The company is launching new electric origin products, which are considered outstanding from a product standpoint. The percentage margins for the Born Electric (EV) portfolio will be significantly lower due to the denominator effect

The Company is set to reveal two electric origin SUVs, named B6E and XEV9E, in November, with a market launch in early 2025. The company will add 100,000 EV capacities in phase one as production starts. The EV portfolio will be a separate company, a subsidiary, with significantly lower percentage margins due to the denominator effect. The company is confident in the performance of the electric origin products, which will be showcased later in the month.

New launch: Two new electric origin SUVs, named B6E and XEV9E, will be revealed in November and will be in market in early 2025. The company does not have an additional capacity increase plan for ICE vehicles and needs to reassess its plans given the better-than-expected performance of some products, such as 3XO.

Tractor Inventory: The company still needs to make some corrections to its tractor inventory over the next 3- 5 months, but the amount is not significant and is not a major concern.

The company saw a good momentum on the tractor side in the last 10-15 days of the festival season, driven by multiple factors.

MS: Auto revenue MS is at 21.9%, up almost 2% against last year. Farm market share is up almost 1%, with a current MS in the low 40s. Tractor market share has continued to be very strong, with October MS above the YTD average, taking the YTD October MS to 43.9%. The company has been strong on market share and it has been growing. The company remains number one in terms of MS in the last mile mobility segment.

M&A: The company did not explicitly rule out taking exposure in a legacy business, leaving the possibility of acquiring or partnering with existing businesses that may be underperforming.

Hyperinflation in Turkey has an accounting impact, not a cash impact, on the company's financials. The Turkish economy continues to experience a high level of inflation.

Industry Demand: There was a positive turnaround in industry growth in October, with Monday arrivals increasing by 20% in the H2FY25 of the month, indicating a change in demand momentum.

Mahindra Life: The company received strong customer feedback on their hospitality business, indicating strong demand for their resorts.

Price: The company reduced the price of its products by INR 700 to make the brand more accessible, aiming to increase the mix of top-end versions (X7 and X7L) from 50% to 75%, launched an AX5 Select at INR 17 lakh, and adjusted the Thar three-door pricing, while introducing a promotional scheme for the Roxx, ultimately generating significant demand momentum for the Thar three-door.



Source: Company, Arihant Research

Exhibit 3: SOTP Valuation

Listed Subsidiary	Valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,653	248,022,598	25.5	409,981	342
Mahindra & Mahindra Financial Services		277	644,399,987	52.2	178,499	149
Mahindra Holidays & Resorts		380	134,835,922	67.0	51,292	43
Mahindra Lifespace Developers		517	79,319,550	51.3	40,969	34
Mahindra EPC Irrigation		122	15,144,433	54.3	1,848	2
Swaraj Engines		3,050	6,331,141	34.8	19,310	16
Mahindra Logistics Ltd		412	41,812,257	58.1	17,227	14
EV Business (30% Holdco discount)			200,284	4.76		161
Listed Subsidiaries (INR mn)					719,125	599
						599
Sub Valuations Post Discount (20%)			20%		-	479
						641
Core auto business EV/EBITDA	FY27E	15.5x				2,728
Value/Share						3369
					CMP	2900
					Upside	16.2%

CMP as on 7th Nov 2024

Exhibit 4: Steady margin led by better product Mix.

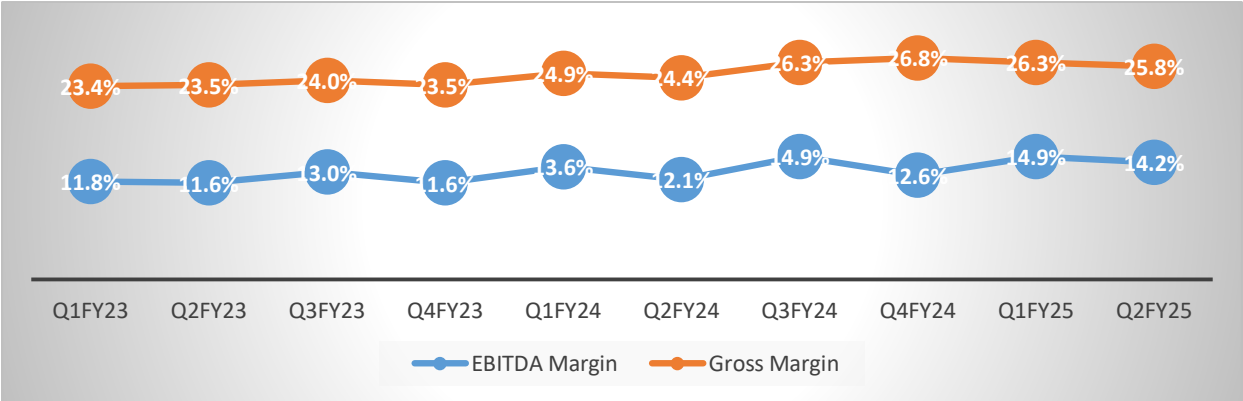
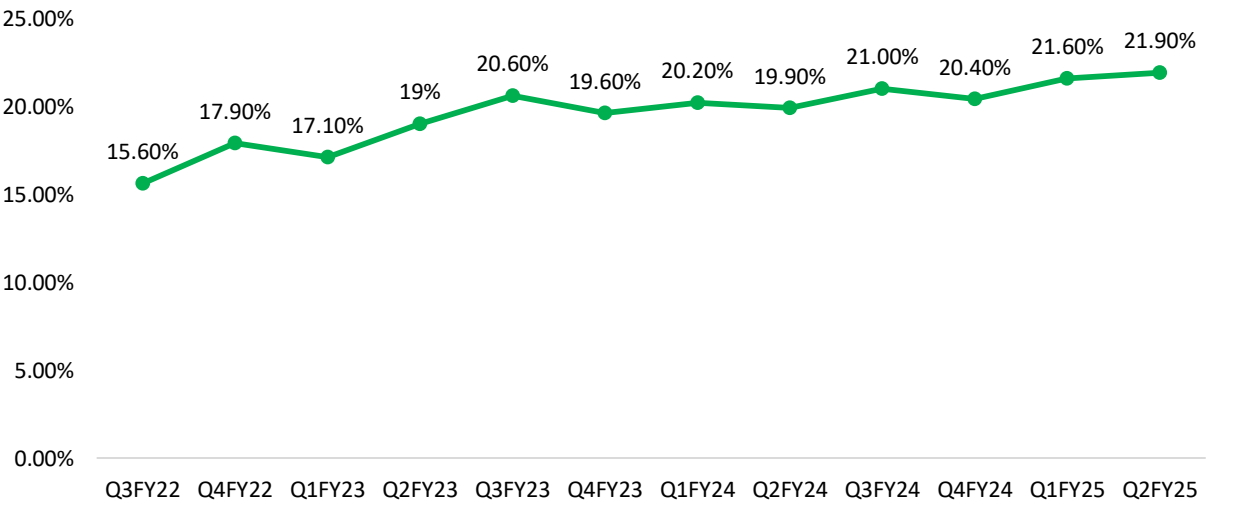


Exhibit 5: Revenue MS



Source: Company, Arianth Research

Standalone Financial

P&L (INR mn)	FY24	FY25E	FY26E	FY27E	B/Sheet (INR mn)	FY24	FY25E	FY26E	FY27E
Net sales	987,634	1,208,056	1,324,630	1,455,226	Equity capital	5,996	6,000	6,000	6,000
YoY (%)	16.2	22.3	9.6	9.9	Reserves	516,769	604,043	706,704	822,881
Raw material cost	740,064	890,337	974,928	1,066,681	Net worth	522,766	610,043	712,703	828,881
Employee Cost	44,164	50,347	57,899	66,584	Total Loans	15,849	13,851	11,854	9,858
Admin Expenses	76,745	100,269	105,970	116,418	Def Tax Liability	15,551	15,551	15,551	15,551
Total expenses	860,973	1,040,953	1,138,797	1,249,683	Assets held for sale				
EBIDTA	126,662	167,103	185,833	205,543	Total Liabilities	554,165	639,444	740,108	854,289
(%)	12.8%	13.8%	14.0%	14.1%	Gross Block	155,860	169,760	183,660	197,560
Depreciation	34,389	34,876	37,301	39,727	Less: Acc. depreciation	34,389	34,876	37,301	39,727
EBIT	116,833	132,227	148,531	165,816	Net block	121,472	134,884	146,359	157,833
Interest	1,388	1,411	1,414	1,411	Investments	356,932	376,063	379,097	379,888
Other income	19,384	22,051	25,734	26,000	Inventories	95,048	102,412	112,142	122,696
PBT	134,830	152,868	172,851	190,405	Debtors	45,495	50,338	55,195	60,637
(-) Tax	(27,652)	(35,571)	(40,167)	(44,205)	Cash	55,259	65,941	129,045	205,530
Tax/ PBT	(20.5)	(23.3)	(23.2)	(23.2)	Loans and advances	97,021	133,725	144,217	155,971
PAT	107,178	117,297	132,684	146,200	Other Current assets	32,498	32,953	33,415	33,882
YoY (%)	63.7	9.4	13.1	10.2	Current assets	325,322	385,369	474,013	578,717
PAT(%)	10.9%	9.7%	10.0%	10.0%	Current liabilities	231,080	231,080	231,080	231,080
Extraordinary	-	-	-	-	Current liabilities & Provisions	249,560	256,872	259,361	262,149
Reported Profit	107,178	117,297	132,684	146,200	Net current assets	75,761	128,497	214,652	316,567
					Total Assets	554,165	639,444	740,108	854,289

Cash Flow	FY24	FY25E	FY26E	FY27E	Key Ratios	FY24	FY25E	FY26E	FY27E
Net Profit	107,178	117,297	132,684	146,200	EPS	89.4	97.8	110.6	121.8
Depreciation	34,389	34,876	37,301	39,727		64%	9%	13%	10%
Deferred tax	(27,652)	(35,571)	(40,167)	(44,205)	P/E (Standalone)	32.4	29.7	26.2	23.8
Change in W/C	(13,680)	(42,287)	(23,052)	(25,430)	EV/EBDITA (x)	24.3	18.3	16.1	14.1
Operating cash flow	100,234	74,314	106,766	116,293	Book value	436	508	594	691
Change in intangible	(2,135)	18,749	2,648	402	P/B (x)	6.7	5.7	4.9	4.2
Capex	(15,856)	(13,900)	(13,900)	(13,900)	Subsidiary Valuation	479	479	479	479
Investments	(28,457)	(19,131)	(3,034)	(791)	EPS (Core EPS)	76.0	86.3	97.8	107.7
Investing cash flow	(39,837)	(30,204)	(10,229)	(6,377)	P/E (Core)	31.8	28.0	24.8	22.5
Free Cash Flow	82,990	59,003	91,452	100,981	EV/EBITDA (Core)	26.9	20.2	17.8	15.7
Dividend	(30,023)	(30,023)	(30,023)	(30,023)	ROCE	20.7%	19.9%	19.4%	17.3%
Equity	12,043.40	3.60	-	-	ROE	22.4%	20.7%	20.1%	19.0%
Debt	(30,588)	(1,998)	(1,997)	(1,996)	Days				
Financing cash flow	(48,568)	(32,017)	(32,020)	(32,019)	Inventory	42.0	42.0	42.0	42.0
Net change in cash	10,442	10,682	63,104	76,485	Debtor	15.2	15.2	15.2	15.2
Opening cash	44,817	55,259	65,941	129,045	Creditor	66.0	54.8	45.0	34.8
Closing cash	55,259	65,941	129,045	205,530					

Source: Company, Arianth Research

Standalone Financial

Cash Flow	FY23	FY24	FY25E	FY26E	FY27E
Net Profit	65,486	107,178	110,187	123,909	133,314
Depreciation	31,545	34,389	37,011	39,585	42,159
Deferred tax	(15,821)	(27,652)	(33,448)	(37,546)	(40,355)
Change in W/C	4,709	(13,680)	(38,869)	(22,939)	(25,663)
Operating cash flow	85,919	100,234	74,882	103,009	109,455
Change in intangible	30,692	(2,135)	18,749	2,648	402
Capex	(1,332)	(15,856)	(13,900)	(13,900)	(13,900)
Investments	(23,435)	(28,457)	(19,131)	(3,034)	(791)
Investing cash flow	(42,438)	(39,837)	(32,328)	(14,985)	(12,510)
Free Cash Flow	81,859	82,990	59,571	87,695	94,144
Dividend	(23,232)	(30,023)	(30,023)	(30,023)	(30,023)
Equity	9,331	12,043.40	-	-	-
Debt	(18,540)	(30,588)	(1,998)	(1,997)	(1,996)
Financing cash flow	(32,442)	(48,568)	(32,021)	(32,020)	(32,019)
Net change in cash	8,312	10,442	9,122	54,590	63,515
Opening cash	36,506	44,817	55,259	64,382	118,972
Closing cash	44,817	55,259	64,382	118,972	182,487

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EPS	54.7	89.4	91.9	103.3	111.2
		64%	3%	12%	8%
P/E (Standalone)	43.4	26.5	25.8	23.0	21.3
EV/EBDITA (x)	24.1	19.3	15.1	13.3	12.0
Book value	362	436	503	581	667
P/B (x)	6.6	5.4	4.7	4.1	3.6
Subsidiary Valuation	423	423	423	423	423
EPS (Core EPS)	53.0	76.0	80.8	91.0	97.7
P/E (Core)	36.8	25.6	24.1	21.4	19.9
EV/EBITDA (Core)	26.9	21.8	17.1	15.2	13.7
ROCE	14.2%	20.7%	18.8%	18.5%	17.4%
ROE	16.1%	22.4%	19.6%	19.1%	17.8%

Days

Inventory	42.0	42.0	42.0	42.0	42.0
Debtor	15.2	15.2	15.2	15.2	15.2
Creditor	64.7	66.0	55.7	45.7	35.4

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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