**Mahindra & Mahindra Ltd.**
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REF:NS:SEC:
10th 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 reaffirmed; rated amount enhanced**

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Non-convertible Debenture Programme | 1500.0 | 1500.0 | [ICRA]AAA (Stable); reaffirmed |
| Long-term Loans | – | 1800.0 | [ICRA]AAA (Stable); assigned |
| Long-term, Fund-based Facilities | 65.0 | 15.25 | [ICRA]AAA (Stable); reaffirmed |
| Long-term, Non-fund Based Facilities | 110.0 | 57.50 | [ICRA]AAA (Stable); reaffirmed |
| Short-term, Non-fund Based Facilities | 350.0 | 350.0 | [ICRA]A1+; reaffirmed |
| **Total** | **2025.0** | **3722.75** | |

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

This Press Release has been issued by ICRA Limited today on 10th December, 2020.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

December 10, 2020

# Mahindra & Mahindra Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Non-convertible Debenture Programme | 1500.0 | 1500.0 | [ICRA]AAA (Stable); reaffirmed |
| Long-term Loans | - | 1800.0 | [ICRA]AAA (Stable); assigned |
| Long-term, Fund-based Facilities | 65.0 | 15.25 | [ICRA]AAA (Stable); reaffirmed |
| Long-term, Non-fund Based Facilities | 110.0 | 57.50 | [ICRA]AAA (Stable); reaffirmed |
| Short-term, Non-fund Based Facilities | 350.0 | 350.0 | [ICRA]A1+; reaffirmed |
| **Total** | **2025.0** | **3722.75** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings reflect the strong financial profile of Mahindra & Mahindra Limited (M&M), 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 as well as liquid investments. The ratings favourably factor in the complementary performance of the farm equipment (FES) and automotive (auto) segments of M&M and Mahindra Vehicle Manufacturers Limited (MVML, 100% subsidiary of M&M), which has provided stability to the overall profitability despite cyclical performances in the respective segments over the last several years. M&M+MVML enjoy 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 are significantly higher than the book value, providing additional cushion to M&M+MVML's overall financial flexibility. The ratings factor in the decline in M&M's domestic passenger vehicles (PV) and commercial vehicles (CV) volumes, which have witnessed industry-wide headwinds during FY2020 and the current year.

M&M has maintained its dominant position in the domestic tractor industry. ICRA believes that the 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, M&M has acquired several entity/ies in Turkey and Finland during the last two to three years, in addition to having its operations through subsidiaries in India and abroad. These overseas entities reported subdued performances and have remained a drag on the overall profitability. Thus, while M&M's FES has reported healthy profit before interest and tax (PBIT) margin of 19.0% in FY2020 and 22.8% in H1 FY2021, the PBIT margin was relatively modest at 10.8% and 15.8% at a consolidated level in FY2020 and H1 FY2021, respectively, due to muted performance in these acquired subsidiaries. ICRA notes that M&M has taken impairment in some of the subsidiaries in FY2020 and H1 FY2021. While the near-term performance of these subsidiaries is likely to remain under pressure, M&M's management is working on turnaround plans of these subsidiaries, the benefits of which will be reflected over the medium term.

In the domestic utility vehicles (UV) business, the increasing competition resulted in a steady decline in the company's market share over the last five years—to 19.0% in FY2020 and further to 15.0% in H1 FY2021. ICRA notes that M&M has new product launches in pipeline. Furthermore, its joint venture (JV) with Ford Motor Company Inc., USA (FMC) is 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 reduction 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 credit negative.

The performance of M&M's South Korean subsidiary—Ssangyong Motor Company (Ssangyong)—deteriorated further in CY2019 owing to slowdown in exports. This resulted in M&M providing for impairment of its investments in Q3 and Q4 FY2020. M&M has also decided to restrict its additional equity participation in Ssangyong only to KRW 40 billion.

M&M+MVML reduced its guidance of capital expenditure (capex) for FY2021 by ~10-15%. Thus, ICRA estimates FY2021 capex for M&M+MVML to be ~Rs. 3,500 crore. It further curtailed its capex guidance for FY2022 to FY2024 to Rs. 9,000 crore from Rs. 12,000 crore. While the management has not provided any guidance on its investment plans, ICRA expects the same to be higher in FY2021 than the past because of subscription towards rights issue of Mahindra & Mahindra Financial Services Limited (MMFSL). Although the planned investments are large, steady cash flow generation from its core business, along with 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 remains superior, supported by its large (around Rs. 14,017 crore) cash balance and liquid investments as on September30, 2020). ICRA notes that it has drawn additional debt in H1 FY2021 so as to maintain a robust liquidity profile. Thus, its total debt increased to Rs. 11,186.9 crore as on September 30, 2020 from Rs. 3,492.8 crore as on March 31, 2020. However, ICRA draws comfort from the management's indication of prepaying some of this debt in the near term. ICRA notes the tighter capital allocation norms laid out by the company such that it will continue to support those entities, which have a clear path to 18% return on equity (RoE) and those that have a delayed or unclear path to profitability but a quantifiable strategic impact and exit those with unclear path to profitability.

While ICRA draws comfort from M&M+MVML'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+MVML's UV portfolio through new product launches amid the increasing competition, 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 its healthy accruals and superior liquidity.

## Key rating drivers and their description

### Credit strengths

**Strong position in domestic tractor industry with established rural franchise; diversified automotive company –** M&M has a dominant market share in the domestic tractor industry. After regaining its market share in FY2020, the company lost some market share in H1 FY2021 on account of supply side issues. ICRA believes that the 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 automotive business, M&M is amongst the top three CV and UV original equipment manufacturers (OEMs) in India with a strong position in pick-ups (2T-3.5T) segment and large UV segment.

**Healthy credit profile, supported by robust cash surplus resulting in healthy liquidity –** M&M+MVML's credit profile remains strong supported by low leverage and robust cash accruals. As on September 30, 2020, it had cash and liquid investments to the tune of ~Rs. 14,017 crore. ICRA notes that the company has drawn an additional debt in H1 FY2021 so as to maintain a robust liquidity profile. Thus, its total debt increased to Rs. 11,186.9 crore as on June 30, 2020 from Rs. 3,492.8 crore as on March 31, 2020. However, ICRA draws comfort from the management's indication of prepaying some of this debt in the near term.

**Inherent value in some of its businesses, with potential to generate cash flows through stake sale for the Group –** M&M+MVML enjoy a large investment portfolio, consisting of its Group entities, some of which are listed in the stock markets. These businesses are spread across sectors such as financial services, information technology (IT), infrastructure and hospitality. The market values of these quoted investments are significantly higher than the book value, providing additional cushion to M&M+MVML's overall financial flexibility.

## Credit challenges

**Stiff competition in core automotive business impacting market share, could also result in weak pricing scenario, 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+UVC segment, which drove over 81% of total domestic UV sales in H1 FY2021) resulted in a steady decline in M&M's market share in the UV segment to 15% in H1 FY2021. ICRA believes that an improvement in its market share is challenging amid the successful launches by its competitors, though some support can be provided by the recently launched New Thar. 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 amid significant medium-term investments remains crucial –** M&M+MVML reduced its guidance of capex for FY2021 by ~10-15%. Thus, ICRA estimates FY2021 capex for M&M+MVML to be ~Rs. 3,500 crore. It further reduced its capex guidance for FY2022 to FY2024 to Rs. 9,000 crore from Rs. 12,000 crore. While the management has not provided any guidance on its investment plans, ICRA expects the same to be higher in FY2021 than in the past on account of its subscription towards rights issue of MMFSL. 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 mitigates the risk.

**Achieving turnaround of loss-making businesses / subsidiaries remains a challenge –** In the M&HCV business, M&M has been able to significantly reduce breakeven level post its merger into M&M. Given the sharp headwinds in the industry, M&M's M&HCV business will be operating below the breakeven level in FY2021. However, relatively better performance in 2T-3.5T segment should help the domestic CV business to maintain profitable operations in FY2021. Furthermore, the two-wheeler business is a drag on the overall profitability. M&M has 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. The performance of Ssangyong deteriorated further in CY2019 due to slowdown in exports. This resulted in M&M providing for impairment of its investments in Q3 and Q4 FY2020. M&M has decided to restrict its additional equity participation in Ssangyong only to KRW 40 billion. M&M's overseas entities in FES reported subdued performances and are likely to add to the company's profitability going forward. It has also taken certain impairments in these entities. Achieving turnaround of these loss-making businesses / subsidiaries is a challenge. However, ICRA notes the tighter capital allocation norms laid out by the company such that it will continue to support those entities, which have a clear path to 18% RoE and those that have a delayed or unclear path to profitability but a quantifiable strategic impact. It plans to exit those with an unclear path to profitability.

## Liquidity position: Superior

Driven by modest operating profitability and negative working capital cycle, M&M+MVML's liquidity position is **superior**, characterised by sizeable cash balance and liquid investments (of ~Rs. 14,017 crore) as on September 30, 2020. ICRA notes that the company has drawn additional debt in H1 FY2021 and would be prepaying some of this debt in the near term. Thus, its liquidity profile would moderate going forward. Nonetheless, the same will remain superior despite the estimated capex of Rs. 3,500 crore in FY2021, planned capex of Rs. 9,000 crore over FY2022-FY2024, and the increased investment plans over the near term, supported by steady cash flow generation from core business and the financial flexibility enjoyed by the Group. ICRA draws comfort from the management's intent to maintain a steady-state liquidity of ~Rs. 5,000-6,000 crore. M&M+MVML have a large investment portfolio, consisting of its Group entities, some of which are 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+MVML'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+MVML's capital structure as well as debt coverage indicators because of debt-funded capex and investments or any large inorganic acquisition. Material decline in M&M+MVML'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<br>Rating Methodology for Passenger Vehicle Manufacturers<br>Rating Methodology for Tractor Industry<br>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, due to their strong operational, financial and managerial linkages. ICRA has also considered the funding support likely to be extended by M&M+MVML to its major investee companies (including MMFSL). |

## 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, PVs, CVs, 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 PV manufacturers in India. Through its subsidiaries and Group companies, M&M has 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 FY2020, automotive and farm equipment businesses accounted for around 51.1% and 22.2%, respectively, of M&M's business—the other major contributors being financial services (12.4%), hospitality (2.5%) and real estate (0.7%).

For the six months that ended in September 30, 2020, M&M+MVML reported a profit after tax (PAT) of Rs. 229.5 crore on an operating income (OI) of Rs. 17,179.8 crore.

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

| | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 52,848.2 | 44,865.5 |
| PAT (Rs. crore) | 5,401.2 | 739.7 |
| OPBDIT/ OI (%) | 14.2% | 14.2% |
| PAT / OI (%) | 10.2% | 1.6% |
| | | |
| Total Debt/ TNW (times) | 0.08 | 0.10 |
| Total Debt/ OPBDIT (times) | 0.39 | 0.55 |
| Interest Coverage (times) | 51.3 | 51.0 |

*Source: Mahindra & Mahindra Limited*

## Status of non-cooperation with previous CRA: None

## Any other information: None

## Rating history for last three years

| | Instrument | Rating (FY2021) | | | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore)* | Current Rating | Earlier Rating | | Date & Rating in FY2020 | | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | 10-Dec-2020 | 31-Aug-2020 | 13-Apr-2020 | 07-Oct-2019 | 29-Jul-2019 | 29-Jun-2018 | 22-May-2017 |
| 1 | Non-Convertible Debenture Programme | Long-term | 1500.0 | 1500.0 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 2 | Fund-based Facilities | Long-term | 15.25 | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 3 | Non-fund Based Facilities | Long-term | 57.50 | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 4 | Non-fund Based Facilities | Short-term | 350.0 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 5 | Fund-based / Non-fund Based Facilities | Long-term / Short-term | - | - | - | - | - | - | - | - | [ICRA]AAA (Stable) / [ICRA]A1+ |
| 6 | Term Loan | Long-term | 1800.0 | 1800.0 | [ICRA]AAA (Stable) | - | - | - | - | - | - |

**As on September 30, 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 click here

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE101A08096 | Non-Convertible Debenture Programme | Apr-2020 | 6.65% | Apr-2023 | 1000.0 | [ICRA]AAA (Stable) |
| INE101A08070 | Non-convertible Debenture Programme | Jul-2013 | 9.55% | Jul-2063 | 500.0 | [ICRA]AAA (Stable) |
| NA | Term Loan 1 | May-2020 | 6.15% | May-2023 | 1000.0 | [ICRA]AAA (Stable) |
| NA | Term Loan 2 | May-2020 | 6.50% | May-2025 | 800.0 | [ICRA]AAA (Stable) |
| NA | Fund-based Facility 1 | NA | NA | NA | 15.25 | [ICRA]AAA (Stable) |
| NA | Non-fund Based Facility 1 | NA | NA | NA | 15.0 | [ICRA]AAA (Stable) |
| NA | Non-fund Based Facility 2 | NA | NA | NA | 6.25 | [ICRA]AAA (Stable) |
| NA | Non-fund Based Facility 3 | NA | NA | NA | 6.25 | [ICRA]AAA (Stable) |
| NA | Non-fund Based Facility 4 | 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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## 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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