Mahindra & Mahindra Ltd.
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REF:NS:SEC:
2nd December, 2020

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: Mahindra & Mahindra Limited: Ratings re-affirmed by CARE Ratings Limited

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Facilities	1402.42	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	38.58	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**1441.00 (Rupees One Thousand Four Hundred and Forty one crore)**		

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

This Press Release has been issued by CARE Ratings Limited today on 2nd December, 2020.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

Mahindra & Mahindra Limited

December 02, 2020

Ratings

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Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mahindra & Mahindra Limited (M&M) continue to reflect its dominant market position in the Indian Tractor industry and Light Commercial Vehicles (LCV) segment along with its diversified product profile. The ratings also favourably factor its strong financial risk profile driven by low leverage, strong debt coverage indicators and high financial flexibility supported by superior liquidity position on back of large un-encumbered liquid investments.

While M&M witnessed some moderation in its sales volume especially in the Commercial Vehicle (CV) segment in FY20 due to confluence of factors like revised axle load norms for heavy commercial vehicles, liquidity crisis in NBFC sector and economic slowdown. The volumes were further impacted in Q4FY20 and Q1FY21 due to transition to BS-VI and impact of COVID-19 pandemic. Nevertheless, it continued to hold market share in some of the key commercial vehicles categories. Ratings also factor in the recovery in sales volumes being witnessed by M&M in the tractor segment and LCV segment in Q2FY21 after muted volumes in Q1FY21.

The rating strengths are tempered by exposure of the company to inherent cyclicality of the automobile industry and increasing competition in Utility Vehicle segment which is mitigated to an extent through diversified business portfolio. The Company is also exposed to risks on account of investments in subsidiaries/ joint ventures; however CARE has taken cognizance of the management's focus to ensure proper capital allocation across group companies.

Rating Sensitivities

Negative Factors:

- *Any large debt funded organic or inorganic investment weakening the financial risk profile.*
- *Significant deterioration in the volumes of automotive segment coupled with significant negative free cash flow generation at the Company level on a sustained basis*

Detailed description of the key rating drivers

Key Rating Strengths

Strong market position:

M&M is the market leader in the tractor segment in India. It holds leadership position in tractor segment since last three decades; it held market share of 41.2% in FY20. However, there was marginal deterioration in the market share to 38.2% in Q2FY21 mainly due to inadequate stock build up in Q1FY21 on account of localized lockdowns especially in Maharashtra and labour migration issues. M&M's market share in the UV segment declined in FY20 to 19.0% (PY: 25.0%) due to new launches being made in the UV segment over the past couple of years by incumbents as well as new entrants. In order to combat competition, M&M had also made some new launches in FY19 which include Marazzo, XUV300 and Alturas G4. On October 2, 2020 it launched the New Thar and received bookings in excess of 20,000 units. M&M continues to have a formidable market share in the CV segment of LCV<3.5T category.

Highly experienced promoters and management:

M&M is the flagship company of the Mahindra group. The Executive Chairman of the company, Mr. Anand Mahindra, has significant experience within the industry and is assisted by team of senior and seasoned professionals like Dr. Pawan Goenka, Managing Director. Dr. Anish Shah who is the Deputy Managing Director has worked across multiple industries, including Banking, Oil Rigs, Paper, Paint, Steam Boilers etc. The group has experience of over 7 decades in the Auto industry and over 5 decades in the Tractor industry in India and has demonstrated its ability to successfully navigate through multiple business cycles. Along with strong competent management team with a long track record in the industry, the company has ensured strong corporate governance practices and a prudent approach to management with a close operational oversight of its group companies.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Stability in the operating performance in FY20 and H1FY21 despite headwinds in the auto industry:
The auto industry has been facing headwinds since H2FY19 due to confluence of factors which include increase in capacity of the commercial vehicles already operating in the market due to revised axle load norms, lack of availability of finance and general economic slowdown. These factors continued to impact the demand for automobiles especially Commercial vehicle segment in FY20 and Q1FY21 as well. Additionally the effect of transition to BS-VI emission norms was felt towards the end of FY20. However, despite the slowdown, M&M on a combined basis has been able to maintain stability in its operating performance as evinced by healthy operating margin of 14.15% in FY20 (PY: 14.25%) and that of 15.31% in H1FY21 (Previous period: 14.05%). Although the volumes declined in H1FY21 due to COVID-19, the operating margins continued to be healthy due to company's ability to exercise tight control over fixed costs.

Robust financial risk profile; albeit marginal deterioration in debt coverage indicators
M&M has a robust debt coverage indicators marked by overall gearing of 0.11x (PY:0.08x) and interest cover of 51.00x (PY: 51.33x) at the end of FY20 when analyzed on a combined basis along with Mahindra Vehicle Manufacturers Ltd (MVML). The leverage ratios of M&M continue to remain strong as evidenced by Total Debt/PBILDT of 0.50x (PY: 0.36x) at the end of March 31, 2020. The marginal decline in the debt coverage indicators was due to lower PBILDT on the back of lower volumes. In H1FY21, the debt coverage declined further due to additional debt availed by M&M to shore up liquidity. Nevertheless, the company continues to maintain negative net debt position. Although the debt coverage indicators are expected to be moderate in FY21, in the medium term, the company would continue to have robust debt coverage indicators with steady growth in operating performance.

Key Rating Weaknesses
Auto business prone to macro-economic factors, inherent cyclicality as well as competition
The CV business of M&M (especially MHCV) is highly correlated with economic cycles and hence displays significant variation in revenues over economic cycles. The passenger vehicle business, although more stable in comparison, is impacted by sentiments of buyers with in turn are influenced by overall state of the economy. CARE Ratings notes that these risks are to an extent mitigated by the relatively more stable sales in the tractor segment, where the key demand driver is the level of rural incomes which in turn is tied to adequacy of rainfall and farm output.
M&M has been adversely impacted by the significant increase in competition especially in the UV segment, especially with the introduction of compact SUVs by competitors, and has therefore witnessed significant reduction in its market share. In order to combat this, the company has already made some new launches in FY19 and has launched the Thar refresh model in current year. It also has a pipeline of new models to be launched in the course of next couple of years. CARE Ratings believes that while new models launches will help the company boost volumes, over the long term, M&M would continue to be exposed to the intense competition in the auto sector.

Liquidity: Strong
M&M+MVML has strong liquidity on a combined basis as evinced by cash profit of over Rs.5300 crore expected to be earned in FY21 against which M&M+MVML has long term and short term repayment obligations (including Commercial Paper) to the tune of Rs.3,599 crore (of which Rs.1,085 crore has been paid of till H1FY21). Further, M&M had cash and cash equivalents and current investments of Rs.14,016.82 crore as on September 30, 2020 and its fund based working capital limits are largely unutilized. On a net debt basis, it continues to be negative. The strength of the liquidity profile of the company is also seen from the fact that it did not avail moratorium as per RBI notification dated March 27, 2020.

Analytical approach: Consolidated
CARE has taken a combined approach for arriving at the ratings of M&M. CARE has combined the business and financial risk profiles of M&M (Standalone; Automotive segment) and its wholly owned subsidiary Mahindra Vehicle Manufacturers Limited (MVML) which manufactures utility vehicles (UVs), and commercial vehicles. The combined view has been taken as MVML is a wholly owned subsidiary of M&M and both the companies are in the same line of business. Further, MVML is also in the process of being merged with M&M. CARE has also factored in the support required to be extended by M&M (combined entity) to its group companies.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector

[Rating Methodology - Manufacturing Companies](#)
[Rating Methodology - Commercial Vehicle Industry](#)

About the Company
Incorporated in 1945, Mahindra & Mahindra Limited (M&M) is the flagship company of the Mahindra group. The group, via various subsidiaries and joint ventures, is present in 20 industries, across 10 sectors. Its core businesses include manufacture of Auto [Passenger Vehicles (PV) {Utility Vehicles (UVs), passenger cars], Commercial Vehicles (CV) [Light Commercial Vehicles (LCV), pick-ups, Medium & Heavy Commercial Vehicles (MHCV)}, three-wheelers, two-wheelers etc.], Farm Equipment (tractors and other farm equipment) etc. M&M enjoys a dominant position in its leading business segments. It is the largest tractor company in India with a market share of 41.2% in tractor segment in India in FY20.

Brief Financials (Rs. crore) M&M (Combined)	FY19 (UA)	FY20 (UA)	H1FY21 (UA)
Total operating income	52,848.21	44,865.52	17,179.75
PBILDT	7,530.06	6,350.56	2,630.49
PAT	5,401.18	739.71	229.54
Overall gearing (times)	0.08	0.11	-
Interest coverage (times)	51.33	51.00	13.51

A: Audited, UA=Un-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	38.58	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	151.95	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	August 2025	1250.00	CARE AAA; Stable
Fund-based - LT-Proposed	-	-	-	0.47	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	38.58	CARE A1+	-	1)CARE A1+ (07-Jan-20) 2)CARE A1+ (05-Apr-19)	1)CARE A1+ (05-Apr-18)	1)CARE A1+ (28-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	151.95	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Jan-20) 2)CARE AAA; Stable (05-Apr-19)	1)CARE AAA; Stable (05-Apr-18)	1)CARE AAA; Stable (28-Apr-17)
3.	Fund-based - LT-Term Loan	LT	1250.47	CARE AAA; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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