Mahindra

Mahindra & Mahindra Ltd.
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REF:NS:SEC:
10th May, 2017

National Stock Exchange of India Limited
"Exchange Plaza", 5th Floor,
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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 Affirms Mahindra & Mahindra Limited and its NCDs at 'IND AAA'; Outlook Stable

Instrument Type	Size of Issue (million)	Rating/Outlook	Rating Action
Non fund based working capital limits: letter of credit/ bank guarantee	INR 8,000	IND A1 +	Affirmed
Non - convertible debentures (NCDs)	INR 4,750	IND AAA/Stable	Affirmed
Commercial paper	INR 7,000	IND A1+	Affirmed

Please find enclosed a Press Release issued by India Ratings & Research Private Limited.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

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

Ind-Ra-Mumbai-10 May 2017: 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. A summary of rating actions on the company's instruments is given below:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-fund-based working capital limits: letter of credit/bank guarantee	-	-	-	INR8000	IND A1+	Affirmed
Non-convertible debentures (NCDs)	September 2016	7.57%	September 2026	INR4,750	IND AAA/Stable	Affirmed
Commercial paper	-	-	7-364 days	INR7,000	IND A1+	Affirmed

Ind-Ra continues to take a consolidated view of M&M after excluding its financial services subsidiary – Mahindra & Mahindra Financial Services Ltd (MMFSL; 'IND AAA'/Stable).

KEY RATING DRIVERS

Strong Market Position: M&M has a leadership position in the domestic market for tractors and utility vehicles (UVs), with market shares of 42.7% and 29.2% (in volume terms), respectively, in FY17 (FY16: 40.9% and 37.9%). The company is also the number one player in the light commercial vehicle (LCV) segment with share of 42% in FY17 (FY16: 41.7%). The farm equipment (FE) and auto businesses together accounted for over 80% and over 85%, respectively, of consolidated revenue and profit before interest and tax (segment results) for FY16. In 9MFY17, the tractor and UV segments continued to be the revenue and profit drivers, with domestic operations registering year-on-year growth of 9% and 6.2% in net revenues and PBT, respectively.

M&M's sustained strong market position in these business segments is supported by the launch of new platforms and products on a regular basis, which is backed by its strong R&D capability. Its 12-year CAGR growth in revenues over FY05-FY16 was 18% on a standalone basis and 20.7% on a consolidated (ex MMFSL) basis. The reduction in market share in the domestic UV in FY17 is largely attributed to the company's sub-optimal presence in the compact segment of UVs. Ind-Ra believes that the company's strategy of launching one new platform each year in the UV segment will address gaps in the product profile, and enable M&M to regain some market share in the next three years.

Meaningful Diversification: M&M is present in businesses as diverse as FE, auto and automotive components, defence, information technology, hospitality, steel trading, infrastructure and aerospace. A diversified revenue stream provides stability to the consolidated credit profile, shielding the company to an extent against variation in demand in individual business divisions. As the demand drivers for auto segment are different from that for FE, the demand cycles for products of the two divisions are independent of each other. Within these two divisions, the company has a wide range of product offerings at various price points to cater to different customer segments.

In FY14, the slowdown in auto sales due to cyclicality was offset by a strong demand for tractors due to abundant monsoon. However in FY15 and FY16, the impact of deficient monsoon on the company's revenues was muted due to fairly stable auto sales. Ind-Ra believes that strong growth and profitability of the FE segment in FY17 would have largely offset the slowdown in revenue growth and slightly reduced profitability of the auto segment in the year. In 9MFY17, as per M&M (standalone results) the FE division reported net revenue growth of 19.0% yoy to INR119.7 billion and EBIT margin of 17.9% (9MFY16: 16.3%) in relation to 5.7% yoy net revenue growth to INR231.1 billion and EBIT margin of 4.9% (7.3%) for the auto division.

Strong Financial Profile: Ind-Ra has taken a consolidated view of M&M and all its non-financial subsidiary companies for arriving at the rating. For the purpose of computing some of the key financial metrics and facilitating meaningful comparison with relevant peer group, the numbers have been adjusted for MMFSL including support in case of need. M&M's financial profile (consolidated, excluding MMFSL) is characterised by low financial leverage and high coverage metrics. In FY16, its net adjusted leverage (defined as adjusted debt net of cash /EBITDAR) was 0.96x (FY15: 0.79x) and EBITDA gross interest coverage was 11x (9.24x). Ind-Ra expects the company to have maintained these metrics at similar strong levels in FY17 and to continue to do so over FY18-FY19.

The stability of M&M's financial profile can be gauged by its key metrics being within a fairly close range in since FY00. Median through-the-cycle values for FY00-FY16 of standalone EBITDA margin, net leverage and EBITDA gross interest coverage were 11.2%, 0.6x and 18.8x, respectively. On ex-MMFSL basis, Ind-Ra expects the company to have registered revenue growth of 8%-9% in FY17 (FY16: INR714,617 million) along with EBITDA margin of close to 8% (7.8%). Ind-Ra believes that M&M would be able to sustain EBITDA margins at close to 8% levels in FY18, subject to a normal monsoon.

Limited Impact of FY17 Demonetisation, BS3 Sales: Ind-Ra believes that demonetisation and Bharat Stage 3 emission norms (BS3) related sales will have a limited impact on 4QFY17 as well as FY18 financial performance, given the strong growth and profitability that the FE segment has been exhibiting. The muted performance of the auto division in 9MFY17 is attributed to the weaker rural auto demand, due to demonetisation during 3QFY17, as well as the company's lower than industry growth in UVs. Discounted sale of the auto inventory built to suit BS3 norms is likely to slightly impact 4QFY17 margins. Rework costs to convert the same inventory to BS4 as well as holding costs of BS3 inventory for exports could temper segment margins in 1HFY18.

Conservative Financial Policy: M&M follows an extremely conservative financial policy, with gearing (debt/equity) ratio (ex-MMFSL basis) of below 0.6x during FY11-FY16 (FYE16: 0.41x). Ind-Ra expects the company to maintain gearing below 0.7x. For this, the company is exploring diverse options for acquisitions such as internal accruals, equity participation and lastly, debt in limited amounts. M&M expects its capex and investment over FY18-FY20 to be around INR100 billion and would be funded mostly from internal accruals. As a result, Ind-Ra opines that its gearing and net leverage will materially exceed the current levels.

Strong Liquidity: On ex-MMFSL basis, M&M reported large positive cash flow from operations (CFO) of around INR170 billion for FY14-FY16. The company has traditionally been cash flow positive and is likely to remain so over the next three years. On a similar basis, its cash and current investments stood at INR71.8 billion at FYE16. In addition, its fund-based facilities (INR4 billion at M&M standalone) were not utilised in the past 12 months as the company has been able to meet its working capital entirely from accruals. Ind-Ra expects its debt repayments over FY18-FY20 to be comfortably funded out of CFO, which may exceed INR40 billion per year over this period.

RATING SENSITIVITIES

Large debt-fuelled capex: 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.

RATING CRITERIA

'Corporate Rating Methodology', dated 4 January 2017, is available at www.indiaratings.co.in.

COMPANY PROFILE

Incorporated in 1945 as a unit assembling Willys Jeeps, M&M has evolved into a multinational group of companies, having revenue of USD17.8 billion. According to the consolidated financials for FY16 (including MMFSL), it reported revenue of INR780.2 billion (FY15: INR714.5 billion), EBITDA of INR96.4 billion (INR87.7 billion), PAT of INR23.8 billion (INR25.9 billion) and total on-balance sheet debt of INR439.7 billion (INR379.1 billion).

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Outstanding Limits (million)	Rating	26 September2016	6 November 2014
Issuer rating	Long Term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Non-fund-based limit: letter of credit/bank guarantee	Short Term	INR8,000	IND A1+	IND A1+	IND A1+
NCDs	Long Term	INR4,750	IND AAA/Stable	IND AAA/Stable	-
Commercial paper	Short Term	INR7,000	IND A1+	IND A1+	-

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

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