

REF:NS:SEC:
13th August, 2019

National Stock Exchange of India Limited
"Exchange Plaza", 5th Floor,
Plot No.C/1, G Block
Bandra-Kurla Complex
Bandra (East), Mumbai 400051.

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

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 Sir,

Sub: India Ratings and Research (Ind-Ra) has re-affirmed Mahindra & Mahindra Limited's (M&M) Long-Term Issuer/Instrument Rating at 'IND AAA'. The Outlook is Stable

Instrument Type	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/ Outlook	Rating Action
Non-convertible debentures (NCDs)	INE101A08088	September 2016	7.57%	September 2026	INR4.750	IND AAA/Stable	Affirmed
Non-fund-based limits	-	-	-	-	INR4.025	IND AAA/Stable/IND A1+	Affirmed
Fund based / Non-fund based	-	-	-	-	INR2.500	IND AAA/Stable/IND A1+	Affirmed
Fund-based limits	-	-	-	-	INR8.000	IND A1+	Affirmed

Please find enclosed a Press Release issued by India Ratings and Research Private Limited in this regard.

This Press Release has been issued by India Ratings and Research Private Limited today on 13th August, 2019.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED


NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

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India Ratings Affirms Mahindra & Mahindra and its NCDs at 'IND AAA'; Outlook Stable

13

AUG 2019

By [Richa Bulani](#)

India Ratings and Research (Ind-Ra) has affirmed Mahindra & Mahindra Limited's (M&M) Long-Term Issuer Rating at 'IND AAA'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	INE101A08088	September 2016	7.57%	September 2026	INR4.750	IND AAA/Stable	Affirmed
Non-fund-based limits	-	-	-	-	INR4.025	IND AAA/Stable/IND A1+	Affirmed
Fund-based/Non-fund-based	-	-	-	-	INR2.500	IND AAA/Stable/IND A1+	Affirmed
Fund-based limits	-	-	-	-	INR8.000	IND A1+	Affirmed

Analytical Approach: Ind-Ra continues to take a consolidated view of M&M and its [subsidiaries](#) while arriving at the ratings, after excluding its financial services subsidiary – Mahindra & Mahindra Financial Services Ltd (MMFSL; '[IND AAA/Stable](#)').

KEY RATING DRIVERS

Sustained Strong Market Position in Key Segments: M&M has maintained its leadership position in the domestic tractor market, with over 40% market share in terms of volumes from FY09-FY19 (FY19: 41.4%). The company is also a leader in the light commercial vehicle (goods carriers) segment with around 41.4% market share in FY19 (FY18: 43.5%). In utility vehicles (UVs), the company commands second position with a market share of around 25% in FY19 (FY18: 25.4%), despite a decline in share since FY13 due to intensified competition.

Diversified Business Profile: M&M has a diversified business profile with presence mainly across farm equipment, auto and automotive components, defence, information technology, hospitality, steel trading, infrastructure and aerospace. However, farm equipment and auto businesses together are the key revenue and profitability drivers, accounting more than 85% of revenue and reported EBIT of the consolidated entity in FY19 (excluding MMFSL). A diversified revenue stream shields the company's consolidated credit profile to an extent against demand variations in individual business divisions.

The demand drivers for auto segment (GDP growth rate, disposable income, fuel prices, level of industrial production, interest rates) are different to that for farm equipment (adequacy of rainfall, interest subvention schemes, cost of labour in rural areas). Thus, the demand cycles for products of the two divisions are independent of each other. Within these two divisions, the company has a wide range of product offerings at various price

points to cater to different customer segments.

Increased Spending towards R&D and Product Development: M&M's sustained strong market position in its major business segments is supported by the launch of platforms and products on a continuous basis, which is backed by its strong research and development (R&D) capability. M&M's spend on R&D has also increased over the past few years (FY19 R&D as percentage of revenue: 4.8%, FY18: 4.0%). Through its R&D facility in Chennai (Mahindra Research Valley), innovation centre in the US and several technological tie-ups, the company is focussing on developing new products across divisions and new platforms across product segments. M&M was also first in India to offer electric cars and is actively participating in the trend of fast-growing electric three-wheeler market.

Strong Financial Profile: Consolidated financial profile (excluding MMFSL) is characterised by low financial leverage and high coverage ratios. In FY19, gross interest coverage (EBITDA/interest expense) was strong at 13.5x (FY18: 14.3x) and net adjusted leverage (adjusted debt net of cash/EBITDAR) was 0.6x (FY18: 0.7x); it is likely to remain at a similar level in FY20. On standalone basis, interest coverage stood at 58.6x in FY19 (FY18: 55.5x); M&M remained net debt free in FY18-FY19.

In FY19, consolidated revenue (excluding MMFSL) grew 12% yoy to INR943.5 billion owing to a 12% yoy growth in the automotive segment and a marginal 2% yoy growth in the farm equipment segment. However, EBITDA margin declined to 8.4% in FY19 (FY18: 9.4%), mainly due to decrease in domestic auto margins and lower profitability at foreign subsidiaries under farm equipment segment. Ind-Ra believes the margins would remain between 8% and 8.5% in FY20. On a standalone basis, the EBITDA margins stood at 12.4% in FY19 (FY18: 12.8%).

Conservative Financial Policy: M&M has consistently maintained low gearing (debt/equity), which stood at 0.1x in FY19 on a standalone basis and 0.4x on consolidated basis (excluding MMFSL). To maintain tight control over gearing, the company explores diverse options for growth such as internal accruals, equity participation and lastly debt in limited amounts. M&M expects capex and investments over FY20-FY22 to be around INR180 billion and would be funded mostly from internal accruals. As a result, Ind-Ra does not expect gearing as well as the net leverage to materially exceed the current levels.

Strong Liquidity: On consolidated basis (excluding MMFSL), M&M reported large positive cash flow from operations of around INR78 billion in FY19 (FY18: INR92 billion). The company expects to fund its capex and investments through internal accruals. It had strong cash balance (including current investments) of INR116.5 billion at FYE19 (FYE18: INR103 billion). In addition, its fund-based facilities stood largely unutilised over the 12 months ended June 2019 as the company has been able to meet its working capital requirement entirely from accruals. Ind-Ra expects its debt repayments over FY20-FY23 to be comfortably funded from cash flow from operations.

UV Volume Growth in FY20-FY21 to be Supported by New Launches: Over the past few years, M&M's market share in UVs fell to 25.0% in FY19 (FY13: around 47.7%), largely on account of intensified competition and the expansion of compact SUV as a sub-segment, with new product launches by other players; and M&M's limited success in this sub-segment. In an attempt to regain its lost market share, the company has been developing new products. It launched three new UV models in 2HFY19, namely Marazzo (multi-purpose vehicle), Alturas G4 (premium SUV) and XUV 300 (a compact SUV). Supported by new launches, M&M's UV volumes remained flat on a year-on-year basis in 1QFY20 compared to a 4.5% yoy decline in industry UV volumes. Launch of petrol and automated manual transmission (AMT) versions will further provide demand momentum in FY21.

The launch of three new models helped M&M regain its market share in the UV segment in 4QFY19 and in May 2019. However, Ind-Ra believes it will be difficult to maintain the same amid new product launches lined up by domestic and foreign players, and reducing life cycles of products in this segment.

Weak Consumer Sentiments, Rural Demand to Affect Volume Growth in FY20: Ind-Ra believes the current subdued auto sales could be a prolonged industry slowdown. Various factors such as increased cost of ownership amid higher fuel and interest costs, higher insurance costs, weak liquidity at non-bank finance companies, revised axle norms and declined rural income are impacting the consumer sentiments negatively. In 1QFY20, domestic industry vehicle sales fell 12.3% yoy. Although Ind-Ra expects 2HFY20 to be relatively better amid festive season and pre-buying due to likely Bharat Stage VI driven price rise from April 2020, the overall vehicle growth for FY20 is likely to be subdued.

Tractor domestic industry sales have declined since 4QFY19 and were down 15.6% yoy in 1QFY20 (FY19: up 10.2% yoy). Although the growth is likely to remain weak in FY20, the tractor penetration and farm mechanisation levels in India are still low. Thus, the agency expects tractor and farm equipment demand growth momentum to continue over medium-to-long term.

Lower Margins at Certain Subsidiaries Drag Metrics: On a standalone basis, M&M reported PBT margin of 11.8% in FY19. Losses in some of its subsidiaries such as Mahindra Electric Mobility Ltd, Peugeot Motorcycles SAS, Ssangyong Motors Company, Mahindra USA Inc and certain other foreign subsidiaries dragged the profit at the consolidated level. Consequently, consolidated PBT margin (excluding MMFSL), was still lower than at the standalone level at 5%. One of M&M's strategies is profitable scaling up of global subsidiaries and has guided to improve the PBIT margin of its key global subsidiaries in the farm equipment space to 5% in three-to-five years.

RATING SENSITIVITIES

Negative: A negative rating action could result from the quantum of capex/investment plans exceeding Ind-Ra's expectations and entailing debt funding, leading to pressure on the key credit metrics. In any case, net leverage (M&M consolidated excluding MMFSL) exceeding 1.5x on sustained basis could result in a rating downgrade.

COMPANY PROFILE

Incorporated in 1945 as an assembly unit, M&M is the flagship company of Mahindra Group. The company is 19.9% owned by promoters.

CONSOLIDATED FINANCIAL SUMMARY (excluding MMFSL)

Particulars	FY19	FY18
Revenue from operations (INR billion)	943.5	842.1
EBITDA (INR billion)	79.6	78.9
EBITDA margin (%)	8.4	9.4
Interest coverage (x)	13.5	14.3
Net adjusted leverage	0.6	0.7
Note: Ind-Ra has arrived at these financials by de-consolidating MMFSL from M&M's consolidated financials.		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	4 June 2018	10 May 2017	26 September 2016
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Non-fund-based limits	Long-term/Short-term	INR4.025	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND A1+	IND A1+
Fund-based/non-fund-based limits	Long-term/Short-term	INR2.500	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	-	-
Fund-based limits	Short-term	INR8.000	IND A1+	IND A1+	-	-
NCDs	Long Term	INR4.750	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

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