Mahindra

Mahindra & Mahindra Ltd.
Mahindra Towers,
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Mumbai 400 018 India

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REF:NS:SEC:
29th June, 2018

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 re-affirmed; rated amount enhanced

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Non-convertible Debenture Programme	500.0	500.0	[ICRA]AAA (Stable); Re-affirmed
Long-term, Fund-based Facilities	88.0	65.0	[ICRA]AAA (Stable); Re-affirmed
Long-term, Non-fund Based Facilities	81.0	110.0	[ICRA]AAA (Stable); Re-affirmed
Short-term, Non-fund Based Facilities	132.0	350.0	[ICRA]A1+; Re-affirmed
Long-term / Short-term, Fund-based / Non-fund Based Facilities	99.0	-	-
Total	**900.0**	**1025.0**	

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

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

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Mahindra & Mahindra Limited

June 27, 2018

Mahindra & Mahindra Limited: Ratings re-affirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Non-convertible Debenture Programme	500.0	500.0	[ICRA]AAA (Stable); Re-affirmed
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Long-term, Non-fund Based Facilities	81.0	110.0	[ICRA]AAA (Stable); Re-affirmed
Short-term, Non-fund Based Facilities	132.0	350.0	[ICRA]A1+; Re-affirmed
Long-term / Short-term, Fund-based / Non-fund Based Facilities	99.0	-	-
Total	**900.0**	**1025.0**	

* Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]AAA (pronounced ICRA triple A)[1] assigned to the Rs. 500.0-crore[2] non-convertible debenture programme, the Rs. 65.0-crore (reduced from Rs. 88.0 crore) long-term, fund-based facilities and the Rs. 110.0-crore (enhanced from Rs. 81.0 crore) long-term, non-fund based facilities of Mahindra & Mahindra Limited ('M&M' or 'the company'). ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 350.0-crore (enhanced from Rs. 132.0 crore) short-term, non-fund based facilities of M&M. The outlook on the long-term rating is Stable.

Rationale

While rating M&M, ICRA has taken a combined view of M&M along with its wholly-owned subsidiary, Mahindra Vehicle Manufacturers Limited (MVML, rated [ICRA]AAA (Stable) / [ICRA]A1+), due to their strong operational, financial and managerial linkages. MVML acts as an extended manufacturing arm for M&M's automotive business, with the latter accounting for almost the entire sales of MVML.

The ratings reaffirmation continues to reflect the strong financial profile of the company as characterised by healthy cash accruals on the back of its diversified business profile with presence across varied sectors, robust profitability in its core businesses, and strong liquidity in the form of sizeable cash and liquid investments. The ratings also favourably factor in the complementary performance of M&M+MVML's farm equipment (FES) and utility vehicle (UV) segments, which has provided stability to overall profitability despite the cyclical upturn / downturn in the respective segments over the last several years. M&M 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's overall financial flexibility.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*
[2] *100 lakh = 1 crore = 10 million*

While M&M has maintained its dominant position in the domestic tractor industry, the increasing competitive pressures in its UV business have resulted in a decline in the company's domestic UV market share over the last five years. During FY2019, M&M will be launching three new products in the UV segment. The incremental sales volume from these new models should help M&M arrest its declining market share over the medium term. This is a key rating sensitivity.

ICRA notes that the merger of the medium and heavy commercial vehicle (M&HCV) business into M&M has facilitated improvement in its cost structure and operational efficiencies. Over the last five years, M&M's M&HCV volume has grown at a compounded annual growth rate (CAGR) of 26.1% and it has expanded its market share from 1.3% in FY2013 to 3.1% in FY2018. Supported by strong volume growth and its consequent impact on capacity utilisation and operating leverage, M&M's M&HCV business has achieved EBIDTA breakeven in Q4 FY2018. Under the Scheme of Arrangement, M&M has merged its two-wheelers business with effect from the appointed date of October 01, 2016 and revised its strategy with a focus on the niche premium two-wheeler segment. ICRA believes that M&M would require certain investments in new product development and creation of a service network to create a meaningful presence in the domestic two-wheelers market. Losses in the two-wheelers business have reduced post internal restructuring of operations and exit from the mass market scooter and motorcycle segment.

The performance of M&M's South Korean subsidiary—Ssangyong Motor Company (Ssangyong)—has weakened due to slowdown in exports. Ssangyong has high dependence on a few models, especially Tivoli. The ability of the company to enhance its product portfolio and reduce its dependence on a few models will be key for improvement in its performance. ICRA expects Ssangyong to meet its funding requirements through internal accruals and / or external borrowings, without M&M having to bear any major financial burden.

M&M+MVML (combined) plan to invest close to Rs. 15,000 crore over the next three years (FY2019 to FY2021). Though the planned investments are large, steady cash flow generation from core business, financial flexibility enjoyed by the Group and comfortable credit profile partly mitigate the risk. The company's (M&M+MVML) liquidity position also remains comfortable, supported by its large (around Rs. 3,937 crore) liquid investments and cash and bank balance (Rs. 2,924 crore) as on March 2018.

Although ICRA draws comfort from M&M's track record of successfully managing its portfolio of businesses, continued success, while maintaining its credit profile, would remain a key rating sensitivity. Strengthening of M&M's UV portfolio through new product launches amid increasing competitive intensity, synergising its acquisitions, continued self-sustenance of Ssangyong operations and performance of two-wheeler business in relation to overall profitability would remain critical for maintaining its credit profile.

Outlook: Stable

ICRA expects M&M and MVML (combined) to maintain its healthy credit profile supported by its leadership position in the domestic tractor industry and expected improvement in its UV market share on the back of three new product launches in FY2019. While there could be short-term aberrations due to inherent cyclicality in the tractor as well as automotive segments, the overall credit profile of M&M+MVML will continue to remain robust on account of healthy accruals and strong liquidity in the form of investments in listed Group entities and associated companies. The outlook may be revised to Negative in case of a significant decline in its operating profit margin due to a slowdown in demand or inability to synergise its acquisitions resulting in a deterioration in its credit profile.

Key rating drivers

Credit strengths

Strong position in the UV and tractor segments, with an established rural franchise; diversified automotive company – M&M is the market leader in the domestic tractor industry and has a dominant market share in the UV segment in India, though it has witnessed a decline in its UV market share post slew of sub-4 meter UV launches by competitors. During FY2019, M&M will be launching three new models, which should support growth in its UV sales. In the domestic tractor industry, M&M is a dominant player with a market share of 42.9% during FY2018 with clear leadership position across all regions of India. M&M also has a strong position in the pickup segment with a market share of 47.4% in sub-3.5T (goods) segment during FY2018 and is gradually gaining traction in the largely duopolistic Indian M&HCV (goods) segment. With expected recovery in rural income, against a backdrop of favourable monsoon as well as thrust on infrastructure spending by the Government of India, M&M's performance is expected to remain strong over the medium term.

Significant improvement in financial profile; robust cash surplus resulting in healthy liquidity – M&M's credit profile remains strong supported by low leverage and robust cash accruals. As on March 31, 2018, M&M and MVML (combined) had cash and bank balance and liquid investments to the tune of Rs. 6,862 crore, which aids its financial flexibility.

Inherent value in some of its businesses, with potential to generate cash flows through stake sale for the Group – M&M 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's overall financial flexibility.

Credit challenges

Growing competitive pressures in core automotive business impacting market share could also result in weak pricing scenario putting downward pressure on 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 contributed ~71% to the total domestic UV sales in FY2018) resulted in a steady decline in M&M's market share in the overall UV segment. With proposed launches of three new models in the UV segment in FY2019, M&M is expected to gain market share during the year. Nevertheless, both farm equipment 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.

To maintain its capital structure in the light of significant investments over the medium term – M&M and MVML (combined) plan to invest close to Rs. 15,000 crore over the next three years (FY2019 to FY2021). Though the planned investments are large, steady cash flow generation from core business, financial flexibility enjoyed by the Group and comfortable credit profile partly mitigate the risk. The company's (M&M and MVML) liquidity position also remains comfortable supported by its large (around Rs. 3,937 crore) liquid investments and cash and bank balance (Rs. 2,924 crore) as on March 2018.

Achieving turnaround of two-wheelers business and Ssangyong operations remains a challenge; losses in these operations drags consolidated profitability – In the M&HCV business, M&M has achieved EBITDA breakeven in Q4 FY2018. However, the two-wheelers business is a drag on overall profitability with PBIT loss (including that of Peugeot Scooters) of ~Rs. 360 crore in FY2018. M&M has revised its strategy and plans to focus on the niche premium two-wheeler segment. However, the marketing risks remain significant for the M&HCV and two-wheelers businesses and both face stiff competition from entrenched players in the domestic market. The performance of Ssangyong has weakened due to slowdown in exports. Ssangyong has high dependence on a few models, especially Tivoli. The ability of the company to enhance its product portfolio and reduce its dependence on a few models will be key for improvement in its performance. ICRA expects Ssangyong to meet its funding requirements through internal accruals and / or external borrowings, without M&M having to bear any major financial burden.

Analytical approach: For arriving at the ratings, ICRA has taken a combined view of M&M, along with its wholly-owned subsidiary, MVML.

Links to applicable criteria:
[Corporate Credit Rating Methodology]
[Rating Methodology for Passenger Vehicle Manufacturers]
[Rating Methodology for Tractor Industry]
[Rating Methodology for Commercial Vehicle Manufacturers]

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 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 largest passenger vehicle manufacturers in India. M&M, through its subsidiaries and Group companies, has a presence in financial services, auto components, hospitality, infrastructure, retail, logistics, steel trading and processing, information technology businesses, agri, aerospace, consulting services, defence, energy and industrial equipment.

On a consolidated basis, in FY2018, automotive and farm equipment businesses accounted for around 55.2% and 23.0%, respectively, of M&M's business—the other major contributors being financial services (9.0%), hospitality (2.4%) and two-wheelers (1.1%).

For the 12 months ended March 31, 2018, M&M and MVML (combined) reported a PAT of Rs. 4,623.2 crore on an OI of Rs. 47,577.4 crore, as against a PAT of Rs. 3,923.9 crore on an OI of Rs. 41,377.9 crore for the 12 months ended March 31, 2017.

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

	FY2017	FY2018
Operating Income (Rs. crore)	41,377.9	47,577.4
PAT (Rs. crore)	3,923.9	4,623.2
OPBDIT/ OI (%)	13.1%	14.8%
RoCE (%)	20.1%	22.8%
Total Debt/ TNW (times)	0.15	0.11
Total Debt/ OPBDIT (times)	0.74	0.49
Interest Coverage (times)	22.3	37.4

Source: Mahindra & Mahindra Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Rating (FY2019) Amount Rated	Amount Outstanding*	Date & Rating June 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 May 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 -
1	Non-Convertible Debenture Programme	Long-term	500.0	500.0	[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)	-
3	Non-fund Based Facilities	Long-term	110.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
4	Non-fund Based Facilities	Short-term	350.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	Fund-based / Non-fund Based Facilities	Long-term / Short-term	-	-	-	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	-

*As on March 31, 2018

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
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	6.00	[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

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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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