

APRIL 18, 2016

## CARE ASSIGNS 'CARE AAA' RATING TO THE NCD ISSUE OF MAHINDRA AND MAHINDRA FINANCIAL SERVICES LTD.

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Proposed non-convertible debenture	500 (Rupees Five hundred crore only)	CARE AAA (Triple A)	Assigned

### Rating Rationale

The ratings factor in the majority ownership of MMFSL by Mahindra & Mahindra Ltd. (M&M, rated CARE AAA), strategic importance of MMFSL for M&M and common brand name. The ratings also take into account the expected support from M&M, good operational linkages with M&M, strong management, long track record of operations, comfortable capitalization and liquidity profile, diversified asset mix, well-diversified funding profile and good profitability. The ratings also factor in the stressed asset quality due to the seasonal nature of income of its customers in rural and semi-urban areas and current slowdown in the overall economy. Credit profile of the parent (M&M), strategic importance of MMFSL for M&M, asset quality and profitability are the key rating sensitivities.

### Background

MMFSL is a subsidiary of M&M which holds 51.2% stake and enjoys market leadership position in its key product segments with 42.7% market share in tractor segment and 38.6% share in Utility Vehicles segment for Q3FY16. MMFSL was incorporated in 1991 and started its operations as a captive financier for M&M vehicles but since 2002-03 it has started financing vehicles of other OEMs like Maruti, Hyundai, Eicher, Tata etc. MMFSL is strategically important for M&M since it finances around 30% of M&M's UV and tractor sales. Around 48% of MMFSL's disbursements are towards financing M&M products. At the end of FY15, MMFSL, on a standalone basis, had a loan portfolio of Rs.32,576 crore comprising asset classes like utility vehicles, cars, tractors, commercial vehicles, three wheelers and construction equipment. The assets under management, on a standalone basis, at the end of FY15 stood at Rs.34,256 crore. MMFSL has four subsidiaries namely, Mahindra Insurance Brokers Ltd. (85% stake), Mahindra Rural Housing Finance Ltd. (87.5%), Mahindra Asset Management Company Pvt. Ltd. (100%) and Mahindra Trustee Company Pvt. Ltd. (100%). It also has a US based joint venture company (49% stake), Mahindra Finance USA LLC., which is in the business of providing wholesale inventory financing to US based dealers, financing dealer purchases of Mahindra products and providing retail financing to end-user customers to finance their lease or purchase of Mahindra products. MMFSL is headed by Mr. Ramesh Iyer as the Managing Director.

In FY15, the company earned a PAT of Rs.832 crore on a total income of Rs.5585 crore. Total capital adequacy stood at 18.3% with a Tier I CAR of 15.5%. Gross and Net NPA ratio (on a 150+dpd basis) stood at 6.45% (FY14: 4.79%) and 2.59% (FY14: 2.01%) as on March 31, 2015. In 9MFY16, there has been further rise in Gross and Net NPA ratios (on a 150+dpd basis) which stood at 10.4% and 4.4%, respectively. However, the company has started reporting Gross NPA on a 135+dpd basis since September 2015, and accordingly Gross and Net NPA ratio stood at 11.1% and 5.0%, respectively at the end of December 31, 2015.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

On a y-o-y basis, net profit declined 39% in 9MFY16 to Rs.303 crore primarily due to rise in NPA provisions. Total and Tier I CAR stood comfortable at 17.8% and 15.0%, respectively at the end of December 2015.

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