

**CMP: INR 2,954**

**Rating: Accumulate**

**Target Price: INR 3,334**

**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)	5996
Mkt Cap (INR mn)	3615,187
52w H/L (INR)	3014/1419
Avg Yearly Vol (in 000')	3147

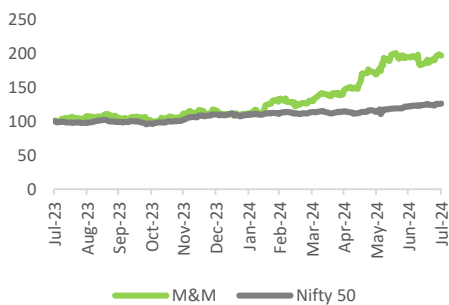
**Shareholding Pattern %**

(As on June, 2024)

Promoters	18.55
Public and others	81.45

Stock Performance (%)	1m	6m	12m
M&M	1.1	34.9	97.1
Nifty	3.4	10.4	26.3

**M&M Vs Nifty**



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**Mahindra & Mahindra (M&M) standalone revenue stood at INR 270,388 Mn, against our estimate of INR 276,400 Mn registering a growth 12% YoY/7.4% QoQ. EBITDA stood at INR 40,222 Mn, against our estimate of INR 39,920 Mn, Registering a growth of 22.4%YoY/ 26.6%QoQ. On the margins front, EBITDA margin is up 13 bps YoY/ up 23bps QoQ to 14.9%, above with our estimate of 14.4% led by Automotive and Farm business. Standalone PAT grew by 30.6% QoQ/ down 5.3% YoY to INR 26,126 Mn below our estimate of INR 29,570 Mn. Prior year PAT included one time gains on KG Mobility (405 cr.) and MCIE stake sale (358 cr.) Market share gains and continued margin expansion for Auto and Farm, profits up 18%~. Tractors, MS at 44.7%, up 180 bps. SUV capacity increase from 49k pm (exit F24) to 64k pm (exit F25) on track. Q1 volumes at 212k, up 14%; highest ever Q1 UV volumes at 124k.**

**Investment Rationale**

**Expansion in Market Share**

The company's auto and farm segments continue to show impressive market share gains, with SUV market share up 130 bps, LCV up 160 bps, and tractors up 180 bps. It has maintained its position in the SUV market, with a 24% increase in auto volumes. In the farm sector, despite a slight market degrowth, M&M achieved a market share of 44.7%. The company's ability to capitalize on favourable monsoon conditions and increased government spending in rural areas further enhances its outlook. This dominant market position provides M&M with a competitive edge and the ability to leverage scale for further growth.

**Strategic Investments in Electric Vehicles**

The company's strategic investments in electric vehicles, with a potential valuation of up to \$9 billion for its electric SUV subsidiary, position it well for future growth. These subsidiaries are well-positioned to capitalize on the growing demand for sustainable transportation solutions. Strategic investments from prominent investors, including IFC and NIFS Japan Fund, have bolstered these ventures, signaling strong market confidence in M&M's EV strategy. This forward-looking approach aligns with global trends towards electrification and sustainability.

**Margin and Capacity Expansion**

M&M has shown impressive margin expansion in both its auto and farm segments. Auto margins improved by 180 bps, while farm margins increased by 100 bps. This margin improvement, coupled with strong volume growth, led to a 35% increase in auto profit after tax and a 4% increase in farm profit, despite challenging market conditions. The company's focus on capacity expansion, which has 3 times in the last four years, positions it well for future growth and enables more aggressive market strategies.

**Outlook and valuation**

The company continues to perform robustly in its core segments, with the automotive division showing significant growth in SUV volumes, achieving a 24% increase. In the agricultural sector, the domestic market outlook is improving, leading to strong execution in both market share and margins. Farm machinery revenues have also seen a 34% rise, indicating potential for further growth. The logistics segment, despite some challenges, is on a recovery path with management targeting a breakeven in the express business by the end of the current quarter. However, **we maintain our Accumulate rating on the stock with a revised SOTP-based target price of INR 3,334 per share (Previous TP INR 3,285).**

## Exhibit 2: Quarterly results summary Q1FY25

## Quarterly results summary (MM + MVML) Q1FY25

INR Mn	Q1FY25	Q4FY24	Q1FY24	QoQ %	YoY %
<b>Net Sales</b>	2,70,388	2,51,828	2,41,372	7.4%	12.0%
Cost of material consumed	1,99,394	1,84,348	1,81,152	8.2%	10.1%
Staff Cost	11,753	11,223	10,564	4.7%	11.3%
Other expenses	19,018	24,487	16,802	-22.3%	13.2%
Total expenses	2,30,166	2,20,058	2,08,517	4.6%	10.4%
<b>EBITDA</b>	40,222	31,770	32,855	26.6%	22.4%
Depreciation	9,146	9,882	8,404	-7.4%	8.8%
EBIT	31,076	21,888	24,451	42.0%	27.1%
Interest	529	397	327	33.4%	61.6%
Other Income	3,515	4,753	9,290	-26.0%	-62.2%
Profit before exceptional items and tax	34,062	26,244	33,414	29.8%	1.9%
Extraordinary	-	-	-		
<b>Profit/(loss) before tax</b>	34,062	26,244	33,414	29.8%	1.9%
Tax	(7,936)	(6,243)	(5,819)	27.1%	36.4%
<b>Reported PAT</b>	26,126.3	20,000.7	27,594.3	30.6%	-5.3%
EPS	21.78	16.68	23.03	30.6%	-5.4%

Margins	Q1FY25	Q4FY24	Q1FY24	QoQ %	YoY %
Gross margins	26.3%	26.8%	24.9%	-5bps	13bps
EBITDA	14.9%	12.6%	13.6%	23bps	13bps
PAT	9.7%	7.9%	11.4%	17bps	-18bps
Tax Rate	-23.3%	-23.8%	-17.4%	5bps	-59bps

	Q1FY25	Q4FY24	Q1FY24	QoQ %	YoY %
Total Tractors Volume	1,16,930	86,849	85,867	34.6%	15.4%
Total Automotive Volume	2,11,550	2,12,078	1,89,227	-0.2%	20.1%
Total Volume (Auto + Farm)	3,33,017	3,02,139	2,78,958	10.2%	18.2%
Aveg Relizations (Auto)	7,85,678	3,73,311	5,04,565	110.5%	44.9%
Aveg Relizations (FES)	6,13,797	5,44,437	5,81,500	12.7%	24.4%
Blended realisation	7,39,080	4,42,625	5,48,777	67.0%	36.1%

Source: Arihant Research, Company Filings

## Conference call key takeaways

The company's automotive division showing significant growth in SUV volumes, with a 24% increase, aligning with their mid to high teen growth expectations for FY25. Farm machinery revenues have also seen a 34% rise, indicating potential for further growth. On the financial front, Mahindra Finance is showing positive trends in asset quality and growth, supported by technological advancements. Additionally, the hospitality sector is thriving with high occupancy rates and increasing memberships, while real estate continues its rapid expansion driven by an aggressive market approach.

### Segments

- Tractor volumes increased due to market share gains, reaching 44.7% despite a slight market degrowth. Auto volumes were up 24%, maintaining the company's leadership position in SUVs. Strong execution in the farm sector, with tractor margins reaching 19.7%

### Industry Insights

- The market share in the truck segment increased from 2.5% to 3.9% in the 80% of the industry segment where the company operates. The company aims to reach a 7% to 8% market share over the next 3-4 years.
- Positive market conditions are anticipated due to good monsoons, higher government spending in rural areas, and seasonal effects like Navratri. Overall industry buoyancy is not as strong as it was previously.
- The company is still targeting mid to high teens growth for the year. Q1 started with 24% growth, providing a good base for the year.
- Rural demand is showing signs of improvement, especially in the tractor segment.
- The commercial vehicle (CV) segment, particularly Light Commercial Vehicles (LCVs), has been sluggish for about 18-20 months.

### EV Subsidiaries:

- The company has two EV subsidiaries: Last Mile Mobility (LMM) and Mahindra Electric Automotive Limited (MEAL). LMM has a valuation of INR 60,000 Mn plus, while MEAL's valuation is at the upper end of \$9 bn.

**Farm Machinery Capex:** A budget of INR 50,000 Mn is allocated for regular capex in the farm business over a three-year cycle, not including potential acquisitions

### Manufacturing Capacity

- The company has increased its manufacturing capacity from 18,000 to 49,000 units per month. This increase in capacity allows for better management of the order backlog and quicker delivery times.

### Market Share in Commercial Vehicles

- In the MHCV segment, market share has increased from 2.5% to 3.9% in the 80% of the industry where they compete. The company aims to increase this to 5% and then to 7-8% over a 3-4 year period.

### Mahindra Finance

- Showing signs of unlocking its potential with assets up 23% and profit up 37%.
- Asset quality improved with gross stage 3 assets at 3.6%, only marginally up from 3.4% at the start of the year.
- Technology implementation is delivering results, with 100% of branches now under central processing.

### Mahindra logistics

- The Express business had a loss, but management has committed to turning it around and reaching breakeven by the end of the current quarter. Growth in 3PL and last-mile delivery is expected to help improve overall logistics business performance.

### Tech Mahindra:

- The turnaround has commenced, with Q1 showing positive signs.
- Management expects significant improvements over the next three years.
- Focus is on improving margins and service delivery.
- Demand outlook is still mixed, but the quarter showed some recovery from last year.

### Acquisition

- The company increased its stake in Swaraj Engines to 51%. This acquisition underscores M&M's strategic focus on strengthening its capabilities in engine manufacturing.

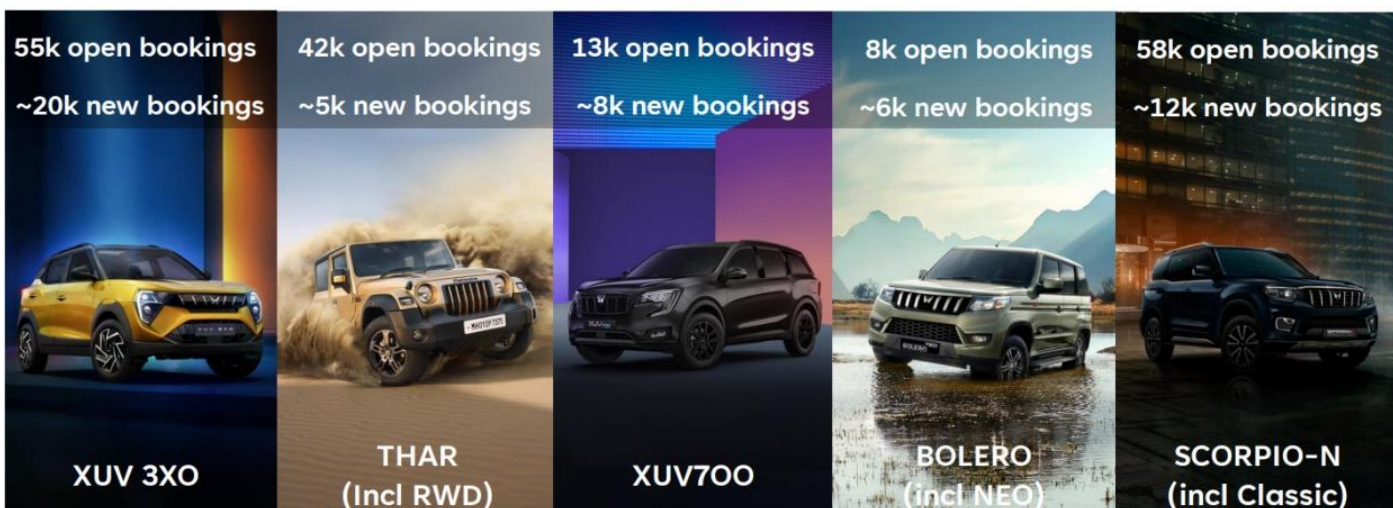
### Shift in Booking Strategy

- The company aims to reduce waiting periods and improve immediate availability of vehicles.
- XUV700 Bookings saw a significant increase in bookings during July, up by more than 40-45% from the previous month.
- Introduction of a new version, AX5 Select, at a more accessible price point below INR 2 Mn.
- Customers are less willing to book vehicles with long waiting periods compared to two years ago. The focus is shifting towards immediate or near-term availability of vehicles.
- Unexpectedly strong demand for Scorpio Classic even after the launch of Scorpio N. The combined Scorpio portfolio (Classic + N) is among the top 10 brands across all price points.
- While overall bookings remain healthy at around 50,000, the company is focusing more on converting these to actual sales rather than accumulating a large order book.

### Other Highlights

- Commodity costs, particularly for steel, have been benign but not significantly reduced. Chip costs have come down, benefiting models like XUV700 more than others due to higher chip content.
- XUV3XO seeing strong momentum despite being in a highly competitive segment.
- Thar 5-door expected to significantly expand the addressable market.
- Electric three-wheeler penetration increasing rapidly. Regulatory environment remains uncertain with changes in FAME II, FAME III, and PLI schemes.
- Some moderation in international tractor markets, especially in the US. New products like XUV700 and Scorpio gaining traction in markets like South Africa.
- Growth in 3PL and last-mile delivery expected to improve overall logistics performance.
- Real estate sector saw rapid growth with a threefold increase in presales and a 68% increase in GDP acquired compared to last year.
- The company aims for 15% to 20% EPS growth in the long term.
- The company's approach to managing other income fluctuations involves focusing on mark-to-market gains and investment strategies.

### Open Bookings: ~178k\*



~41k billings p.m.

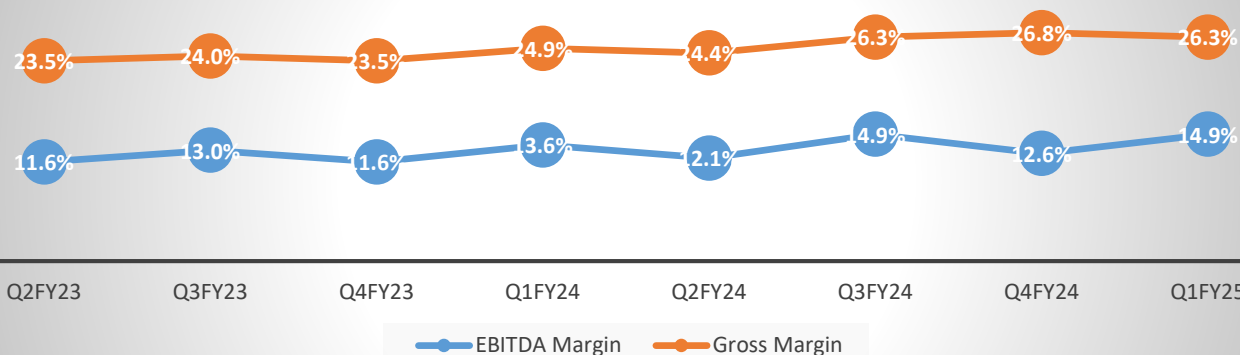
Cancellations ~10% p.m.

**Exhibit 3: SOTP Valuation**

Listed Subsidiary	Valuation Basis	CMP	M&M stake	% Stake	Mcap (INR Mn)	Value/share
Tech Mahindra Limited		1,554	24,80,22,598	25.5	3,85,427	321
Mahindra & Mahindra Financial Services		303	64,43,99,987	52.2	1,95,253	163
Mahindra Holidays & Resorts		457	13,48,35,922	67.0	61,620	51
Mahindra Lifespace Developers		604	7,93,19,550	51.3	47,909	40
Mahindra EPC Irrigation		144	1,51,44,433	54.3	2,181	2
Swaraj Engines		3,148	63,31,141	34.8	19,930	17
Mahindra Logistics Ltd		514	4,18,12,257	58.1	21,492	18
<b>EV Business (30% Holdco discount)</b>			<b>2,00,284</b>	<b>4.76</b>		<b>161</b>
<i>Listed Subsidiaries (INR mn)</i>					7,33,812	612
						612
<b>Sub Valuations Post Discount (20%)</b>			<b>20%</b>		<b>0</b>	<b>490</b>
						651
<b>Core auto business EV/EBITDA</b>	<b>FY27E</b>	<b>16.5x</b>				<b>2,685</b>
<b>Value/Share</b>						<b>3,336</b>
					CMP	2,921
					Upside	14.2%

CMP as on 31st July 2024

**Exhibit 4: Steady margin led by better product Mix.**



**Exhibit 5: Investment**

**Auto: Investment Plan for F25 – F27 Cycle**

Auto	FY25-27
SUV ICE	8,500
CV (incl. EV & MTBD)	4,000
Sustenance	1,500
<b>Auto Total</b>	<b>14,000</b>
Investment in MEAL	12,000
Investments for New Products & Capacity (Auto + MEAL)	26,000
Investment in other Subs	1,000
<b>Total Auto investment plan</b>	<b>27,000</b>

Source: Company, Arianth Research

## Standalone Financial

P&L (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	849,603	987,634	1,188,433	1,303,445	1,432,355
YoY (%)	47.0	16.2	20.3	9.7	9.9
Raw material cost	645,582	740,064	879,441	964,550	1,059,943
Employee Cost	36,499	44,164	50,347	57,899	66,584
Admin Expenses	63,098	76,745	98,640	104,276	114,588
Total expenses	745,179	860,973	1,028,428	1,126,725	1,241,115
<b>EBIDTA</b>	<b>104,424</b>	<b>126,662</b>	<b>160,005</b>	<b>176,721</b>	<b>191,240</b>
(%)	12.3%	12.8%	13.5%	13.6%	13.4%
Depreciation	31,545	34,389	37,011	39,585	42,159
EBIT	72,879	116,833	122,994	137,136	149,081
Interest	2,728	1,388	1,411	1,414	1,411
Other income	25,452	19,384	22,051	25,734	26,000
<b>PBT</b>	<b>95,603</b>	<b>134,830</b>	<b>143,635</b>	<b>161,456</b>	<b>173,669</b>
(-) Tax	(15,821)	(27,652)	(33,448)	(37,546)	(40,355)
Tax/ PBT	(16.5)	(20.5)	(23.3)	(23.3)	(23.2)
<b>PAT</b>	<b>65,486</b>	<b>107,178</b>	<b>110,187</b>	<b>123,909</b>	<b>133,314</b>
YoY (%)	34.5	63.7	2.8	12.5	7.6
PAT(%)	7.7%	10.9%	9.3%	9.5%	9.3%
Extraordinary	(14,295)	-	-	-	-
Reported Profit	65,486	107,178	110,187	123,909	133,314
B/Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	5,991	5,996	5,996	5,996	5,996
Reserves	427,577	516,769	596,934	690,820	794,111
Net worth	433,567	522,766	602,930	696,816	800,107
Total Loans	46,437	15,849	13,851	11,854	9,858
Def Tax Liability	14,703	15,551	15,551	15,551	15,551
Assets held for sale					
<b>Total Liabilities</b>	<b>494,708</b>	<b>554,165</b>	<b>632,331</b>	<b>724,221</b>	<b>825,516</b>
Gross Block	140,004	155,860	169,760	183,660	197,560
Less: Acc. depreciation	31,545	34,389	37,011	39,585	42,159
Net block	108,459	121,472	132,749	144,075	155,401
Investments	328,475	356,932	376,063	379,097	379,888
Inventories	88,814	95,048	101,158	110,948	121,921
Debtors	40,417	45,495	49,520	54,312	59,684
Cash	44,817	55,259	64,382	118,972	182,487
Loans and advances	73,348	97,021	131,959	142,310	153,913
Other Current assets	34,997	32,498	32,953	33,415	33,882
Current assets	282,393	325,322	379,972	459,957	551,887
Current liabilities	212,000	231,080	231,080	231,080	231,080
Current liabilities & Provisions	217,693	249,560	256,453	258,909	261,661
Net current assets	64,700	75,761	123,519	201,048	290,226
<b>Total Assets</b>	<b>501,634</b>	<b>554,165</b>	<b>632,331</b>	<b>724,221</b>	<b>825,516</b>

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%
<b>Days</b>					
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, Arihant 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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