

Mahindra & Mahindra Limited

August 3, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities- Non fund based	239.50	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Long Term Bank Facilities- Fund based	1,797.92	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	600.00	CARE AAA; Stable / CARE A1+ (Triple A ; Outlook: Stable / A One Plus)	Reaffirmed
Short Term Bank Facilities- Fund based	15.00	CARE A1+ (A One Plus)	Assigned
Short Term Bank Facilities- Non-fund based	38.58	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	2,691.00 (Rs. Two Thousand Six Hundred Ninety-One Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mahindra & Mahindra Limited (M&M) continue to reflect its dominant market position in the Indian Tractor industry and Light Commercial Vehicles (LCV) segment along with its diversified product profile and experienced management. The ratings also favourably factor its strong financial risk profile driven by low leverage, strong debt coverage indicators and high financial flexibility supported by superior liquidity position on back of large un-encumbered liquid investments.

While M&M witnessed some moderation in its sales volume especially in the Commercial Vehicle (CV) segment in FY21 due to COVID-19 pandemic, it reported healthy PBILDT margin in FY21 on the back of cost control measures being undertaken by the company.

The rating strengths are tempered by exposure of the company to inherent cyclical nature of the automobile industry and increasing competition in Utility Vehicle segment which is mitigated to an extent through diversified business portfolio. The company, like other players in the industry is also exposed to the risk of lower production due to shortage of semi-conductors which is expected to persist in the near term. The Company is also exposed to risks on account of investments in subsidiaries/ joint ventures; however, CARE has taken cognizance of the management's focus to ensure proper capital allocation across group companies.

Rating Sensitivities

Negative Factors

- Any large debt funded organic or inorganic investment leading to significant deterioration in the overall gearing on a sustained basis
- Significant deterioration in the volumes of core business segments coupled with deterioration in free cash flow generation on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong market position:

M&M is the market leader in the tractor segment in India. It has held leadership position in tractor segment over the past 38 years; with a market share of 38.2% in FY21 (PY: 41.2%). There was marginal deterioration in the market share in FY21 mainly due to low inventory and supply issues. M&M's market share in the UV segment declined in FY21 to 14.7% (PY: 19.0%) due to new launches being made in the UV segment over the past couple of years by incumbents as well as new entrants. In order to combat competition, M&M had also made some new launches which includes, the New Thar which was launched in FY21 and some other new launches expected in FY22 as well as over the next couple of years. M&M continues to have a formidable market share in the CV segment of LCV<3.5T category.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Highly experienced promoters and management:

M&M is the flagship company of the Mahindra group. The Executive Chairman of the company, Mr. Anand Mahindra, has significant experience within the industry and is assisted by team of senior and seasoned professionals like Dr. Anish Shah, Managing Director. Dr. Anish Shah has worked across multiple industries, including Banking, Oil Rigs, Paper, Paint, Steam Boilers etc. The group has experience of over 7 decades in the Auto industry and over 5 decades in the Tractor industry in India and has demonstrated its ability to successfully navigate through multiple business cycles. Along with strong competent management team with a long track record in the industry, the company has ensured strong corporate governance practices and a prudent approach to management with a close operational oversight of its group companies.

Stability in the operating performance in FY21 despite headwinds in the auto industry

The auto industry has been facing headwinds since the past couple of years due to economic slowdown and regulatory changes like axle load norms and transition to BS VI, which was further exacerbated by the onslaught of COVID-19. However, the volumes witnessed recovery in the second half of FY21 due to pent up demand and festive season especially in the UV segment. The company also reported 17.4% (including exports) YoY growth in exports due to good monsoons. The farm machinery segment also reported 45% YoY revenue growth in FY21. Diversification in the revenue across auto and farm has helped the company to maintain stability in its operating performance despite challenges.

M&M on a combined basis has been able to maintain healthy operating margin of 15.65% in FY21 (PY: 14.15%) aided by stringent cost control measures and some price increases taken in the tractor segment.

Robust financial risk profile; albeit marginal deterioration in debt coverage indicators

M&M had robust debt coverage indicators marked by overall gearing of 0.26x (PY:0.12x) at the end of FY21 when analyzed on a combined basis along with Mahindra Vehicle Manufacturers Ltd (MVML). The marginal deterioration in the debt coverage indicators was due to higher debt availed to shore up liquidity amidst COVID related uncertainty. Nevertheless, the company continued to maintain cash positive position.

Key Rating Weaknesses**Auto business prone to macro-economic factors, inherent cyclicality as well as competition**

The CV business of M&M (especially MHCV) is highly correlated with economic cycles and hence displays significant variation in revenues over economic cycles. The passenger vehicle business, although more stable in comparison, is impacted by sentiments of buyers which in turn is influenced by overall state of the economy. CARE Ratings notes that these risks are to an extent mitigated by the relatively more stable sales in the tractor segment, where the key demand driver is the level of rural incomes which in turn is tied to adequacy of rainfall and farm output.

M&M has been adversely impacted by the significant increase in competition especially in the UV segment, especially with the introduction of compact SUVs by competitors, and has therefore witnessed significant reduction in its market share. In order to combat this, the company has already made some new launches. It also has a pipeline of new models to be launched in the course of next couple of years. CARE Ratings believes that while new models launches will help the company boost volumes, over the long term, M&M would continue to be exposed to the intense competition in the auto sector.

Exposure to group companies

The company has adopted a calibrated approach towards investment in subsidiaries and accordingly has identified companies which would continue to be investible [companies yielding at-least 18% Return on Equity (RoE) or those which are strategic in nature]. Accordingly, the company has guided for investment of Rs.1,500 crore in auto and farm companies and Rs.3,500 crore in other group companies over FY22-FY24. Higher than envisaged investment in group companies would need monitoring.

Liquidity: Strong

M&M+MVML has strong liquidity on a combined basis as evinced by cash profit of ~Rs.6,900 crore expected to be earned in FY22 against which M&M+MVML has long term repayment obligations to the tune of Rs.572 crore in FY22. The liquidity profile is expected to remain strong despite the planned capex of Rs.12,000 crore and investments of Rs.5,000 crore over FY22-FY24 which are expected to be met through internal accruals. Further, M&M had cash and cash equivalents and current investments of Rs.10,691.31 crore as on March 31, 2021 and its fund based working capital limits are largely unutilized. On a net debt basis, it continues to be negative. Furthermore, the company has more than adequate liquidity cushion to service the guaranteed debt of Ssangyong Motor Company (SYMC) as and when it becomes due.

Analytical approach: Combined

CARE has taken a combined approach for arriving at the ratings of M&M. CARE has combined the business and financial risk profiles of M&M (Standalone; Automotive segment) and its wholly owned subsidiary Mahindra Vehicle Manufacturers Limited (MVML) which manufactures utility vehicles (UVs), and commercial vehicles. The combined view has been taken as MVML is a wholly owned subsidiary of M&M and both the companies are in the same line of business. NCLT approved the Scheme of Merger of MVML with M&M on April 26, 2021, the certified copy of which was received on June 4, 2021. CARE has also factored in the support required to be extended by M&M (combined entity) to its group companies.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Commercial Vehicle Industry](#)

About the Company

Incorporated in 1945, Mahindra & Mahindra Limited (M&M) is the flagship company of the Mahindra group. The group, via various subsidiaries and joint ventures, is present in 20 industries, across 10 sectors. Its core businesses include manufacture of Auto [Passenger Vehicles (PV) {Utility Vehicles (UVs), passenger cars}, Commercial Vehicles (CV) [Light Commercial Vehicles (LCV), pick-ups, Medium & Heavy Commercial Vehicles (MHCV)], three-wheelers, two-wheelers etc.], Farm Equipment (tractors and other farm equipment) etc. M&M enjoys a dominant position in its leading business segments. It is the largest tractor company in India with a market share of 38.2% in tractor segment in India in FY20.

Brief Financials (Rs. crore) M&M (Combined)	FY20 (UA)	FY21 (UA)
Total operating income	44,865.52	44,574.44
PBILDT	6,350.56	6,976.57
PAT	739.71	922.94
Overall gearing (times)	0.12	0.26
Interest coverage (times)	51.00	17.33

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	38.58	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	547.45	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	-	1250.00	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	August 2025	0.47	CARE AAA; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	600.00	CARE AAA; Stable / CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	-	15.00	CARE A1+
Non-fund-based - LT-BG/LC	-	-	-	-	239.50	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	38.58	CARE A1+	-	1)CARE A1+ (23-Dec-20) 2)CARE A1+ (02-Dec-20)	1)CARE A1+ (07-Jan-20) 2)CARE A1+ (05-Apr-19)	1)CARE A1+ (05-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	547.45	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Dec-20) 2)CARE AAA; Stable (02-Dec-20)	1)CARE AAA; Stable (07-Jan-20) 2)CARE AAA; Stable (05-Apr-19)	1)CARE AAA; Stable (05-Apr-18)
3.	Fund-based - LT-Term Loan	LT	1250.47	CARE AAA; Stable	-	1)CARE AAA; Stable (23-Dec-20) 2)CARE AAA; Stable (02-Dec-20)	-	-
4.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	600.00	CARE AAA; Stable / CARE A1+	-	-	-	-
5.	Fund-based - ST-Working Capital Limits	ST	15.00	CARE A1+	-	-	-	-
6.	Non-fund-based - LT-BG/LC	LT	239.50	CARE AAA; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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