Mahindra

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REF:NS:SEC:
22nd September, 2021

National Stock Exchange of India Limited
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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 Sirs,

Sub: India Ratings and Research Private Limited Affirms Mahindra & Mahindra & its NCDs at 'IND AAA'; Outlook Stable

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 3.525 (reduced from INR 4.025)	IND AAA/Stable/IND A1+	Affirmed
Fund-based limits	INR 8.65 (reduced from INR 15.5)	IND A1+	Affirmed
Fund-based/Non-fund-based limits	INR 10.5 (increased from INR 3)	IND AAA/Stable/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 22nd September, 2021.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

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

Ind-Ra-Gurugram-22 September 2021: 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	-	-	-	INR3.525 (reduced from INR4.025)	IND AAA/Stable/IND A1+	Affirmed
Fund-based limits	-	-	-	INR8.65 (reduced from INR15.5)	IND A1+	Affirmed
Fund-based/non-fund-based limits	-	-	-	INR10.5 (increased from INR3)	IND AAA/Stable/IND A1+	Affirmed

* Details in annexure

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

KEY RATING DRIVERS

Strong Market Position in Key Segments: M&M has maintained its leadership position in the domestic tractor market with around 40.7% market share in terms of volumes during April-August 2021 (FY21: 38.2%, FY20: 41.2%). The decline in market share in FY21 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 company's market share recovered during April-August 2021, as the supply chain issues resolved.

M&M is also the number one player in the light commercial vehicle (goods carriers; LCV) segment with around 46.2% market share in 1QFY22 (FY21: 38.6%, FY20: 42.8%). The decline in market share in FY21 was mainly on account of prioritisation towards production of passenger vehicles amid continued supply chain challenges.

Diversified Business Profile: M&M has a diversified business profile with presence across segments including farm equipment, auto and automotive components, defence, information technology, financial services, mobility services, hospitality, steel trading and infrastructure. However, farm equipment and auto businesses together are the key revenue and profitability drivers, accounting for over 81% and 96% of revenue and EBITDA, respectively, of the consolidated entity (excluding MMFSL) in FY21. 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 (Gross Domestic Product 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 in FY21 when the company's tractor volumes increased 18% yoy, 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 26% yoy. 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; Tightened Capital Allocation: M&M has consistently maintained a low gearing ratio (debt/equity). The standalone ratio was 0.2x in FY21 (FY20: 0.1x) and the consolidated ratio (excluding MMFSL) was 0.4x (0.4x). With the intent of creating value for stakeholders, the company has tightened its capital allocation policy and continues to evaluate all its investments on criteria such as financial returns and strategic benefit. As a part of the same strategy, M&M had identified its investments in SsangYong Motor Company (SsangYong) , Mahindra Tractor Assembly Inc. (GenZe) and Gipps Aero Pty Ltd for exit strategy.

Strong Financial Profile: M&M's financial profile (consolidated, excluding MMFSL) is characterised by low financial leverage and high coverage ratios. In FY21, the gross interest coverage (operating EBITDA/gross interest expense) remained strong at 9.7x (FY20: 10.0x). The net adjusted leverage (adjusted debt net of cash/EBITDA) was 0.3x (1.3x). The improvement in credit profile was largely on account of higher EBITDA levels as well as relatively lower capex and dividend pay-outs. Ind-Ra expects M&M's credit metrics in FY22-FY23 to remain at FY21 levels on account of recovery in the overall auto sector.

Operating Performance to be Impacted in FY21; Recovery Likely from FY22: The consolidated revenue (excluding MMFSL) declined marginally to INR622 billion in FY21 (FY20: INR635 billion), as the decline in auto segment was largely offset by an uptick in farm equipment segment. However, the EBITDA and EBITDA margins increased to INR77 billion and 12.4% (INR63 billion, 9.9%), respectively, as the company exited from certain loss-making businesses as well as cost reduction measures undertaken by the company.

Although the second wave of COVID-19 had impacted industry volumes to an extent in 1QFY22 (on a sequential basis), the volumes picked up after the lifting of state-wise restrictions. Ind-Ra believes despite supply chain issues, the company's revenue will increase 14%-16% year on year, supported by recovery in the auto industry as well new launches by the company. While M&M has undertaken price hike for its products in both passenger vehicle and commercial vehicle segments, the continuously increasing input cost could restrict margins to 10%-11% in FY22.

Standalone Financials: The operating revenue was INR450 billion in FY21 (FY20: INR455 billion) and EBITDA was INR65 billion (INR58 billion). For 1QFY22, the operating revenue stood at INR118 billion and EBITDA at INR16 billion. The company remained net debt negative in FY21 (FY20: net debt negative) and interest coverage (operating EBITDA/gross interest expense) remained strong at 17.5x (FY20: 51.2x).

Liquidity Indicator- Superior: M&M had a strong consolidated cash balance (including current investments; excluding MMFSL) of INR136.2 billion at FYE21 (FYE20: INR90.9 billion). The utilisation of its total fund-based facilities of INR30.8 billion stood low at 22% for the 12 months ended June 2021.

Excluding MMFSL, M&M's cash flow from operations increased to INR121 billion in FY21 (FY20: INR20 billion), primarily due to improved profitability and reduction in working capital requirements. Moreover, lower capex of INR59 billion in FY21 (FY20: INR68 billion) and dividend pay-out of INR2.7 billion (INR8.8 billion), helped in generating positive free cash flow of INR59 billion in FY21 (negative INR56 billion).

On a standalone level, the company plans to incur INR120 billion over FY22-FY24, largely for new product development and maintenance capex. This also includes INR30 billion projected for development of electric vehicle platform. During FY20-FY21, the standalone capex accounted for 47%-57% of the consolidated capex excluding MMFSL. The company also plans to incur investments in subsidiaries of INR50 billion over FY22-FY24. As such, Ind-Ra calculated free cash flow on a consolidated less MMFSL basis is likely to be low to marginally negative over FY22-FY23.

The company has scheduled repayments of INR7.9 billion and INR3.2 billion in FY22 and FY23, respectively. It raised INR25 billion NCDs in FY21, of which INR20 billion would mature in FY24. Given the established access to the domestic banking system and debt capital markets, Ind-Ra expects M&M to refinance its debt comfortably. The agency estimates free cash flow for FY22-FY23, along with the strong cash balances, and financial flexibility to be adequate to fund the debt repayments and dividend pay-outs over the stated period. 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.

Declining Market Share in UV segment: In utility vehicles (UVs), M&M's market share has been declining, and stood at around 15% in FY21 (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 and its cost of ownership has significantly increased (around 10%) in complying Bharat Stage-VI norms.

The management is reorienting its UV business with new launches planned over the next three-to-four years including XUV 700, new variants of Scorpio, W620, as well as two vehicles on a born electric platform planned in FY26. The company launched Thar in October 2020, which also has a strong product pipeline. Nevertheless, 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.

Update on Ssangyong: In December 2020, M&M's 74.6% subsidiary Ssangyong defaulted on its loans, following M&M announcement to curtail any further investments in the entity in April 2020. Ssangyong has applied to Korean Courts for restructuring process in December 2020. M&M has classified Ssangyong as discontinued operations in its FY21 financial statement. M&M does not expect any outflow in excess of the corporate guarantees of INR4.8 billion as of FY21 (initially INR6.8 billion, of which INR2 billion has been repaid) extended in favour of Ssangyong, net of any recoveries from Ssangyong. Ind-Ra believes the outflow will not materially impact M&M's credit profile or liquidity.

Lower Margins at Certain Subsidiaries Drag Metrics: On a standalone level, M&M reported a profit before tax margin of 11.4% in FY21 (before exceptional items; FY20: 11.3%). The consolidated profit before tax margin (before exceptional items; excluding MMFSL) was lower than the standalone level at 6.9% in FY21 (FY20: 5.1%), due to losses at some of its subsidiaries. Although the capital reallocation exercise has helped in improving the consolidated margins on a year-on-year basis, Ind-Ra expects the losses at some of these subsidiaries to continue in the near-to-medium term.

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, resulting in the net leverage (M&M consolidated excluding MMFSL) exceeding 1.5x on sustained basis could result in a rating downgrade.

RATING CRITERIA

'Corporate Rating Methodology', dated 20 April 2020, is available at www.indiaratings.co.in.
'Short-Term Ratings Criteria for Non-Financial Corporates, dated 20 April 2020, is available at www.indiaratings.co.in.

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 sectors. Furthermore, M&M has significant market share in the light commercial vehicle, tractors and UV space.

CONSOLIDATED FINANCIAL SUMMARY (excluding MMFSL)

Particulars	**FY21**	**FY20**
Revenue from operations (INR billion)	622.2	635.0
EBITDA (INR billion)	77.3	62.6
EBITDA margin (%)	12.4	9.9
Interest coverage (x)	9.7	10.0
Net adjusted leverage (x)	0.3	1.3
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**	**10 December 2020**	**20 April 2020**	**13 August 2019**
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	INR3.525	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	INR10.5	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	INR8.65	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 THE INSTRUMENTS

Instrument Type	**Complexity Indicator**
NCDs	Low
Non-fund-based limits	Low
Fund-based limits	Low

Fund-based/non-fund-based	Low

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

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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 redit 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 structured finance 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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