

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: India Ratings and Research Private Limited Assigns Mahindra & Mahindra's Additional Bank Facilities 'IND AAA'; Affirms Existing Ratings

Instrument Type	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	INR 14.750	IND AAA/Stable	Affirmed
Non-fund-based limits	INR 4.025	IND AAA/Stable/IND A1+	Affirmed
Fund-based/Non-fund-based	INR 2.500	IND AAA/Stable/IND A1+	Affirmed
Fund-based limits	INR 8.000	IND A1+	Affirmed
Fund-based/non-fund-based	INR 0.5	IND AAA/Stable/IND A1+	Assigned
Non-fund based	INR 0.15	IND AAA/Stable/IND A1+	Assigned
Fund based	INR 7.5	IND A1+	Assigned

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 10th December, 2020.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED



NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

India Ratings Assigns Mahindra & Mahindra's Additional Bank Facilities 'IND AAA'; Affirms Existing Ratings

10

DEC 2020

By Tej Karan Singh

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	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR14.750	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
Fund-based/non-fund-based				INR0.5	IND AAA/Stable/IND A1+	Assigned
Non-fund based				INR0.15	IND AAA/Stable/IND A1+	Assigned
Fund based				INR7.5	IND A1+	Assigned

* Details in annexure

Analytical Approach : Ind-Ra continues to take a consolidated view of M&M and its subsidiaries while arriving at the rating, because of the moderate strategic, operational and legal linkages among them, after excluding its financial services subsidiary – Mahindra & Mahindra Financial Services Ltd (MMFSL; 'IND AAA'/Stable).

KEY RATING DRIVERS

Strong Market Position in Key Segments: M&M has maintained its leadership position in the domestic tractor market, with around 38.6% market share in terms of volumes in 1HFY21 (FY20: 41.2%). The decline in market share was mainly due to supply-related disruptions amid COVID-19 led lockdown across the nation as well as extended lockdowns in Maharashtra where majority of the supplier base of M&M concentrates. The management expects the market share to recover to historical levels as the supply chain issues resolve, driven by its pan-India presence and new product launches (including XP plus series in 1HFY21).

The company is also the number one player in the light commercial vehicle (goods carriers; LCV) segment with around 42.7% market share in 1HFY21 (FY20: 42.8%).

Diversified Business Profile: M&M has a diversified business profile with presence across segments including farm equipment, auto & automotive components, defence, information technology, financial services, mobility services, hospitality, steel trading, infrastructure. However, farm equipment and auto businesses together are the key revenue and profitability drivers, accounting for over 85% of revenue and EBITDA of the consolidated entity (excluding MMFSL). The diversified revenue stream shields the company's consolidated credit profile to an extent against demand variations in the 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. This was witnessed during April to November 2020, as tractor volumes increased by 6% yoy to 0.24 million units, driven by a strong rural demand and timely central government initiatives for the farming community in the form of specific relief packages, whereas the automotive segment volumes declined by 39% yoy to 0.21 million units. Within these two divisions, the company has a wide range of product offerings at various price points to cater to different customer segments.

Conservative Financial Policy and Tightened Capital Allocation: M&M has consistently maintained a low gearing ratio (debt/equity). The standalone ratio was 0.3x in 1HFY21 (FY20: 0.1x) and the consolidated ratio (excluding MMFSL) was 0.6x (0.6x). With the intent of creating value for stakeholders, the company has tightened its capital allocation policy and is evaluating all its international investments on criteria such as financial returns and strategic benefit. As a part of the same strategy, M&M has curtailed further investments in SsangYong Motor Company (SsangYong) and announced its intent to divest its stake. The company is also exiting from its operations at Mahindra Tractor Assembly Inc. (GenZe) and Gipps Aero Pty Ltd.

Strong Financial Profile: M&M's financial profile (consolidated, excluding MMFSL) is characterised by low financial leverage and high coverage ratios. In FY20, the gross interest coverage (operating EBITDA/gross interest expense) remained strong at 8.3x (FY19: 13.5x). The net adjusted leverage (adjusted debt net of cash/EBITDA) was 1.4x (0.6x) similarly. The decline in credit profile was largely on account of lower EBITDA levels amid the slowdown in the automotive and farm equipment sector.

To boost liquidity amid the COVID-19 pandemic, M&M raised debt in 1HFY21, leading to higher interest costs. Accordingly, Ind-Ra expects M&M's interest coverage to decline, but remain strong, at 5.5x-6.5x in FY21. The net leverage could remain at 1.2x-1.7x. Driven by the expected recovery in operations 2HFY21 onwards, Ind-Ra expects the FY22 credit profile to be stronger than FY20's.

Liquidity Indicator- Superior: M&M had a strong consolidated cash balance (including current investments; ex MMFSL) of INR90.9 billion in FY20 (FY19: INR115.5 billion). The utilisation of its total fund-based facilities of INR11.5 billion stood at 67% for the 12 months ended September 2020.

On ex-MMFSL basis, M&M's cash flow from operations dropped to INR19 billion for FY20 (FY19: INR78 billion) primarily due to lower profitability. This led to negative free cash flow (FCF) of INR56 billion in FY20 (FY19: negative INR1 billion). The company incurred capex of INR67 billion in FY20 (FY19: INR71 billion). On a standalone level, the company plans to incur INR34 billion in FY21 and INR90 billion over FY22-FY24, largely for new product development and maintenance capex. Over FY19-FY20, the standalone capex accounted for 43%-59% of consolidated capex ex MMFSL.

Ind-Ra expects the cash flow from operations for FY21 to be INR20 billion-25 billion, and to recover to the FY19 levels of around INR80 billion in FY22-FY23 on the back of a recovery in the operational performance. FCF is likely to be negative INR10 billion-15 billion in FY21. Furthermore, during 1HFY21, M&M invested INR19 billion into subsidiaries including INR16.4 billion in a rights issue of MMFSL. FCF is likely to turn positive only in FY22.

Additionally, the company raised borrowings of INR75 billion in 1HFY21: short-term loans of INR10 billion (to be repaid in FY22), commercial paper of INR10 billion (to be repaid in 2HFY21), long-term loans of INR30 billion and INR25 billion through NCDs. The agency estimates FCF for FY21-FY23, along with the cash balances and debt raised in 1HFY21, to be sufficient to finance the debt repayments and dividend pay-outs over FY21-FY23. On factoring in a support worth approximately 20% of MMFSL's debt, the company's liquidity ratio as per Ind-Ra's calculation stood at around 1.0x. The company also has established access to the domestic banking system and debt capital markets.

The company did not avail the Reserve Bank of India-prescribed debt moratorium.

Operating Performance to be Impacted in FY21; Recovery Likely from FY22: In FY20, the consolidated revenue (excluding MMFSL) declined to INR832 billion (FY19: INR943 billion), while the consolidated EBITDA declined to INR56 billion (INR80 billion). During FY20, M&M's automotive segment's volumes declined by 22% to 0.47 million units, largely in line with industry level decline of 18%. While tractor sales declined by 9% to 0.30 million units in FY20, industry sales volume dropped 10%.

The sales volumes also were impacted significantly in 1QFY21 amid disruptions caused by the nationwide lockdowns and supply chain issues. As the supply chain has normalised and the demand in the auto sector is picking up since August 2020, Ind-Ra believes the operating performance in 2HFY21 would be better than 1HFY21's. Moreover, the tractor segment is showing a strong recovery due to improved rural income. FY22 is likely to be sequentially better.

Standalone Financials: The operating revenues declined to INR455 billion in FY20 (FY19: INR536 billion) and EBITDA stood at INR58 billion (INR67 billion). For 1HFY21 operating revenues stood at INR173 billion and EBITDA at INR24 billion. The company was net debt negative for FY20 (FY19: net debt negative) and interest coverage remained strong in 1HFY21 at 13.9x (FY20: 51.2x, FY19: 58.6x).

Declining Market Share in UV segment: In utility vehicles (UVs), M&M's market share has been declining, and stood at around 15% in 1HFY21 (FY20: 19%; FY19: 25%), largely on account of intensified competition and the expansion of compact SUV as a sub-segment, with successful product launches by competitors, and M&M's limited success in this sub-segment. Moreover, M&M has a high share of diesel portfolio (>90% of its volumes) and its cost of ownership has significantly increased (around 10%) in complying BS-VI norms.

As per the management, the company is reorienting its UV business with new launches over the next 12 to 18 months of multi-UV such as Thar launched in October 2020 and new variants of Scorpio, XUV500 (cross-over Sports UV), as well as electric vehicles such as e-KUV 100, e-XUV 300. Ind-Ra does not expect M&M's market share to reach historical levels amid new product launches by peers and reducing life cycles of products in this segment.

Furthermore, M&M has entered into a joint venture (JV;51% stake) with Ford Motor Company Inc. to develop, market and distribute Ford brand vehicles in India and both Mahindra and Ford brand vehicles in high growth emerging markets, boosting M&M's product portfolio in the passenger vehicle segment and distribution in the export markets. This will also help in lowering costs through synergies and jointly developed platforms.

Lower Margins at Certain Subsidiaries Drag Metrics: On a standalone level, M&M reported a PBT margin of 9.7% in 1HFY21 (before exceptional items; FY20: 11.3%). Losses at some of its subsidiaries such as Ssangyong, Mahindra USA Inc. dragged the profit at the consolidated level. Consequently, the consolidated PBT margin (before exceptional items; excluding MMFSL) was lower than the standalone level at negative 0.8% (FY20: 2.5%).

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 19.6% owned by promoters. M&M's business is diversified across farm equipment, auto and automotive components, real estate, hospitality, defence and aerospace and financial services. Furthermore, M&M has significant market share in the light commercial vehicle, tractors and UV space.

CONSOLIDATED FINANCIAL SUMMARY (excluding MMFSL)

Particulars	FY20	FY19
Revenue from operations (INR billion)	833.0	943.5
EBITDA (INR billion)	55.8	79.6
EBITDA margin (%)	6.7	8.4
Interest coverage (x)	8.0	13.5
Net adjusted leverage (x)	1.4	0.6
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	Size of Issue (billion)	Rating/Outlook	20 April 2020	13 August 2019	4 June 2018
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
NCDs	Long-term	INR14.750	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Non-fund-based limits	Long-term/Short-term	INR4.175	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Fund-based/Non-fund-based	Long-term/Short-term	INR3.000	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+
Fund-based limits	Short-term	INR15.500	IND A1+	IND A1+	IND A1+	IND A1+

ANNEXURE

ISIN	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
INE101A08088	September 2016	7.57%	September 2026	INR4.750	IND AAA/Stable
INE101A08104	April 2020	6.78%	April 2023	INR10.000	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

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ABOUT INDIA RATINGS AND RESEARCH

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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

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