

REF:NS:SEC:

4<sup>th</sup> 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: India Ratings Affirms Mahindra & Mahindra Limited and its NCDs at 'IND AAA';  
Rates Additional Limits

Instrument Type	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	INE101A08088	September 2016	7.57%	September 2026	INR4,750	IND AAA/Stable	Affirmed
Non-fund-based limits	-	-	-	-	INR4,025 (reduced from INR8,000)	IND AAA/Stable/IND A1+	Long-term rating assigned; Short-term rating affirmed
Fund based / Non-fund based	-	-	-	-	INR2,500	IND AAA/Stable/IND A1+	Assigned
Fund-based limits	-	-	-	-	INR8,000	IND A1+	Assigned
Commercial paper	-	-	-	7-364 days	INR7,000	WD	Withdrawn (as no debt is outstanding)

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’; Rates Additional Limits

Ind-Ra-Mumbai-04 June 2018: 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	ISIN	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	INE101A08088	September 2016	7.57%	September 2026	INR4,750	IND AAA/Stable	Affirmed
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Fund based / Non-fund based		-			INR2,500	IND AAA/Stable/IND A1+	Assigned
Fund-based limits	-	-	-	-	INR8,000	IND A1+	Assigned
Commercial paper	-	-	-	7-364 days	INR7,000	WD	Withdrawn (as no debt is outstanding)

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 in Tractors and Light Commercial Vehicles:** M&M has maintained its leadership position in the domestic tractor market, with over 40% market share in terms of volumes from FY09-FY18 (FY18: 42.9%). The company is also the number one player in the light commercial vehicle (goods carriers) segment with around 44% market share in FY18 (FY17: 47%). In utility vehicles (UVs), the company commands a huge market share of around 25.4% in FY18 (FY17: 29.2%), despite a year-on-year decline in the same due to intensified competition.

**Diversified Business Profile:** M&M has a diversified business profile with presence across farm equipment, auto and automotive components, defence, information technology, hospitality, steel trading, infrastructure and aerospace. However, farm equipment and auto businesses together are the key revenue and profitability drivers, accounting for over 80% and 70% of revenues and PBT, respectively, of the consolidated entity in FY18. A diversified revenue stream shields the company’s consolidated credit profile to an extent against demand variations in 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. Within these two divisions, the company has a wide range of product offerings at various price points to cater to different customer segments.

**Improvement in Rural Income:** Considering the government's thrust on improving rural income, favourable monsoons for the last two years and a normal monsoon prediction by India Meteorological Department for 2018, M&M should benefit due to its strong presence in rural segments with tractor business as well as around 40% of the automotive demand derived from this segment.

**Increased Research & Development to Support Product Launches:** M&M's sustained strong market position in these business segments is supported by the launch of platforms and products on a continuous basis, which is backed by its strong R&D capability. M&M's spend on R&D has also increased over the past few years (R&D as a % of revenue: 4.2% in FY17; FY16: 4.7%). Through its R&D facility in Chennai (Mahindra Research Valley), Innovation centre in the US and several technological tie-ups, the company's focus is on developing new products across divisions and new platforms across product segments.

**Strong Financial Profile:** M&M's financial profile (consolidated, excluding MMFSL) is characterised by low financial leverage and high coverage ratios. In FY18, gross interest coverage (EBITDA/ interest) was strong at 14.6x (FY17: 14.5x). Net adjusted leverage (defined as adjusted debt net of cash /EBITDAR) was 0.6x in FY17 and is likely to have remained at a similar level in FY18.

In FY18, revenue (consolidated, excluding MMFSL) grew 9% yoy to INR835.6 billion while EBITDA margin improved 9.8% (FY17: 8.8%), thanks to strong growth in both auto and farm equipment segments. Ind-Ra believes that M&M would be able to sustain EBITDA margins at close to 9% levels in FY19, subject to a normal monsoon.

**Conservative Financial Policy:** M&M follows an internal policy to maintain gearing (debt/equity) below 0.7x on a standalone basis (FY17: 0.1x), for which it explores diverse options for acquisitions such as including internal accruals, equity participation and debt in limited amounts. Debt/equity ratio on consolidated (excluding MMFSL) was also low at 0.5x in FY17. M&M expects capex and investments over FY19-FY21 to be around INR150 billion and would be funded mostly from internal accruals. As a result, Ind-Ra does not expect gearing as well as net leverage to materially exceed the current levels.

**Strong Liquidity:** Excluding MMFSL, M&M reported large positive cash flow from operations of around INR69 billion for FY17. The company expects to remain positive cash flow over FY19-FY21. It also had a strong cash balance (including current investments) of INR81.0 billion at FY17. In addition, its fund-based facilities have been largely unutilised over the last 12 months, as the company was meeting its working capital needs entirely from internal accruals. Ind-Ra expects its debt repayments over FY19-FY21 to be comfortably funded out of cash flow from operations.

**Declining Market Share in UV:** M&M's market share in UVs dropped to 25.4% in FY18 (FY13: around 47.7%). In FY18, the company even lost its UV market leadership position to Maruti Suzuki India Limited. The decline in market share is largely on account of the expansion of compact SUV as a sub-segment, intensified competition with continuous product launches by other players; and M&M's limited presence in this sub-segment where new models launched by the company have not gained noticeable success. The company is working on both the variants (gasoline and diesel) for its new product portfolio, which would help to compete with other players. Along with conventional fuels, electric vehicle is also a focus area for the company. The market share movement in the segment and success of the product launches would remain a key monitorable.

**Lower Margins at Certain Subsidiaries Drag Metrics:** On a standalone level, M&M reported a PBT margin of 12.5% in FY18 (FY17: 10.7%). While the two-wheeler business is merged with M&M standalone in FY18, it is yet to break-even. Also, losses at some of its key business such as Ssangyong Motors Company, electric mobility and certain other foreign subsidiaries dragged the profit at the consolidated level. Consequently, consolidated PBT margin (excluding MMFSL), though improved to 10.4% in FY18 (FY17: 7.2%), was still lower than at the standalone level.

## 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](http://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.

## FINANCIAL SUMMARY

Parameters	FY18	FY17
Revenue from operations (less excise duty) (INR million)	835,608	766,268
EBITDA (INR million)	81,739	67,116
EBITDA margin (%)	9.8	8.8
Interest coverage (x)	14.6	14.5

Source: M&M consolidated (excluding MMFSL)  
 M&M financials are based on IND-AS, MMFSL has not adopted IND-AS.  
 With the introduction of Goods and Services tax, the figures for FY18 are not comparable with FY17's

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	10 May 2017	26 September 2016	6 November 2014
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Non-fund-based limits	Long-term/Short-term	INR4,025	IND AAA/Stable /IND A1+	IND A1+	IND A1+	IND A1+
Fund-based/Non-fund-based limits	Long-term/Short-term	INR2,500	IND AAA/Stable /IND A1+	-	-	-
Fund-based limits	Short-term	INR8,000	IND A1+	-	-	-
NCDs	Long Term	INR4,750	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	-
Commercial paper	Short Term	INR7,000	WD	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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