

REF:NS:SEC:

30th September, 2019

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: CRISIL Limited reaffirms its ratings on the debt programmes and bank facilities of Mahindra & Mahindra Limited as under:

Total Bank Loan Facilities Rated	Rs.1100 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)
Rs.475 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

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

This Press Release has been issued by CRISIL Limited today on 30th September, 2019.

Kindly take the above on record.

Yours faithfully,

For MAHINDRA & MAHINDRA LIMITED


NARAYAN SHANKAR
COMPANY SECRETARY

Encl: as above

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Rating Rationale

September 30, 2019 | Mumbai

Mahindra and Mahindra Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1100 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.475 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the debt programmes and bank facilities of Mahindra and Mahindra Limited (M&M).

The ratings continue to reflect M&M's leadership in the Indian tractor industry and healthy market position in light commercial vehicles (LCVs). The ratings also factor in a strong financial risk profile, supported by a robust balance sheet with low leverage and high financial flexibility. These strengths are partially offset by exposure to cyclicity inherent in the farm equipment (tractor) and automotive (auto) segments, exposure to risks pertaining to acquisitions and investments in subsidiaries/joint ventures (JVs), and decline in market share in the utility vehicle (UV) space over the last few years.

Analytical Approach

CRISIL has combined the business and financial risk profiles of M&M and its ventures in the UV, commercial vehicles (CV), and farm equipment segments, which are considered as its core businesses. The company also has investments in subsidiaries in the agriculture, financial services, hospitality, aerospace, consulting services, defence, information technology, chemicals, energy, industrial equipment, logistics, real estate, retail, components, and steel industries. CRISIL believes these subsidiaries will receive support from M&M, depending on their strategic importance to it, and the extent of its shareholding and investment in them. CRISIL has made financial adjustments to factor in this support. For the financing business undertaken by Mahindra and Mahindra Financial Services Ltd (MMFSL; 'CRISIL AA+/FAAA/Stable/CRISIL A1+'), CRISIL has made adjustments for its assets and liabilities as per its capital allocation approach.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

* Leadership in the Indian tractor industry and healthy market position in LCVs

The company has a leadership position in the domestic tractor industry in all major regions, and has maintained a market share of over 40% in the last decade, aided by its superior channel reach and understanding of market dynamics. It also has a strong presence in LCVs. Market share in the goods LCV (lower than 7.5 metric tonne [MT] gross vehicle weight [GVW]) division has been sustained at over 40% in the last five years, while the share in the pick-up segment (2.0-3.5 MT GVW) was over 60% during this period. The company's strong presence in these segments has ensured healthy cash flows and fairly resilient profitability.

Good product development capabilities, proficient channel management along with sufficient production capacity should help maintain strong market position over the medium term. This, along with revenue and geographic diversity, are likely to ensure a stable business risk profile, despite the impact of increasing competition and inherent cyclicity, such as the current slowdown in the auto and tractor industry.

* Superior financial risk profile supported by conservative capital structure, and significant market value of investments

Financial risk profile is superior, owing to sizeable net worth, conservative gearing, and surplus liquidity. Positive free cash flow should help maintain a strong financial risk profile, given moderate capital expenditure (capex) and investments guidance of about Rs. 18,000 crore over the next three fiscals. Moreover, financial flexibility is significant because of investments in listed subsidiaries and associates, which are currently valued much higher than their book value. The strong financial risk profile provides cushion to counter the impact of cyclicity and competitive intensity in the domestic auto and tractor segments.

Weaknesses

* Declining market share in the intensely competitive UV segment

M&M's market share in UVs fell from about 41.7% in FY 2013-14 to about 25.4% in FY 2017-18, owing to expansion of UV market amidst increasing competitive intensity in this space, with tepid success of the company's launches in this period. However, since then market share has stabilized at 24-25% up to year-to-date fiscal 2020, buoyed by the company's recent product launches. The company has leveraged its foreign subsidiaries such as Pininfarina S.p.A, Mahindra Automotive North America (MANA), and SsangYong Motor Company for its recent product development. With the launch of XUV 300 in February 2019, M&M gained healthy market share in its sub-segment (UV-1 or compact UVs). M&M also has an alliance with Ford Motor Company for co-development of UVs and electric vehicles. Notwithstanding these initiatives, M&M's market position will continue to face exposure to increasing competitive pressures, given the entry of new players and large number of launches in this space.

* Exposure to cyclical in automotive and tractors segments

Demand for tractors remains vulnerable to monsoons. A bad monsoon can result in high intra-cycle volatility in demand for tractors. Moreover, availability of finance and other factors affecting rural income, such as crop prices and non-farm income, can also constrain demand. Industry demand in the current fiscal is weak, with volumes declining 14.6% in April-August 2019 (year-on-year). Nevertheless, profitability has demonstrated resilience to downturns in industry volumes in the past, given the company's pricing power and cost efficiency.

The domestic auto industry has also displayed a degree of cyclical in line with industrial growth. Currently, M&M's UV and LCV segments face a challenging business environment, given the sharp slowdown impacting near to medium term outlook. In April-August 2019, UV industry sales declined 6.3%, while the goods LCV industry shrunk 13.6%. Also, susceptibility to regulatory changes, especially pertaining to diesel vehicles, persists.

* Exposure to risks pertaining to acquisitions, and investments in subsidiaries and JVs

Given its growth aspirations and acquisitive strategy, M&M may seek opportunities in strategic acquisitions in key products and markets. Most of these acquisitions are likely to be in line with the company's key line of business and should strengthen business risk profile. Some of the investments in segments such as electric vehicles and medium and heavy CVs are in early stages and may remain in investment mode over the medium term, though the company is expected to remain conservative in its capital allocation. While some of M&M's legacy investments have been highly value-accretive, the performance of many of its recent investments has been tepid in terms of scale and profitability. Improvement in performance of recent investments will be a key monitorable.

Liquidity: Superior

CRISIL expects cash accruals of about Rs 5,500-6,000 crore in fiscal 2020, which along with and a large liquid surplus of about Rs 6,716 crore as on March 31, 2019 (M&M Standalone) supports M&M's liquidity profile. Cash accrual and surplus should be more than sufficient to meet incremental capex/investment plans and support working capital. Financial flexibility is further enhanced by access to capital markets and significant investments in listed subsidiaries/associates, which can be liquidated, if required.

Rating sensitivity factors

Downward Factor:

- * Any large, debt-funded investments (including acquisitions), support to subsidiaries, or lower-than-expected cash flow weakening the financial risk profile.
- * Further decline in UV market share to below 20% coupled with significant negative free cash flow generation, on a sustained basis.

About the Company

M&M, incorporated in 1945, is among the leading tractor manufacturers in the world, and a leading manufacturer of Goods Light Commercial Vehicles (LCVs) in India. It also manufactures utility vehicles (UVs), medium and heavy commercial vehicles (MHCVs), three-wheelers, two-wheelers, and passenger cars. The company has manufacturing facilities in Mumbai, Nashik, Igatpuri, Nagpur and at Chakan (part of M&M's 100% subsidiary - Mahindra Vehicle Manufactures Ltd [MVML]), (all in Maharashtra), Zaheerabad (Andhra Pradesh), Rudrapur, Haridwar (both in Uttarakhand), and Jaipur (Rajasthan).

The Mahindra group, through its subsidiaries and group companies, has a presence in varied sectors, such as information technology, financial services, and vacation ownership. In addition, it has presence in the agribusiness, aerospace, components, consulting services, defence, energy, industrial equipment, logistics, real estate, retail, steel, commercial vehicles, and two wheeler industries, among others.

Key Financial Indicators*

Particulars for Period Ended March 31	Unit	2019	2018
Revenue	Rs. Cr.	53,614	49,445
Profit After Tax	Rs. Cr.	4,796	4,356
PAT Margins	%	8.9	8.8
Adjusted Debt/Adjusted Net worth	Times	0.1	0.1
Interest coverage	Times	59	55

*Standalone CRISIL adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Rating assigned with outlook
INE101A08070	Debentures	04-Jul-2013	9.55%	04-Jul-2063	500.00	CRISIL AAA/Stable
INE101A08088	Debentures	27-Sep-2016	7.57%	25-Sep-2026	475.00	CRISIL AAA/Stable
NA	Commercial paper	NA	NA	7-365 days	500.00	CRISIL A1+
NA	Fund-Based Facilities	NA	NA	NA	350.00	CRISIL AAA/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	50.00	CRISIL AAA/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	700.00	CRISIL A1+

Annexure - List of Entities Consolidated

Name	Consolidation
Mahindra Vehicles Manufacturing Ltd	Full consolidation
Mahindra Electric Mobility Ltd	Full consolidation
Mahindra Trucks and Buses	Full consolidation
Mahindra Heavy Engines	Full consolidation
SsangYong Motor Company	Full consolidation
Mahindra Engineering and Chemicals Ltd	Moderate consolidation
Mahindra Holidays and Resorts India Ltd	Moderate consolidation
Mahindra USA Inc	Moderate consolidation
Mahindra Susten Ltd	Moderate consolidation
Mahindra Aerospace Ltd	Moderate consolidation
Mahindra First Choice Wheels Ltd	Moderate consolidation
Mahindra Defence Systems Ltd	Moderate consolidation
Mahindra Logistics Ltd	Moderate consolidation
Mahindra Agri Solutions Ltd	Moderate consolidation
Mahindra EPC Irrigation Ltd	Moderate consolidation
Mahindra Lifespace Developers Ltd	Moderate consolidation
Mahindra and Mahindra Financial Services Ltd	Capital allocation

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	500.00	CRISIL A1+			28-09-18	CRISIL A1+	25-09-17	CRISIL A1+	21-09-16	CRISIL A1+	CRISIL A1+
										30-03-16	CRISIL A1+	
Non Convertible Debentures	LT	975.00 30-09-19	CRISIL AAA/Stable			28-09-18	CRISIL AAA/Stable	25-09-17	CRISIL AAA/Stable	21-09-16	CRISIL AAA/Stable	CRISIL AAA/Stable
										30-03-16	CRISIL AAA/Stable	
Fund-based Bank Facilities	LT/ST	400.00	CRISIL AAA/Stable			28-09-18	CRISIL AAA/Stable	25-09-17	CRISIL AAA/Stable	21-09-16	CRISIL AAA/Stable	CRISIL AAA/Stable
										30-03-16	CRISIL AAA/Stable	
Non Fund-based Bank Facilities	LT/ST	700.00	CRISIL A1+			28-09-18	CRISIL A1+	25-09-17	CRISIL A1+	21-09-16	CRISIL A1+	CRISIL A1+
										30-03-16	CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating

Fund-Based Facilities	350	CRISIL AAA/Stable	Fund-Based Facilities	350	CRISIL AAA/Stable
Letter of credit & Bank Guarantee	700	CRISIL A1+	Letter of credit & Bank Guarantee	700	CRISIL A1+
Proposed Fund-Based Bank Limits	50	CRISIL AAA/Stable	Proposed Fund-Based Bank Limits	50	CRISIL AAA/Stable
Total	1100	--	Total	1100	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p> <p>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crisil.com</p>	<p>Subodh Kumar Rai Senior Director - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 subodh.rai@crisil.com</p> <p>Manish Kumar Gupta Senior Director - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 manish.gupta@crisil.com</p> <p>Vignesh Srinivasan Rating Analyst - CRISIL Ratings CRISIL Limited B: +91 22 3342 3000 Vignesh.Srinivasan@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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