

Healthy and profitable growth trend to continue...

About the stock: Mahindra & Mahindra (M&M) is a conglomerate with presence in auto, IT, financial services, logistics, hospitality and real estate among others. At standalone level it is India's largest tractor manufacturer (41.6% FY24 market share) & 2nd largest CV, 4th largest PV maker (27.2%, 10.9% FY24 market share)

Q2FY25 Results: M&M reported healthy performance in Q2FY25. On standalone basis, topline for the quarter came in at ₹27,553 crore (up 13.3% YoY) with automotive segment volumes growing 9% YoY at 2.31 lakh units and tractor sales volume at 93K units (up 3.7% YoY). EBITDA in Q2FY25 came in at ₹3,950 crore with corresponding EBITDA margins at 14.3% (down 54 bps QoQ). Resultant PAT for Q2FY25 stood at ₹3,841 crore (up 11.3% YoY).

Investment Rationale:

- New product launches in offerings augurs well for M&M in long term:** M&M has sustained its revenue market leadership in SUV category, bolstered by successful launches like Thar Roxx, XUV 3XO, XUV 700 & Scorpio-N, which have quickly resonated with customers, driven by cutting-edge technology & value offering. Amid healthy demand for SUV space, M&M plans aggressive product launch strategy, including 9-ICE SUV's (6 new ICE models, 3 refreshes incl. XUV 3XO) and 7 BEV's by 2030 with two new models namely XEV 9e and BE 6e to be unveiled in current month. To cater these new age technology vehicles, M&M has outlined an ambitious capex plan of ~₹ 27,000 crore over FY25-27E with a primarily focus on product development and capacity expansions. Of this, ₹12,000 crore is earmarked specifically for PV-EV space, with the goal of increasing its BEV portfolio to 20%-30% of its SUV models by 2027. It has retained its guidance of mid to high teens volume growth in SUV space for FY25E.
- Tailwinds in tractor industry will drive growth for M&M:** Above normal monsoon at 108% of LPA, healthy water reservoir levels & increase in government spending in rural space are expected to benefit the domestic tractor industry which is anticipated to achieve its long-term volume CAGR of 5-7% starting FY25E. Low penetration of farm mechanisation in India at ~47% vs. its peers, presents a significant growth opportunity for M&M. As the leading player in the tractor segment, M&M has consistently expanded its market share, reaching ~42.5% in Q2FY25 (up 90 bps YoY). On the global front (ex-China), M&M currently has a modest 5% market share in the tractor market and plans to further expand by introducing its OJA series tractors (<110 HP segment) in ASEAN & Western Europe.

Rating and Target Price

- We maintain a positive view on M&M and retain our **BUY** rating on the stock amidst its consistent positive surprise on new product launches, ability to grow ahead of market and persistent focus on capital efficiency (RoE>=18%). We now value M&M at SOTP-based target price of **₹3,600** (15x FY26E standalone EV/EBITDA; 25% hold co. discount to investments, ₹615/share value accrued for its Electric PV arm).

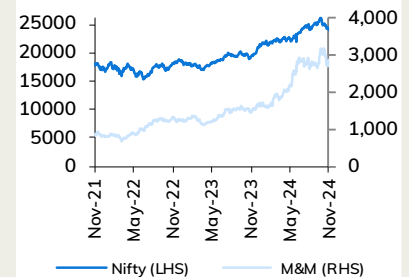
Particulars

Particular	₹ crore
Market Capitalization	3,60,528
Total Debt (FY24)	1,585
Cash and Inv (FY24)	13,972
Enterprise Value	3,48,140
52 week H/L (₹)	3,222/ 1,487
Equity capital (₹ crore)	599.6
Face value (₹)	₹ 5

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	19.3	18.6	18.6	18.5
FII	40.9	41.8	41.9	41.2
DII	26.3	26.1	26.2	27.0
Other	13.6	13.5	13.4	13.3

Price Chart



Recent event & key risks

- Report healthy Q2FY25. Margin came in steady at 14.3%
- Key Risk:** (i) lower than expected benefits accrued due to operating leverage (ii) delay in new product launches across ICE & EV domains

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Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	45,488	44,630	57,446	84,960	98,763	13.0%	1,12,661	1,26,130	1,37,983	11.8%
EBITDA	5,798	6,958	7,042	10,442	12,919	14.2%	16,340	18,690	20,745	17.1%
EBITDA Margins (%)	12.7	15.6	12.3	12.3	13.1		14.5	14.8	15.0	
Adjusted Net Profit	2,190	2,303	5,100	7,700	10,718	17.3%	11,773	13,487	15,045	12.0%
EPS (₹)	11.2	8.2	41.4	54.9	89.8		98.7	113.0	126.1	
P/E	260.1	351.5	70.1	52.8	32.3		29.4	25.7	23.0	
RoNW (%)	6.4	6.6	13.1	17.8	20.5		19.2	18.8	18.1	
RoCE (%)	8.8	10.0	9.3	14.0	16.3		18.5	18.5	18.0	

Key Takeaways of Recent Quarter

Q2FY25 Results: Reported healthy performance

- M&M reported healthy performance in Q2FY25. On standalone basis, topline for the quarter came in at ₹27,553 crore, up 13.3% YoY with automotive segment volumes growing 9% YoY at 2.31 lakh units and tractor sales volume at 93k units, up 3.7% YoY. EBITDA in Q2FY25 came in at ₹3,950 crore with EBITDA margins at 14.3%, down 54 bps QoQ but up 172 bps YoY. Resultant PAT stood at ₹3,841 crore (up 11.3% YoY).
- Automotive segment EBIT margins remained flat at 9.5% on a QoQ basis, while Farm Equipment segment margins were at 17.5% (down 100 bps QoQ but up 150 bps YoY). Margin performance at M&M remained neutral.
- On the SUV side there was an 18% YoY growth driven by new launches. It aspires to grow mid to high teens in FY25E amidst domestic PV industry growth pegged at <5%, on the back of aggressive product launches. It is aiming to launch 23 new vehicle models by 2030. This includes 9 new ICE SUVs, within which there are 3 Mid cycle enhancements. Additionally, it will also launch 7 new Battery Electric Vehicles models and 7 new LCV models including 5 ICE and 2 Electric Vehicle variants.

Q2FY25 Earnings Conference Call Highlights:

- **Automotive Performance:** M&M retained its leadership position in the SUV segment in revenue terms, achieving a market share of 21.9%, up by 30 bps QoQ in Q2FY25. It retained the guidance of mid to high teen volume growth rate in FY25E, driven by new launches such as XUV3XO and Thar 5 door. M&M had a very good festive season and is looking to keep the positive momentum going forward. For the medium term, M&M aims to reach EBIT margin of 10% in the auto segment.
- **Capacity outlook:** As previously guided, M&M has achieved monthly capacity of 54K units from 49K units of which 9.5K unit capacity is for Thar which is fungible and would increase to 11.5K units in the next 6 months. Currently, M&M is not planning for capacity addition in ICE and have guided for 1,00,000 units per year capacity for EV production in Phase 1.
- **LCV:** M&M has retained its top position in the LCV <3.5T with a market share of 52.3%, up by 140bps QoQ in Q2FY25. About 65% LCV sales comes from the rural market, which did not show signs of improvement due to lack of mundi arrivals. Going forward M&M is positive for the demand to improve as Mundi arrivals have gone up by 20% in October.
- **Electric Portfolio:** M&M has recently announced the launch of its new EVs called the Electric origin SUVs under which it will unveil two models, BE 6e and XEV 9e, by end of November and will launch in early CY2025.
- **Farm Equipment:** M&M is seeing green shoots in tractor segment and has revised its guidance of overall tractor industry to grow at ~6-7% YoY in FY25, while expecting ~13-15% growth in H2FY25. It has retained its leadership position in the tractor segment with a market share of 42.5% thereby gaining 90 bps YoY in Q2FY25. The core tractor PBIT for the quarter was at 18.7%.
- **International Markets:** Overall, the international markets are not doing well for M&M, as challenges are seen in the US markets (11 quarters of farm machinery degrowth) and Turkey (hyper-inflation).
- **Others:** On the raw material front, large part of commodity prices are benign except on the Natural rubber front (impacting tractor segment). With a very good festive season, M&M has cleared its inventory which now stands below 30 days for auto sector but still needs correction in the tractor segment (however not alarming in nature). M&M is also optimistic towards marriage season as a trigger for auto sales.

Key Tables and Charts

Exhibit 1: Quarterly P&L Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Total Operating Income	27,553	24,310	13.3	27,039	1.9	Topline came in healthy and marginally ahead of expectations amid beat on ASP's
Raw Material Expenses	20,444	18,379	11.2	19,939	2.5	
Employee Expenses	1,153	1,126	2.3	1,175	-2	
Other expenses	2,007	1,738	15.4	1,902	5.5	Other expenses came in higher at 7.3% of sales, up 30 bps QoQ
EBITDA	3,950	3,066	28.8	4,022	-1.8	
EBITDA Margin (%)	14.3	12.6	172 bps	14.9	-54 bps	EBITDA margins came in ahead of expectations at 14.3%
Other income	1,998	2,150	-7.1	352	468.3	Other income surprised positively largely driven by dividend received from subsidiaries, associates and JV's
Depreciation	961	816	17.8	915	5.1	
Interest	55	33	67	53	4	
Tax	1,090	915	19.1	794	37.4	
PAT	3,841	3,452	11.3	2,613	47.0	PAT for the quarter grew healthy double digit amid healthy volume growth and stable margin profile
EPS	32.1	28.9	11.3	21.9	47.0	
Key Metrics						
Auto revenues (₹ crore)	21,110	18,406	14.7	18,947	11.4	Auto segment revenues were boosted by higher than anticipated ASP's at ₹ 9.14 lakh/unit (up 2% QoQ)
FES revenues (₹ crore)	6,497	5,920	9.8	8,144	-20.2	FES (tractor segment) revenues were boosted by 4% sequential rise in blended ASP's at ₹ 6.96 lakh/unit

Source: Company, ICICI Direct Research

Exhibit 2: Change in key estimates

(₹ Crore)	FY25E			FY26E			Introduced		Comments
	Old	New	% Change	Old	New	% Change	FY27E		
Revenue	1,10,902	1,12,661	1.6	1,25,610	1,26,130	0.4	1,37,983	Marginally tweaked our estimates. Introduced FY27E numbers. We expect topline at M&M on standalone basis to grow at a CAGR of 11.8% over FY24-27E	
EBITDA	15,287	16,340	6.9	17,583	18,690	6.3	20,745		
EBITDA Margin (%)	13.8	14.5	72 bps	14.0	14.8	82 bps	15.0	Upgraded margin estimates tracking upbeat H1FY25. Introduced FY27E margins at 15%	
PAT	10,324	11,773	14.0	11,992	13,487	12.5	15,045		
EPS (₹)	86.5	98.7	14.0	100.5	113.0	12.5	126.1	Upward revision in margin estimates as well as other income led to earnings upgrade. Introduced FY27E numbers. We expect earnings at M&M to grow at a CAGR of 12% over FY24-27E	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Units	Current									
	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	
Automotive volumes	6,08,597	4,76,043	3,52,281	4,65,597	6,98,466	8,24,936	9,29,079	10,27,228	11,04,856	
Automotive ASPs (₹)	5,80,892	5,96,766	7,10,075	7,64,323	8,37,710	8,91,142	9,09,597	9,22,852	9,32,080	
FES Volumes	3,30,436	3,01,915	3,54,498	3,54,678	4,07,545	3,78,386	4,10,171	4,36,278	4,68,347	
FES ASPs (₹)	5,10,679	5,10,158	5,19,983	5,57,318	5,91,070	6,69,597	6,91,562	7,23,561	7,52,793	
Total Volumes	9,39,033	7,77,958	7,06,779	8,20,275	11,06,011	12,03,322	13,39,250	14,63,506	15,73,203	

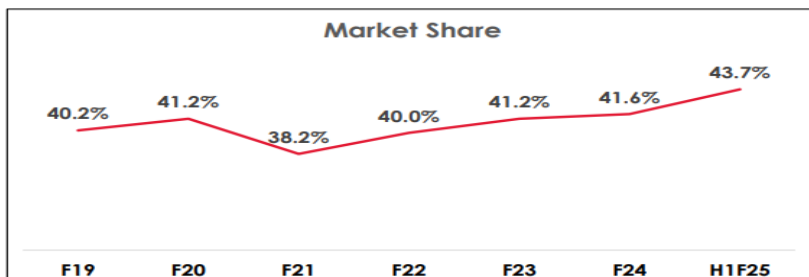
Source: ICICI Direct Research

Exhibit 4: Valuation matrix (SOTP Valuation)

Valuation Matrix (SOTP)					
Automotive Business (UV+PV+CV+Tractors)	₹crore		₹/share		Remark
Standalone business					
FY26E EBITDA	18,690				
Assigning EV/EBITDA Multiple of 15x	15				
Enterprise Value	2,80,355		2,250		
Net Debt (FY26E)	(16,737)		-135		
Value of Standalone Business	2,97,092		2,385		
Valuation Pegging of electric PV business at higher valuation band	76,600		615		
Total value of automobile business including electric PV company (A)			3,000		
Value of Investments (listed companies)	M&M stake (%)	Co's Market Capitalisation ₹ crore	Contribution to M&M ₹crore	₹/share	Remark
Tech Mahindra	26	1,93,240	50,242	404	House target market cap
M&M Financial Services	52	33,979	17,723	143	Current market cap
Mahindra Life space	52	11,436	5,890	47	House target market cap
Mahindra Holidays & Resorts	67	7,600	5,115	41	Current market cap
Mahindra Logistics	58	3,050	1,778	14	
Other subsidiaries & investments			17,223	140	
Total Value of subsidiaries & associates (B)			97,971	789	
Value of investments post 25% holding company discount (C = 0.75*B)			600		
M&M Target Price (value of equity per share , A+C)				3,600	

Source: ICICI Direct Research

Exhibit 5: M&M market share movement in domestic tractor space



Consistent increase in MS:

- H1 F25 MS up by 140 bps vs PY
- Oct'24 MS at 44.5%; YTD Oct'24 MS at 43.9%

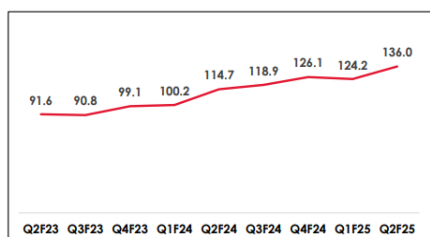
Source: Company, ICICI Direct Research

Exhibit 6: M&M – leadership positing in SUV space

MARKET LEADERSHIP IN SUV

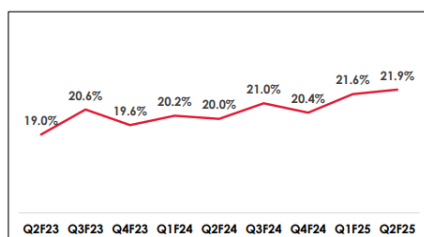
VOLUMES ('000s)

#2 in MS for 9 consecutive quarters



REVENUE MARKET SHARE

#1 Revenue MS in Q2 F25



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and Loss statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Total operating Income	98,763	1,12,661	1,26,130	1,37,983	
Growth (%)	16.2	14.1	12.0	9.4	
Raw Material Expenses	74,006	83,585	93,565	1,02,198	
Employee Expenses	4,416	4,679	5,045	5,450	
Other Expenses	7,421	8,057	8,829	9,590	
Total Operating Expenditure	85,844	96,320	1,07,440	1,17,238	
EBITDA	12,919	16,340	18,690	20,745	
Growth (%)	23.7	26.5	14.4	11.0	
Depreciation	3,439	3,830	4,225	4,622	
Interest	139	196	139	97	
Other Income	4,141	2,977	3,190	3,515	
PBT	13,483	15,291	17,516	19,539	
Others (incl exceptional item)	248	629	512	1,430	
Total Tax	2,765	3,518	4,029	4,494	
PAT	10,718	11,773	13,487	15,045	
Adjusted PAT	10,718	11,773	13,487	15,045	
Growth (%)	63.7	9.8	14.6	11.6	
EPS (₹)	89.8	98.7	113.0	126.1	

Source: Company, ICICI Direct Research

Exhibit 8: Cash Flow statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Profit after Tax (adj)	10,718	11,773	13,487	15,045	
Add: Depreciation	3,439	3,830	4,225	4,622	
(Inc)/dec in Current Assets	-519	-3,714	-2,847	-2,512	
Inc/(dec) in CL and Provisions	1,801	3,734	3,270	2,880	
CF from operating activities	11,438	13,124	15,635	17,536	
(Inc)/dec in Investments	-2,908	-2,500	-4,500	-5,500	
(Inc)/dec in Fixed Assets	-4,962	-10,000	-10,000	-10,000	
Others	2,333	2,661	2,656	2,637	
CF from investing activities	-5,537	-9,839	-11,844	-12,863	
Issue/(Buy back) of Equity	1	0	0	0	
Inc/(dec) in loan funds	-3,059	-250	-350	-350	
Dividend paid & dividend tax	-2,505	-2,625	-3,102	-3,579	
Others	707	0	0	0	
CF from financing activities	-4,857	-2,875	-3,452	-3,929	
Net Cash flow	1,044	410	339	745	
Opening Cash	4,482	5,526	5,936	6,275	
Closing Cash	5,526	5,936	6,275	7,019	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Liabilities					
Equity Capital	600	600	600	600	
Reserve and Surplus	51,677	60,825	71,210	82,677	
Total Shareholders funds	52,277	61,425	71,810	83,276	
Total Debt	1,585	1,335	985	635	
Deferred Tax Liability	1,555	1,555	1,555	1,555	
Others	2,866	3,269	3,660	4,004	
Total Liabilities	58,283	67,584	78,010	89,470	
Assets					
Gross Block	43,058	51,814	61,814	71,814	
Less: Acc Depreciation	25,530	29,360	33,586	38,208	
Net Block	17,528	22,453	28,228	33,606	
Capital WIP	3,756	5,000	5,000	5,000	
Total Fixed Assets	21,284	27,453	33,228	38,606	
Other investments	21,549	23,549	25,549	27,549	
Liquid Investments	8,447	8,947	11,447	14,947	
Inventory	9,505	10,803	12,095	13,231	
Debtors	4,549	6,173	6,911	7,561	
Loans and Advances	2,379	2,714	3,038	3,324	
Other current assets	3,250	3,707	4,150	4,540	
Cash	5,526	5,936	6,275	7,019	
Total Current Assets	26,659	30,783	33,969	37,225	
Creditors	18,592	21,606	24,189	26,462	
Provisions	684	795	890	974	
Total Current Liabilities	19,276	22,401	25,079	27,436	
Net Current Assets	7,383	8,382	8,890	9,789	
Application of Funds	58,283	67,584	78,010	89,470	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	89.8	98.7	113.0	126.1
Cash EPS	118.7	130.8	148.5	164.9
BV	438.2	514.9	601.9	698.0
DPS	21.0	22.0	26.0	30.0
Cash Per Share	117.1	124.7	148.5	184.1
Operating Ratios (%)				
EBITDA Margin	13.1	14.5	14.8	15.0
PBT / Net sales	9.6	11.1	11.5	11.7
PAT Margin	10.9	10.4	11.1	10.5
Inventory days	35.1	35.0	35.0	35.0
Debtor days	16.8	20.0	20.0	20.0
Creditor days	68.7	70.0	70.0	70.0
Net Working Capital days	-16.8	-15.0	-15.0	-15.0
Return Ratios (%)				
RoE	20.5	19.2	18.8	18.1
RoCE	16.3	18.5	18.5	18.0
RoC	23.4	26.2	26.2	25.8
Valuation Ratios (x)				
P/E	32.3	29.4	25.7	23.0
EV / EBITDA	26.9	21.2	18.4	16.4
EV / Net Sales	3.5	3.1	2.7	2.5
Market Cap / Sales	3.7	3.2	2.9	2.6
Price to Book Value	6.6	5.6	4.8	4.2
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	0.8	0.9	0.9	0.9
Quick Ratio	0.4	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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