

Mahindra & Mahindra Limited (Revised)

October 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	786.95	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	53.58	CARE A1+ (A One Plus)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	1,440.53 (₹ One Thousand Four Hundred Forty Crore and Fifty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The assigned ratings for the bank facilities of Mahindra & Mahindra (M&M) continues to factor strong market position and leadership in domestic tractor industry, Light Commercial Vehicles (LCV) segment and EV-three-wheeler segment, well diversified business profile and experienced management. The ratings also consider the robust financial risk profile driven by strong capital structure and debt coverage metrics, along with financial flexibility supported by large un-encumbered cash and liquid investments. CARE also notes that M&M holds investments in some of the listed group entities where the market value of investments is higher than book value thus providing additional financial flexibility.

The rating strengths are tempered by exposure of the company to inherent cyclicity of the automobile industry and increasing competition in Utility Vehicle segment which is mitigated to an extent through diversified business portfolio. The Company is also exposed to risks on account of investments in subsidiaries/ joint ventures; however, CARE has taken cognizance of the management's strategy on appropriate capital allocation across group companies.

During FY22, M&M recorded a healthy revenue growth of 28.7% in FY22 driven by volume growth of 30.7% and higher realizations. The market share for domestic tractor improved to 40% (PY: 38.2%) in FY22 and further grew to 42.7% in Q1FY23 while LCV Goods market share was 37.8% in FY22. The operating margins*, however, saw a dip of 247.48 bps in FY22 owing to significant surge in raw material prices though there was improvement in Q1FY23. Going forward, M&M is expected to maintain its growth momentum and with the raw material prices softening, the margins are expected to recover.

Rating sensitivities

Negative factors – Factors that could lead to negative rating action/downgrade:

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

Detailed description of the key rating drivers

Key rating strengths

Strong market position:

M&M continues to be the market leader in the tractor segment in India; with a market share of around 40% (PY: 38.2%) as on March 31, 2022 and 42.7% in Q1FY23. The company continues to be in the leadership position for 39 consecutive years. Despite increasing inflation, the rising input cost of tractors, farm machinery, seeds etc, the rural sentiment saw a respite owing to the 3 consecutive years of good monsoon. M&M's market share in the UV segment increased to 15% in FY22 (PY: 14.7%) and further to 16.2% in Q1FY23 owing to the launch of re-branded XUV700 which garnered 1,00,000 bookings in first 4 months and the iconic Thar which crossed 1,00,000 booking in FY22. In the LCV<3.5T segment M&M has retained #1 position for 8

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

consecutive years (LCV<3.5T accounts for 59.1% of the total CV industry); M&M is also a leader in the Pick-up segment (LCV goods 2 to 3.5T) for 20 years and holds 55% market share.

Strong operating performance with improvement in margins to continue

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 and the supply chain disruptions caused by Russia-Ukraine war. However, the company reported 28.1% (including exports) YoY growth in automotive volumes due to good monsoon and improving consumer sentiment. The auto segment reported 44.86% YoY growth in value and 61.79% YoY growth in PBIT in FY22. Diversification in the revenue across auto and farm has helped the company to maintain stability in its operating performance despite challenges.

However, the operating margin dipped slightly from 17.58% in FY21 to 15.11%* in FY22 primarily on account of increase in the material cost. Severe supply chain constraints resulted increase in prices of raw materials like casting, forging, steel sheets and precious metals etc. However, during Q1FY23 margins have improved to 16.22% and with softening of commodity prices margins are expected to remain at healthy levels*.

Robust financial risk profile combined with high cash and liquid investments

M&M had robust capital structure and debt coverage indicators marked by overall gearing of 0.21x (PY:0.26x) at the end of FY22, owing to repayment of term loan and reduction in stake of loss-making companies as a part of the Capital Allocation Strategy. This combined with cash and liquid investment to the tune of Rs. 11,964 crores in FY22 have made the company net-debt free. The company plans to incur capex and investments of Rs 15075 crs over FY22-FY24. The capex is towards electric platform development, new product development and capacity expansion in the auto and farm segments and investments in group companies would majorly be funded through internal accruals. Care believes M&M's financial risk profile despite the capex execution would continue to remain robust and net debt free over the medium term.

Highly experienced promoters and management:

M&M is the flagship company of the Mahindra group with the track record of more than 75 years of operations. This group via its subsidiaries and joint venture is present in 20 industries, across 10 sectors including farm equipment, automotive, financial services, leisure and hospitality, real estate, logistics among others. The Non 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 and CEO. Dr. Anish Shah has worked across multiple industries. 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 an operational oversight of its group companies.

Key rating weaknesses

Auto business prone to macro-economic factors, inherent cyclicity 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, impacted by rising fuel prices and increasing inflation has affected the sentiments of buyers which has adversely impacted the sale of auto segment. 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 international competitors. In order to combat this, the company has made new launches in UV which has resulted in improved market share to 16.2% in Q1FY23 (FY22:15%) while M&M has the highest revenue market in SUV of 17.1% in Q1FY23. 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]. Over FY22-FY24 the company has provided guidance for investment outlay of Rs.1,500 crore in auto and farm companies and Rs.2,700 crore in other group companies. Higher than envisaged investment would continue to remain a rating monitorable.

Liquidity: Strong

M&M continues to have a strong liquidity position with significant cash and cash equivalents to tune of Rs 11,964 crs as on 31st March 2022 and unutilized fund based bank lines of Rs 2561 crs. M&M also holds large investment in group companies (listed) having high market value. M&M reported cashflow from operations of Rs. 7,093.69 crores in FY22 as against Rs. 9,953 crores in FY21 mainly led by slow-moving inventory owing to disruptions in supply chain and increase in debtors. The liquidity profile is expected to remain strong despite the planned capex and investment of Rs.15,075 crore over FY22-FY24 which are expected to be met through internal accruals. M&M enjoys strong financial flexibility with easy access to market and large investments in its group companies (listed).

Analytical approach: Standalone

CARE has adopted a Standalone approach for arriving at the ratings of M&M. CARE has also factored in the support required to be extended by M&M to its group companies

Applicable criteria

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

[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](#)

[Policy on Withdrawal of rating](#)

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 40% in tractor segment in India in FY22.

Brief Financials (₹ crore) *	FY21	FY22	Q1FY23
Total operating income	45,708.18	59,372.41	19,851.22
PBILDT	8,035.79	8,968.73	3,219.27
PAT	984.16	4,935.22	1,430.16
Overall gearing (times)	0.26	0.21	-
Interest coverage (times)	20.28	40.22	46.13

*Based on CARE's Methodology

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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- #		-	-	June 2025	0.00	Withdrawn

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
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

1250 Cr term loan has been pre paid in August 2022

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	38.58	CARE A1+	-	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (23-Dec-20) 2)CARE A1+ (02-Dec-20)	1)CARE A1+ (07-Jan-20) 2)CARE A1+ (05-Apr-19)
2	Fund-based - LT-Cash Credit	LT	547.45	CARE AAA; Stable	-	1)CARE AAA; Stable (03-Aug-21)	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)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AAA; Stable (03-Aug-21)	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+	-	1)CARE AAA; Stable / CARE A1+ (03-Aug-21)	-	-
5	Fund-based - ST-Working Capital Limits	ST	15.00	CARE A1+	-	1)CARE A1+ (03-Aug-21)	-	-
6	Non-fund-based - LT-BG/LC	LT	239.50	CARE AAA; Stable	-	1)CARE AAA; Stable (03-Aug-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Fund-based - ST-Working Capital Limits	Simple
5	Non-fund-based - LT-BG/LC	Simple
6	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

Contact us**Media contact**

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Arti Roy
Phone: 9819261115
E-mail: arti.roy@careedge.in

Relationship contact

Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saiikat.roy@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**