Mahindra & Mahindra Ltd.
Mahindra Towers,
Dr. G. M. Bhosale Marg, Worli,
Mumbai 400 018 India

Tel: +91 22 24901441
Fax: +91 22 24975081

REF:NS:SEC:
31st August, 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: Rating reaffirmed

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, Fund-based Facilities	65.0	65.0	[ICRA]AAA (Stable); reaffirmed
Long-term, Non-fund Based Facilities	110.0	110.0	[ICRA]AAA (Stable); reaffirmed
Short-term, Non-fund Based Facilities	350.0	350.0	[ICRA]A1+; reaffirmed
Total	**2025.0**	**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 31st August, 2020.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

August 31, 2020

Mahindra & Mahindra Limited: Rating reaffirmed

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, Fund-based Facilities	65.0	65.0	[ICRA]AAA (Stable); reaffirmed
Long-term, Non-fund Based Facilities	110.0	110.0	[ICRA]AAA (Stable); reaffirmed
Short-term, Non-fund Based Facilities	350.0	350.0	[ICRA]A1+; reaffirmed
Total	**2025.0**	**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 (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+MVML 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 are significantly higher than the book value, providing additional cushion to M&M+MVML's overall financial flexibility. The ratings also 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 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, in addition to having its operations through subsidiaries in India and abroad. These overseas entities have reported subdued performances and have remained a drag on overall profitability. Thus, while M&M's FES has reported healthy profit before interest and tax (PBIT) margin of 19.0% during FY2020 and 20.4% during Q1 FY2021, the PBIT margin was relatively modest at 10.8% at a consolidated level in FY2020 due to subdued performance in these acquired subsidiaries and certain impairments taken in these entities. While 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 UV business, the increasing competitive pressures have resulted in a steady decline in the company's market share over the last five years—to 19.0% during 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 credit 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. Given sharp headwinds in the industry, ICRA expects that M&M's M&HCV business will be operating below breakeven level in FY2021; though, relatively better performance in 2T-3.5T segment should help domestic CV business to maintain profitable operations in FY2021.

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)—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 also decided to restrict its additional equity participation in Ssangyong only to KRW 40 billion.

M&M+MVML has 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 has 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 because of its commitment towards rights issue of Mahindra & Mahindra Financial Services Limited (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 mitigate the risk. The company's (i.e., M&M+MVML) liquidity position remains superior, supported by its large (around Rs. 12,043 crore) cash balance and liquid investments as on June 30, 2020). ICRA notes that the company has drawn additional debt during Q1 FY2021 so as to maintain a robust liquidity profile. Thus, the total debt for M&M+MVML increased to Rs. 9,968.1 crore as on June 30, 2020 from Rs. 3,492.8 crore as on March 31, 2020. However, ICRA draws comfort from the management indication of prepaying some of this debt in the near term. ICRA also 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 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 regaining its market share during FY2020, the company lost 2.1% in Q1 FY2021 on account of supply side issues. 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 19.0% during 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 65.3% (+237bps YoY) in the 2-3.5T (goods) segment during FY2020.

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 June 30, 2020, M&M+MVML had cash and liquid investments to the tune of ~Rs. 12,043 crore. ICRA notes that the company has drawn additional debt during Q1 FY2021 so as to maintain a robust liquidity profile. Thus, the total debt for M&M+MVML increased to Rs. 9,968.1 crore as on June 30, 2020 from Rs. 3,492.8 crore as on March 31, 2020. However, ICRA draws comfort from the management 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 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 are significantly higher than the book value, providing additional cushion to M&M+MVML's overall financial flexibility.

Credit challenges

Growing competitive pressures 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 segment, which drove over 77% of total domestic UV sales in FY2020) resulted in a steady decline in M&M's market share in the UV segment to 19.0% in 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 – M&M+MVML has 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 has 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 commitment 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 mitigate 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 sharp headwinds in the industry, M&M's M&HCV business will be operating below breakeven level in FY2021; though, relatively better performance in 2T-3.5T segment should help domestic CV business to maintain profitable operations in FY2021. 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 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 also decided to restrict its additional equity participation in Ssangyong only to KRW 40 billion. M&M's overseas entities in FES have reported subdued performances and are likely to add to the company's profitability going forward only. The company 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 and exit those with 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, as characterised by sizeable cash balance and liquid investments (of ~Rs. 12,000 crore) as on June 30, 2020. ICRA notes that the company has drawn additional debt during Q1 FY2021 and would be prepaying some of this debt in the near term. Thus, the liquidity profile of the company 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 also draws comfort from the management intent to maintain a steady-state liquidity of ~Rs. 5,000-6,000 crore. M&M+MVML 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+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 and debt coverage indicators because of debt-funded capex and investments or any large in-organic 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 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, 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, 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 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 three months ended June 30, 2020, M&M+MVML reported a profit after tax (PAT) of Rs. 67.8 crore on an operating income (OI) of Rs. 5,589.4 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	Type	Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Current Rating	Earlier Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					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)
2	Fund-based Facilities	Long-term	65.0	-	[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	110.0	-	[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+
5	Fund-based / Non-fund Based Facilities	Long-term / Short-term	-	-	-	-	-	-	-	[ICRA]AAA (Stable) / [ICRA]A1+

**As on June 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 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
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	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

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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Hyderabad	+ (91 40) 2373 5061/7251
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