Mahindra & Mahindra Ltd.
Mahindra Towers,
Dr. G. M. Bhosale Marg, Worli,
Mumbai 400 018 India

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Ref. NS: SEC
13th April, 2020

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai 400001

National Stock Exchange of India Ltd.,
Exchange Plaza, 3rd Floor
Plot No.3-1."G" Block, I.F.B. Centre,
Bandra-Kurla-Complex, Bandra (East),
Mumbai – 400 051

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 Affirms Mahindra & Mahindra and its NCDs at 'IND AAA'/Stable; Rates New NCDs**

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	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	IND AAA/ Stable/ IND A1+	Affirmed
Fund-based/Non-fund-based	-	-	-	-	INR2.500	IND AAA/ Stable/ IND A1+	Affirmed
Fund-based limits	-	-	-	-	INR8.000	IND A1+	Affirmed
Proposed NCDs*	-	-	-	-	INR10.000	Provisional IND AAA/Stable	Assigned

* The final rating will be assigned following the closure of the issue upon the receipt of the final documentation, conforming to the information already received by Ind-Ra

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 13th April, 2020.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: a/a

India Ratings & Research
A Fitch Group Company

India Ratings Affirms Mahindra & Mahindra and its NCDs at 'IND AAA'/Stable; Rates New NCDs

13
APR 2020

By Pallavi Bhati

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 (billion)	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	IND AAA/Stable/IND A1+	Affirmed
Fund-based/non-fund-based	-	-	-	-	INR2.500	IND AAA/Stable/IND A1+	Affirmed
Fund-based limits	-	-	-	-	INR8.000	IND A1+	Affirmed
Proposed NCDs*	-	-	-	-	INR10.000	Provisional IND AAA/Stable	Assigned

* The final rating will be assigned following the closure of the issue upon the receipt of the final documentation, conforming to the information already received by Ind-Ra.

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

KEY RATING DRIVERS

Sustained Strong Market Position in Key Segments: M&M has maintained its leadership position in the domestic tractor market, with 40% market share in volume terms from FY09-FY19 (FY19: 41.4%; 11MFY20: 41%). The company is also the number one player in the light commercial vehicle (goods carriers) segment with around 42.6% market share in 11MFY20 (FY19: 41.4%)

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 85% of revenue and reported EBIT of the consolidated entity in FY19 (excluding MMFSL). 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 than those for farm equipment (adequacy of rainfall, interest subvention schemes, cost of labour in rural areas). Within these two divisions, the company has a wide range of product offerings at various price points to cater to the different customer segments. The demand cycles for products of the two divisions are independent of each other. This is reflected by 22% decline in M&M's auto sector volumes in FY20 while the volumes in tractors' segment fell only 9% in FY20 due to a high rabi output and the government's renewed focus on rural sector through higher allocation in the Union Budget. Overall, the volume decline was 17% yoy (auto and tractor sector combined) in FY20. The company's diversified profile helped limit the overall drop in revenue to about 5% yoy during 9MFY20.

Strong Financial Profile: M&M's consolidated financial profile is characterised by low financial leverage and high coverage ratios. In 9MFY20, gross interest coverage (EBITDA/interest expenses) fell to over 8x (FY19: 13.5x) due to the weak performance of its subsidiaries. The net adjusted leverage (adjusted debt net of cash/EBITDAR) improved to 0.6x at FY19 (FY18: 0.7x) due to lower net debt position. Ind-Ra estimates it to have remained below 1.0x in FY20 and to be at a similar level in FY21. M&M's debt stood at INR120.4 billion at FYE19 and the agency has factored in the impact of additional NCD issuances in the same.

Conservative Financial Policy: M&M has consistently maintained low gearing ratio (debt/equity), which stood at 0.1x in FY19 on standalone basis. To maintain tight control over gearing, the company explores diverse options for growth such as internal accruals, equity participation and limited debt. The consolidated gearing ratio was also low at 0.6x in FY19. As per the guidance provided by the management, M&M has curtailed its capex requirements to INR170 billion compared to INR180 billion including the investment in its Korean subsidiary Ssangyong for three years over FY21-FY23.

Liquidity Indicator- Superior: M&M had a strong consolidated cash balance (including current investments) of INR116.5 billion in FY19 (FY18: INR103 billion) and strong standalone cash balance of about INR68 billion in FY20 (FY19: INR37.3 billion). Additionally, the average utilisation of its total fund-based facilities of INR11.2 billion stood at 69% for the last 12-months ended March 2020. Further, the company has INR10.1 billion of financing available under the consortium banking arrangement. On ex-MMFSL basis, M&M reported cash flow from operations of around INR78 billion for FY19 (FY18:INR92 billion).

The company has capex plans (including investments in subsidiaries) of around INR170 billion over FY21-FY23. Ind-Ra believes free cash flow is likely to remain constrained due to weaker profitability. However, the agency estimates the liquidity would have been sufficient to meet the debt payments in FY20 and will continue to do so in FY21. Even on factoring in a support worth approximately 20% of MMFSL's debt, the company's liquidity ratio as per Ind-Ra's calculation remains adequate at around 1.0x. The company also has established access to the domestic banking system and debt capital markets.

UV Volume Growth in FY20-FY21 to be supported by New Launches: In the utility vehicles (UVs) segment, the company's market share dropped to around 20% in 11MFY20 (FY19 25%; FY18: 25.4%) due to increased competition. Ind-Ra believes M&M will witness increase in the cost of ownership for its portfolio due to BS-VI norms, as it has high share of diesel portfolio.

Over the past few years, M&M's market share in UVs dropped to 19.7% in 11MFY20 (FY14: around 41.7%), largely on account of intensified competition and the expansion of compact sports UV as a sub-segment, with continuous product launches by other players, and M&M's limited success in this sub-segment. In an attempt to regain its lost market share, the company has been working on developing new products. The company is on track to launch products, namely W501, Thar, W601 (cross-over sports UV) and Z101, over the next 12-18 months.

Low Subsidiary Margins Drag Metrics: M&M's consolidated EBITDA margins contracted to 7.4% in 9MFY20 (FY19: 8.4%) due to weak performance of certain subsidiaries and segments. The company's losses in the two-wheeler and electric vehicle segment, and at few key subsidiaries such as Ssangyong Motors Company, Mahindra USA and certain other foreign subsidiaries dragged the profit at the consolidated level.

Despite the volume decline, on a standalone level, EBITDA margin was 12.8% in 9MFY20 (FY19: 12.4%, 9MFY19: 12.6%) mainly attributable to improved model mix, internal cost-reduction initiatives, and softening of commodity prices. The consolidated profit before tax margin, fell to 2% in 9MFY20 (FY19: 5%), whereas on a standalone level, M&M reported a profit before tax margin of 13.9% (11.8%).

Global Lockdowns Post Industry-wide Slowdown to Impact Demand in FY21: Auto sales remained subdued in FY20 due to weak consumer sentiments in urban and rural segments; increased cost of ownership amid higher fuel and interest cost; higher insurance cost, weak liquidity at non-banking finance companies, and revised axle norms. In FY20, domestic industry vehicle sales fell 18% yoy. The agency believes the COVID-19 led lockdown will make consumers wary of making discretionary purchases, and could further weaken consumer sentiments amid lower income groups across various sections, and lead to decreased industrial output, reduced transportation and an overall challenging economic environment. Hence, the agency believes auto volumes will remain subdued in FY21.

Further, the BS-VI ramp-up, planned between February and March, was affected due to the challenge of procuring parts from suppliers. Tractor industry production volumes dropped 14% in February 2020 from April 2019. The agency, however, believes the tractor segment will witness a faster recovery due to central government's initiatives for the farming community in the form of specific relief packages after the lockdown ends.

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

COMPANY PROFILE

Incorporated in 1945 as an assembly unit, M&M is the flagship company of Mahindra Group. The company is 19.9% owned by promoters. M&M's business is currently diversified across farm equipment, auto and automotive components, real estate, hospitality, defence and aerospace and financial services. Further, M&M has significant market share in light commercial vehicle, tractors and UV space.

CONSOLIDATED FINANCIAL SUMMARY (excluding MMFSL)

Particulars	FY19	FY18
Revenue from operations (INR billion)	943.5	842.1
EBITDA (INR billion)	79.6	78.9
EBITDA margin (%)	8.4	9.4
Interest coverage (x)	13.5	14.3
Net adjusted leverage	0.6	0.7
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	Rated Limits	Rating	13 August 2019	4 June 2018	10 May 2017

		(billion)				
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 AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND A1+
Fund-based/non-fund-based limits	Long-term/Short-term	INR2.500	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	IND AAA/Stable/IND A1+	-
Fund-based limits	Short-term	INR8.000	IND A1+	IND A1+	IND A1+	-
NCDs	Long Term	INR14.750	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

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 credit 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 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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

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