Mahindra

Mahindra & Mahindra Ltd.
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Ref. NS: SEC
13th April, 2020

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai 400001

National Stock Exchange of India Ltd.,
Exchange Plaza, 3rd Floor
Plot No.3-1."G" Block, I.F.B. Centre,
Bandra-Kurla-Complex, Bandra (East),
Mumbai – 400 051

Bourse de Luxembourg
Societe de la Bourse de Luxembourg
Societe Anonyme/R.C.B. 6222
B.P. 165, L-2011 Luxembourg.

London Stock Exchange Plc
10 Paternoster Square
London EC4M 7LS

Dear Sirs,

Sub: **Mahindra & Mahindra Limited: [ICRA]AAA (Stable) assigned for Rs. 1,000 crore proposed Non-convertible Debenture Programme**

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Proposed Non-convertible Debenture Programme	-	1000.0	[ICRA]AAA (Stable); assigned
Non-convertible Debenture Programme	500.0	500.0	[ICRA]AAA (Stable); outstanding
Long-term, Fund-based Facilities	65.0	65.0	[ICRA]AAA (Stable); outstanding
Long-term, Non-fund Based Facilities	110.0	110.0	[ICRA]AAA (Stable); outstanding
Short-term, Non-fund Based Facilities	350.0	350.0	[ICRA]A1+; outstanding
Total	**1025.0**	**2025.0**	

Please find enclosed a Press Release issued by ICRA Limited in this regard.

This Press Release has been issued by ICRA Limited today on 13th April, 2020.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY
Encl: a/a

April 13, 2020

Mahindra & Mahindra Limited: [ICRA]AAA (Stable) assigned for Rs. 1,000 crore proposed non-convertible debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Proposed Non-convertible Debenture Programme	-	1000.0	[ICRA]AAA (Stable); assigned
Non-convertible Debenture Programme	500.0	500.0	[ICRA]AAA (Stable); outstanding
Long-term, Fund-based Facilities	65.0	65.0	[ICRA]AAA (Stable); outstanding
Long-term, Non-fund Based Facilities	110.0	110.0	[ICRA]AAA (Stable); outstanding
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Total	**1025.0**	**2025.0**	

** Instrument details are provided in Annexure-1*

Rationale

The rating reflects the strong financial profile of Mahindra & Mahindra Limited (M&M), as characterised by healthy cash flows on the back of its diversified business across varied sectors, robust profitability in its core businesses, and superior liquidity in the form of sizeable cash and liquid investments. The rating also favourably factors in the complementary performance of the farm equipment (FES) and utility vehicles (UV) segments of M&M and Mahindra Vehicle Manufacturers Limited (M&M+MVML, 100% subsidiary of M&M), which has provided stability to overall profitability despite cyclical performances in respective segments over the last several years. M&M also has a large investment portfolio of its Group entities, some of which are also listed in the stock markets. The market values of these quoted investments, though declined over the last couple of months in line with the overall market decline, are significantly higher than the book value, providing additional cushion to M&M's overall financial flexibility.

ICRA currently has a Negative outlook for multiple automotive segments including passenger vehicles (PV) and commercial vehicles (CV). The spread of coronavirus and consequent nationwide lockdown has significantly impacted economic activity and disrupted the supply chain. ICRA expects volume declines across most automotive segments during FY2021 ranging from high single digit to mid double digit. These estimates, however, would be revisited over the next two-months as greater clarity emerges. ICRA also notes various relief measures provided by the Government and RBI, including loan moratorium, which would help buffer the impact on the economy to an extent. The situation is still evolving and ICRA will continue to monitor it closely over the next few quarters and take appropriate rating action wherever required.

M&M has maintained its dominant position in the domestic tractor industry. After witnessing some moderation in its market share in the domestic tractor market during FY2019, the company has regained its market share during FY2020 as its overall performance was better than the underlying industry performance. ICRA believes its three-brand strategy of Mahindra, Swaraj and Trakstar, should help it to sustain its market share above the 40% level over the medium term. To scale up its FES business further, M&M has acquired several entity/ies in Turkey and Finland over the last two to three years. These overseas entities have reported subdued performances and are likely to add to the company's profitability going forward only. Consequently, while M&M+MVML's FES reported healthy profit before interest and tax (PBIT) margin of 19.3% during 9M FY2020, the PBIT margin was relatively modest at 12.1% at a consolidated level (though an improvement over 10.8% in FY2019 due to sizeable net loss of ~Rs. 549 crore in a subsidiary due to a one-off inventory correction) due to subdued performance in these acquired subsidiaries.

In the domestic UV business, the increasing competitive pressures have resulted in a steady decline in the company's market share over the last five years—to 19.7% during 11M FY2020. ICRA notes that M&M has new product launches in pipeline. Furthermore, its joint venture (JV) with Ford Motor Company Inc., USA (FMC) is also aimed at strengthening its product portfolio. While the incremental sales volume from the new models will support M&M's overall volumes, improvement in its market share is challenging against the backdrop of successful launches by its competitors. A material decline in M&M's market position in its core automotive and FES segments, thereby resulting in a significant deterioration in its profitability and cash flows would be a negative.

ICRA notes that the merger of the medium and heavy commercial vehicle (M&HCV) business into M&M with effect from FY2014 facilitated improvement in its cost structure and operational efficiencies, resulting in a reduction in the breakeven sales volumes, and an improvement in M&M's market share in goods category to 3.2% in 11M FY2020 from 1.4% in FY2014. However, the significant decline in sales volume during FY2020 is expected to result in losses for the business. Nonetheless, M&M has strengthened its market position in the 2-3.5T segment, with its market share increasing to 45.6% in 11M FY2020 from 44.5% in FY2019.

M&M merged its two-wheelers business with effect from April 01, 2017 and revised its strategy by focusing on the fast growing and high margin premium motorcycle segment in India. In the two-wheeler segment, globally, the company is present through Peugeot Motocycles S.A.S., which continues to report losses. M&M has provided for an impairment of its entire investment in Peugeot in FY2019.

The performance of M&M's South Korean subsidiary—Ssangyong Motor Company (Ssangyong)—has deteriorated further in CY2019 due to slowdown in exports. This resulted in M&M providing for impairment of its investments amounting to ~Rs. 550 crore in Q3 FY2020. M&M has also decided to not inject any further equity infusion into Ssangyong, apart from a special one-time infusion of upto 40 billion KRW over the next three months. In the absence of fresh equity support from M&M, Ssangyong's performance as well as business viability could witness material pressure over the medium term.

During Q3 FY2020, M&M+MVML reduced its combined guidance of capital expenditure (capex) and investment plans over FY2020 to FY2022 to Rs. 17,000 crore from Rs. 18,000 crore, on account of the Rs. 1,000 crore savings expected through collaboration with FMC. With incremental investment requirement in new product development and some of the businesses, M&M+MVML's capex and investment requirements have increased over the last few years. Although the planned investments are large, steady cash flow generation from its core business, the financial flexibility enjoyed by the Group and its comfortable credit profile partly mitigate the risk. The company's (i.e., M&M+MVML) liquidity position also remains comfortable, supported by its large (around Rs. 6,800 crore) cash balance and liquid investments as on March 31, 2020.

While ICRA draws comfort from M&M's track record of successfully managing its portfolio of businesses, its continued success while maintaining its credit profile, would remain a key rating sensitivity. Strengthening M&M's UV portfolio through new product launches amid increasing competitive intensity, synergising its acquisitions and turning around its loss-making businesses would remain critical for maintaining its credit profile.

ICRA also notes M&M's decision to merge MVML with effect from April 01, 2019, to rationalise the Group holding structure. The merger will be credit neutral for M&M's credit profile.

The Stable outlook reflects ICRA's expectations that M&M+MVML will maintain its healthy credit profile, supported by its leadership position in the domestic tractor industry and the domestic UV industry, despite loss of market share in the latter. While there could be short-term aberrations due to inherent cyclicality in the tractor as well as automotive segments, M&M+MVML's overall credit profile will remain robust because of healthy accruals and superior liquidity.

Key rating drivers

Credit strengths

Strong position in the domestic tractor industry, with an established rural franchise; diversified automotive company – M&M has a dominant market share in the domestic tractor industry. After witnessing some moderation in its market share in the domestic tractor market during FY2019, the company has regained its market share during FY2020 as its overall performance was better than the underlying industry performance. ICRA believes its three-brand strategy of Mahindra, Swaraj and Trakstar, should help it to sustain its market share above the 40% level over the medium term. In the domestic UV business, the increasing competitive pressures have resulted in a steady decline in the company's market share over the last five years—to sub 20% during 11M FY2020. ICRA notes that M&M has new product launches in pipeline. Furthermore, its JV with FMC is also aimed at strengthening its product portfolio. While the incremental sales volume from the new models will support M&M's overall volumes, improvement in its market share is challenging against the backdrop of successful launches by its competitors. M&M has a strong position in the pick-up segment with its market share increasing to 45.6% in the 2-3.5T (goods) segment during 11M FY2020.

Healthy credit profile, supported by robust cash surplus resulting in healthy liquidity – M&M's credit profile remains strong supported by low leverage and robust cash accruals. As on March 31, 2020, M&M+MVML had cash and liquid investments to the tune of ~Rs. 6,800 crore, which aids its financial flexibility.

Inherent value in some of its businesses, with potential to generate cash flows through stake sale for the Group – M&M has a large investment portfolio, consisting of its Group entities, some of which are also listed in the stock markets. These businesses are spread across sectors like information technology (IT), infrastructure and hospitality. The market values of these quoted investments, though declined over the last couple of months in line with the overall market decline, are significantly higher than the book value, providing additional cushion to M&M's overall financial flexibility.

Credit challenges

Growing competitive pressures in core automotive business impacting market share, could also result in weak pricing scenario (higher discounts), pressurising margins – While M&M has maintained its leadership position in the large UV segment, relative underperformance in the fast growing compact UV segment (UV1 segment, which drove ~77% of total domestic UV sales in 11M FY2020) resulted in a steady decline in M&M's market share in the UV segment to 19.7% in 11M FY2020. ICRA believes improvement in its market share is challenging amid the successful launches by its competitors. Overall, both FES and automotive businesses are inherently cyclical, which could have a bearing on M&M's credit profile in case of a prolonged slowdown in demand.

Maintaining capital structure in the light of significant investments over the medium term – During Q3 FY2020, M&M+MVML reduced its combined guidance of capex and investment plans over FY2020 to FY2022 to Rs. 17,000 crore from Rs. 18,000 crore, on account of the Rs. 1,000 crore savings expected through collaboration with FMC. With the weak performance of several subsidiaries and incremental investments required in new product development, M&M+MVML's capex and investment requirements have increased over the last few years. Though the planned investments are large, steady cash flow generation from core businesses, the financial flexibility enjoyed by the Group and the comfortable credit profile partly mitigate the risk.

Achieving turnaround of two-wheelers business and Ssangyong operations remains a challenge; losses in these operations drags consolidated profitability – In the M&HCV business, M&M has been able to significantly reduce breakeven level post its merger into M&M. However, the significant decline in sales volume during FY2020 is expected to result in losses for the business. Furthermore, the two-wheeler business is a drag on overall profitability. M&M has also merged the two-wheelers business with effect from April 01, 2017, and revised its strategy with a focus on the fast growing and high margin premium motorcycle segment in India. In the two-wheeler segment, globally, the company is present through Peugeot Motocycles S.A.S., which continues to report losses. M&M has provided for an impairment of its entire investment in Peugeot in FY2019. The performance of Ssangyong has also deteriorated further in CY2019 due to slowdown in exports. This resulted in M&M providing for impairment of its investments amounting to ~Rs. 550 crore in Q3 FY2020. M&M has also decided to not inject any further equity infusion into Ssangyong, apart from a special one-time infusion of upto 40 billion KRW over the next three months.

Liquidity position: Superior

Driven by modest operating profitability and negative working capital cycle, M&M+MVML's liquidity position is healthy, as characterised by sizeable cash balance and liquid investments (of ~Rs. 6,800 crore) as on March 31, 2020. Despite the planned capex and investment of Rs. 17,000 crore over FY2020-FY2022, M&M+MVML's liquidity profile will remain healthy supported by steady cash flow generation from core business and the financial flexibility enjoyed by the Group. ICRA also draws comfort from the management intent to maintain a steady-state liquidity of ~Rs. 5,000-6,000 crore. M&M also has a large investment portfolio, consisting of its Group entities, some of which are also listed in the stock markets. The market values of these quoted investments are significantly higher than the book value, providing significant additional cushion to M&M's overall financial flexibility.

Rating sensitivities

Positive triggers: Not applicable

Negative triggers: Negative pressure on the ratings could arise in case of any significant deterioration in M&M's capital structure and debt coverage indicators because of debt-funded capex and investments or any large in-organic acquisition. Material decline in M&M's market position in its core automotive and FES segments, thereby resulting in a significant deterioration in its profitability and cash flows would also be a negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Passenger Vehicle Manufacturers Rating Methodology for Tractor Industry Rating Methodology for Commercial Vehicle Manufacturers
Parent / Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the combined financials of M&M along with its wholly-owned subsidiary, MVML (rated [ICRA]AAA (Stable) / [ICRA]A1+), due to their strong operational, financial and managerial linkages. ICRA has also considered the potential funding requirement of its major investee companies that may have to be supported by M&M. ICRA has further taken into account the market value of the quoted equity investments along with its portfolio of unlisted investments, which accord high financial flexibility.

About the company

Incorporated in 1945 by Mr. Ghulam Mohammad and the two Mahindra brothers (KC and JC Mahindra) as a private limited company, Mahindra & Mohammad, the company was renamed as Mahindra & Mahindra in 1948 and was subsequently converted to a public limited company in 1955. M&M is the most diversified automobile company in India with presence across two-wheelers, three-wheelers, passenger vehicles, commercial vehicles, tractors and earthmovers. M&M has a strong position in the domestic large utility vehicles and tractor markets, with a market share in excess of 40% in the latter. In terms of volumes, M&M is the world's largest tractor manufacturer and among the top three passenger vehicle manufacturers in India. Through its subsidiaries and Group companies, M&M has a presence in financial services, auto components, hospitality, infrastructure, retail, logistics, steel trading and processing, IT businesses, agri, aerospace, consulting services, defence, energy and industrial equipment.

On a consolidated basis, in FY2019, automotive and farm equipment businesses accounted for around 56.5% and 21.4%, respectively, of M&M's business—the other major contributors being financial services (9.9%), hospitality (2.1%) and real estate (0.6%).

For the nine months ended December 31, 2020, M&M+MVML reported a profit after tax (PAT) of Rs. 3,994.7 crore on an operating income (OI) of Rs. 35,860.8 crore.

Key financial indicators (audited, M&M+MVML)

	FY2018	FY2019
Operating Income (Rs. crore)	47,577.4	52,848.2
PAT (Rs. crore)	4,623.2	5,401.2
OPBDIT/ OI (%)	14.8%	14.2%
RoCE (%)	22.8%	21.3%
Total Debt/ TNW (times)	0.11	0.08
Total Debt/ OPBDIT (times)	0.49	0.39
Interest Coverage (times)	37.4	51.3

Source: Mahindra & Mahindra Limited

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating 13-April 2020	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2020 29-July 2019	Date & Rating in FY2019 29-June 2018	Date & Rating in FY2018 27-May 2017
1	Non-Convertible Debenture Programme	Long-term	1,000.0	-	[ICRA]AAA (Stable)	-	-	-
2	Non-Convertible Debenture Programme	Long-term	500.0	500.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Fund-based Facilities	Long-term	65.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-fund Based Facilities	Long-term	110.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Non-fund Based Facilities	Short-term	350.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fund-based / Non-fund Based Facilities	Long-term / Short-term	-	-	-	-	-	[ICRA]AAA (Stable) / [ICRA]A1+

**As on March 31, 2020*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Proposed Non-Convertible Debenture Programme	-	-	-	1000.0	[ICRA]AAA (Stable)
INE101A08070	Non-convertible Debenture Programme	Jul-2013	9.55%	Jul-2063	500.0	[ICRA]AAA (Stable)
NA	Fund-based Facility 1	NA	NA	NA	18.0	[ICRA]AAA (Stable)
NA	Fund-based Facility 2	NA	NA	NA	15.0	[ICRA]AAA (Stable)
NA	Fund-based Facility 3	NA	NA	NA	32.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 1	NA	NA	NA	21.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 2	NA	NA	NA	15.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 3	NA	NA	NA	6.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 4	NA	NA	NA	6.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 5	NA	NA	NA	32.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 6	NA	NA	NA	30.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 1	NA	NA	NA	350.0	[ICRA]A1+

Source: Mahindra & Mahindra Limited

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info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

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