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

Tel: +91 22 24901441
Fax: +91 22 24975081

REF:NS:SEC:
22nd May, 2017

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: ICRA reaffirms ratings of [ICRA] AAA (stable) and [ICRA]A1+ for non-convertible debenture programme and bank facilities of Mahindra & Mahindra Limited

Instrument Type	Rated Amount (in Rs. crore)	Rating Action
Non-convertible debenture programme	500.0	[ICRA]AAA (stable); re-affirmed
Long-term, fund-based facilities	88.0	[ICRA]AAA (stable); re-affirmed
Long-term, non-fund based facilities	81.0	[ICRA]AAA (stable); re-affirmed
Short-term, non-fund based facilities	132.0	[ICRA]A1+; re-affirmed
Long-term/short-term, fund-based/non-fund based facilities	99.0	[ICRA]AAA (stable)/ [ICRA]A1+; re-affirmed

Please find enclosed a Press Release issued by ICRA 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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Regd.Office:Gateway Building, Apollo Bunder, Mumbai 400 001, India
Tel: +91 22 22021031 | Fax: + 91 22 22875485
Email : group.communications@mahindra.com
mahindra.com
CIN No. L65990MH1945PLC004558

May 22, 2017

Mahindra & Mahindra Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Non-convertible debenture programme	500.0	[ICRA]AAA (stable); re-affirmed
Long-term, fund-based facilities	88.0	[ICRA]AAA (stable); re-affirmed
Long-term, non-fund based facilities	81.0	[ICRA]AAA (stable); re-affirmed
Short-term, non-fund based facilities	132.0	[ICRA]A1+; re-affirmed
Long-term / short-term, fund-based / non-fund based facilities	99.0	[ICRA]AAA (stable) / [ICRA]A1+; re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the [ICRA]AAA (pronounced ICRA triple A)[1] rating assigned to the Rs. 500.0 crore[2], non-convertible debenture programme, the Rs. 88.0 crore, long-term, fund-based facilities, and the Rs. 81.0 crore, long-term, non-fund based facilities of Mahindra & Mahindra Limited (M&M). ICRA has also re-affirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 132.0 crore, short-term, non-fund based facilities of M&M. ICRA has also reaffirmed the [ICRA]AAA / [ICRA]A1+ ratings assigned to the Rs. 99.0 crore, long-term / short-term, fund-based / 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 strong operational, financial and managerial linkages. MVML acts an extended manufacturing arm for M&M’s automotive business, with the latter accounting for almost 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 vehicles (UV) segments, which has provided stability to overall profitability despite cyclical upturn / downturn in respective segments over the last several years.

While M&M has continued to gain market share in the domestic tractor industry, the increasing competitive pressures in its UV business has resulted in a steady decline in the company’s domestic UV market share over the last four years. In order to gain a foothold in the fast growing compact UV (UV1) segment, M&M has launched several new products in the segment like TUV 3OO, KUV 1OO and Nuvosport. However, the performance of these new models remains below expectations and the company continues to underperform in the UV1 segment, which at present accounts for about two-thirds of the domestic UV industry’s volumes. Nevertheless, M&M has announced plans of launching a new product

[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

every year till FY2021, which should provide support to overall sales volumes over the medium term. Going forward, M&M's ability to arrest further decline in its market share in the UV segment is a key rating sensitivity.

The ratings also take into account the loss-making commercial vehicle (CV) and two-wheeler businesses of the company, which continue to drag the profitability at the consolidated level. ICRA, however, 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, resulting in a reduction in the breakeven sales volumes. M&M has also announced demerger of the two-wheelers business into M&M, which should aid in faster turnaround of the business. Furthermore, M&M has also revised its strategy for the two-wheelers business with a focus on the fast growing and high margin premium motorcycle segment in India. ICRA believes that M&M would require certain investments in new product development and creation of a service network so as to create a meaningful presence in the domestic two-wheelers market. While the merger into M&M would result in moderation in the PBIT[1] margin, ICRA expects the overall credit metrics to remain stable.

ICRA also notes the improvement in the performance of Ssangyong Motor Company (Ssangyong), which has been reporting net profits since Q4 CY2015. However, as on date, Ssangyong has high dependence on a single model (Tivoli), which accounted for ~55% of its CY2016 sales volumes. Going forward, the company's ability to introduce new models and their success remain crucial for reducing its dependence on a single model and gain further traction in the Korean as well as overseas markets. 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.

While 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. 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.

Strengthening of M&M's UV portfolio through new product launches amidst increasing competitive intensity, synergising its acquisitions, and turning around the M&HCV and two-wheeler businesses would remain critical for maintenance of its credit profile.

Key rating drivers

Credit strengths

- Diversified business profile characterised by presence in automotive, farm equipment, information technology (IT) services, financial services, infrastructure, hospitality, and other segments
- Most diversified automotive company with presence across all segments viz. UVs, light commercial vehicles (LCVs), M&HCVs, passenger cars, three-wheelers and two-wheelers
- Leadership position in the UV and tractor segments, with an established rural franchise
- Demonstrated in-house product development capabilities in tractors and UVs
- Healthy financial profile as characterised by low leverage and robust cash surplus
- Inherent value in some of its businesses like IT, infrastructure and hospitality, with potential to generate cash flows through stake sale for the Group

[1] *Profit before interest and tax*

Credit weaknesses

- Growing competitive pressures in its core automotive business, which is impacting its market share and could also result in a weak pricing scenario (higher discounts), thereby putting downward pressure on margins
- Achieving turnaround of the two-wheeler business and M&HCV operations remains a challenge; operating losses in these operations drags consolidated profitability
- Both farm equipment and automotive businesses are inherently cyclical

Description of key rating drivers:
M&M+MVML's automotive segment's PBIT margin declined from 10.1% in 9M FY2016 to 8.3% in 9M FY2017 due to ~100 bps impact of higher depreciation and amortisation on account of new product launches and expiry of fiscal benefits at the Haridwar plant since Q4 FY2016, impacting the segment margin by ~200 bps and overall company margin by ~100 bps. However, the same has been partly compensated by receipt of one-time investment promotion subsidy (IPS) benefit of Rs. 100 crore (during Q2 FY2017) and regular receipt of IPS for Chakan Phase II having commenced from Q2 FY2017. On the other hand, the FES has witnessed PBIT margin improvement from 16.5% in 9M FY2016 to 18.1% in 9M FY2017 supported by volume growth, strict cost controls and efficiency improvements.

Strong accruals over the past several years has resulted in steady improvement in M&M+MVML's financial profile, with robust cash surplus and healthy liquidity (cash and bank balance and liquid investments of Rs. 3,059 crore as on December 31, 2016) despite ongoing capital expenditure and investments. M&M+MVML have maintained their capital expenditure guidance of ~Rs. 7,500 crore and investment plans of ~Rs. 2,500 crore over FY2018 to FY2020. 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. M&M's ability to maintain its capital structure in light of these investments is a key rating sensitivity. ICRA would also continue to monitor the future investments of M&M and their impact on its credit profile.

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

Links to applicable criteria:
Rating Methodology for Passenger Vehicle Manufacturers
Rating Methodology for Tractor Industry
Rating Methodology for Commercial Vehicle Manufacturers
Corporate Credit Rating – A Note on Methodology

About the company:
Incorporated in 1945 by Mr. Ghulam Mohammad and the two Mahindra brothers (KC & 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 the third largest passenger vehicle manufacturer 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 9M FY2017, automotive and farm equipment businesses accounted for around 59.8% and 24.4%, respectively, of M&M's business – the other major contributors being financial services (7.8%), hospitality (2.5%) and two-wheelers (1.4%).

For the nine months ended December 31, 2016, as per Ind-AS, M&M + MVML reported a profit after tax (PAT) of Rs. 3,015.2 crore on an operating income (OI) of Rs. 31,283.3 crore.

For the 12-month period ended March 31, 2016, as per earlier Indian GAAP, M&M + MVML reported a PAT of Rs. 3,297.8 crore on an OI of Rs. 38,856.6 crore, as against a PAT of Rs. 3,423.3 crore on an OI of Rs. 36,967.7 crore for the 12-month period ended March 31, 2015.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of April 30, 2017(Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					May 2017	April 2016	-	November 2014	September 2014
1	Non-convertible Debenture Programme	Long-term	500.0	500.0	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)
2	Cash Credit Facility	Long-term	88.0	0.0	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)
3	Bank Guarantee / Letter of Credit	Long-term	81.0	1.0	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	[ICRA]AAA (stable)	-
4	Bank Guarantee / Letter of Credit	Short-term	132.0	95.0	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
5	Fund-based / non-fund based	Long-term / Short-term	99.0	0.0	[ICRA]AAA (stable) / [ICRA]A1+	[ICRA]AAA (stable) / [ICRA]A1+	-	[ICRA]AAA (stable) / [ICRA]A1+	-

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating
Non-convertible debenture programme	July 2013	9.55%	July 2063	500.0	[ICRA]AAA (stable)
Cash Credit 1	-	-	-	17.75	[ICRA]AAA (stable)
Cash Credit 2	-	-	-	15.25	[ICRA]AAA (stable)
Cash Credit 3	-	-	-	6.36	[ICRA]AAA (stable)
Cash Credit 4	-	-	-	6.36	[ICRA]AAA (stable)
Long-term, fund-based - unallocated	-	-	-	42.28	[ICRA]AAA (stable)
Bank Guarantee / Letter of Credit 1	-	-	-	21.00	[ICRA]AAA (stable)
Bank Guarantee / Letter of Credit 2	-	-	-	25.00	[ICRA]AAA (stable)
Bank Guarantee / Letter of Credit 3	-	-	-	6.00	[ICRA]AAA (stable)
Bank Guarantee / Letter of Credit 3	-	-	-	7.00	[ICRA]AAA (stable)
Long-term, non-fund based - unallocated	-	-	-	22.00	[ICRA]AAA (stable)
Bank Guarantee / Letter of Credit 1	-	-	-	132.00	[ICRA]A1+
Long-term / short-term, fund-based / non-fund based - unallocated	-	-	-	99.0	[ICRA]AAA (stable) / [ICRA]A1+

Source: Mahindra & Mahindra Limited

Contact Details

Analyst Contacts

Subrata Ray
+22 6114 3408
subrata@icraindia.com

Kinjal Shah
+22 6114 3442
kinjal.shah@icraindia.com

Ashish Modani
+20 6606 9912
ashish.modani@icraindia.com

Relationship Contact

L. Shivakumar
+22 6114 3406
shivakumar@icraindia.com

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**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	