

Mahindra and Mahindra Financial Services Limited

March 06, 2020

Ratings

Instrument	Rated Amount (Rs. Cr.)	Rating ¹	Rating Action
Secured Non-Convertible Debenture (NCD)	6,421.5 (reduced from 6,696.5)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

Detailed Rationale & Key Rating Drivers

The rating assigned to the Secured Non-Convertible Debentures of Mahindra and Mahindra Financial Services (MMFSL) factors in the majority ownership by Mahindra & Mahindra Limited (M&M; rated 'CARE AAA; Stable') and strategic importance of MMFSL for M&M. The ratings also take into account the expected support from M&M, operational linkages with M&M, sharing of a common brand name, resource raising ability being part of the group, MMFSL's strong management, long track record of operations with strong position in financing of tractors and utility vehicles, comfortable capitalization and liquidity profile, diversified asset mix, well-diversified funding profile and moderate profitability profile. The ratings also factor in the stressed asset quality of the company due to the seasonal nature of income of its customers in rural and semi-urban areas, higher susceptibility to slowdown in the overall economy and moderate profitability parameters. Credit profile of the parent (M&M), strategic importance of MMFSL for M&M, asset quality, profitability and capitalization are the key rating sensitivities.

Rating Sensitivities:

Negative Factors

- Sustained deterioration in asset quality parameters at the consolidated level, with Gross NPA exceeding 12%.
- Any material negative action on the parent company.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage, shared brand and management support:

MMFSL is a subsidiary of Mahindra & Mahindra Ltd. (rated CARE AAA; Stable (Triple A; Outlook: Stable)) which has a leadership position in the tractors and utility vehicles (UV) segment in India, with market share of ~44% and ~27.9% respectively as at March 31, 2019. M&M has been supporting MMFSL through shared 'Mahindra' brand as well as representation on Board of Directors as well as management support. The Board of Directors of MMFSL is headed by Mr. Dhananjay Mungale (Chairman & Independent Director) who is a member of the ICAI and has a Bachelor's Degree in Commerce and Law from Mumbai University. He has spent a major part of his career in corporate and investment banking in India and Europe. The operations of the Company are headed by Mr. Ramesh Iyer who is Vice-Chairman & Managing Director and has been with MMFSL since inception in 1995. He is also member of the Group Executive Board of M&M, the holding company, and on the Board of various Mahindra Group companies which explores synergies between all the businesses and formulates strategic plans. Board of MMFSL has representation from the Mahindra group by Dr. Anish Shah (Group President – Strategy at M&M) and Mr. V S Parthasarathy (Group CFO and CIO for M&M). The CFO, Mr. V. Ravi, has also been associated with the Mahindra Group for 27 years.

Strategically important subsidiary for the parent:

MMFSL is crucial to M&M's sales of rural and semi-urban products like tractors and utility vehicles. MMFSL is a strategically important subsidiary for M&M since M&M vehicles constitute 43% of AUM of MMFSL as on December 31, 2019. M&M continues to maintain its majority shareholding (51.19%) in MMFSL as on December 31, 2019. MMFSL is crucial to M&M's sales of rural and semi-urban products like tractors (31% of M&M sales financed by MMFSL as on December 31, 2019) and Auto/utility vehicles (37% of M&M sales financed by MMFSL as on December 31, 2019) and is the largest financier of M&M vehicles as on December 31, 2019.

Long track record of operations and diversified OEM base:

MMFSL started business in 1991 and has experience of operating in various business cycles. It started mainly as a captive financier for M&M but from 2002-03 the Company has started financing vehicles of other Original Equipment Manufacturers (OEMs) like Maruti, Hyundai, Eicher, Nissan, Tata etc.

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

Strong Operational linkages with M&M:

Being a subsidiary of M&M it enjoys strong linkages and has relationship with the dealer network of M&M and preferred financier for most of its dealer network. As on December 31, 2019 about 43% of MMFSL's AUM was from M&M assets.

Comfortable capital adequacy ratio:

MMFSL has consistently maintained comfortable capital adequacy ratio at or above 17% during last 3 years. As on March 31, 2019, total capital adequacy ratio (CAR) stood at 20.30% with a Tier I CAR at 15.50% as against CAR of 22.70% with Tier I CAR of 17.00% as on March 31, 2018. The Company reported Capital Adequacy Ratio (CAR) of 19.4% with Tier I CAR of 15.2% as on December 31, 2019 against CAR of 19.4% with Tier I CAR of 14.7% as on December 31, 2018.

Diversified funding profile:

MMFSL has a well diversified funding profile both in terms of investor base and type of instruments. During FY19, the Company raised Rs.2,147 crore from Public Issue of NCD and successfully completed maiden issue of ECB amounting to \$200 million. The Company has bank lines from a variety of banks to meet its funding requirements. The Company also securitises its portfolio every year which is another source of funding. The Company's borrowing stood at Rs.58,950 crore as on December 31, 2019. As on December 31, 2019, the funding profile of the company in terms of investor mix consists of banks (45.5%), insurance & pension funds (17.6%), mutual funds (13%), FIIs & corporates (7.9%) and others (15.9%).

Diversified portfolio mix

MMFSL, on a standalone basis, had total assets (including provisions) of Rs.73,238 crore as on December 31, 2019 compared to Rs.68,941 crore as on March 31, 2019 comprising asset classes like Auto/utility vehicles (27%), Car (21%), Tractor (17%), Commercial vehicles & Construction equipment (18%), Pre owned vehicles (10%), SMEs and others (7% comprising 5% SME loans). Also, the proportion of Non M&M vehicles financed has increased in the past 3-4 quarters.

Key Rating Weaknesses**Asset quality under pressure:**

In line with the industry, MMFSL has witnessed asset quality stress over the previous three years because of its presence in segments which are closely linked to the rural economy. The Company reported GNPA and Net NPA ratio of 5.90% and 4.80% respectively as on March 31, 2019 as compared to Gross NPA and Net NPA of 9.00% and 6.20% respectively as on March 31, 2018 mainly due to seasonal nature of payments from customers of tractors and other asset classes in rural and semi-urban areas. The Company reported Gross NPA of 8.5% and Net NPA of 6.7% as on December 31, 2019 as against Gross NPA and Net NPA of 7.7% and 5.8% respectively as on December 31, 2018. The Company has provision coverage ratio (PCR) of 22.9% as on December 31, 2019 as against 26.9% as on December 31, 2018 (on stage III assets). Management indicated that historically payments pick up post-harvest and festive season during October/November. As such, the asset quality tend to improve during the third and fourth quarter. MMFSL asset quality is closely linked with rural economy and has seen deterioration, due to consecutive two years of drought in previous years and slowing down of rural economy. Further, the asset quality parameters follow seasonality in line with agriculture pattern leading to rise in NPA levels in Q1 and Q2 with recovery by end of Q3 and Q4.

Liquidity profile: Adequate

The Company does not have any negative cumulative mismatch up-to 1Y bucket as on December 31, 2019. The Company has debt obligation of Rs.16,700 crore for the next 1 year against which, it has inflow from advances and assets on lease to the tune of Rs.22,385 crore for the next 1 year. In addition, the Company has access to funds from various group companies by way of in-principle line of credit (subject to regulation of 10% of net worth of MMFSL) from M&M (Parent) and Tech Mahindra which have cash surplus. Being part of the Mahindra Group, MMFSL has demonstrated strength in mobilizing funds to meet any liquidity requirements.

Analytical approach: CARE has considered the financial risk profile of MMFSL and its key subsidiaries along with parentage and operational linkages with M&M.

Applicable Criteria

[Rating Methodology- Non-Banking Finance Companies](#)

[Rating Outlook and Credit Watch](#)

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

[Rating of Short-term Instruments](#)

[Consolidation and Factoring Linkages](#)

[Financial ratios - Financial Sector](#)

About the company

MMFSL is a subsidiary of Mahindra & Mahindra Limited (M&M; rated 'CARE AAA; Stable') (51.19% stake) which enjoys market leadership position in its key product segments like tractor and utility vehicle financing. 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 Original Equipment Manufacturers (OEMs) like Maruti, Hyundai, Nissan and Tata. As on December 31, 2019, the Company has 1,326 offices covering 28 states and 5 union territories in India. As on December 31, 2019 MMFSL, had total assets (including provisions) of Rs.73,238 crore as on December 31, 2019 compared to Rs.68,941 crore as on March 31, 2019 comprising asset classes like Auto/utility vehicles (27%), Car (21%), Tractor (17%), Commercial vehicles & Construction equipment (18%), Pre owned vehicles (10%), SMEs and others (7% comprising 5% SME loans). MMFSL is a strategically important subsidiary for M&M since M&M vehicles constitute ~43% of AUM of MMFSL as on December 31, 2019. MMFSL is crucial to M&M's sales of rural and semi-urban products like tractors (31% of M&M sales financed by MMFSL as on December 31, 2019) and Auto/utility vehicles (37% of M&M sales financed by MMFSL as on December 31, 2019) and is the largest financier of M&M vehicles as on December 31, 2019. MMFSL has four main subsidiaries namely, Mahindra Insurance Brokers Ltd. (80% stake; Balance 20% with Inclusion Resources Pvt. Ltd. (IRPL), subsidiary of AXA XL Group), Mahindra Rural Housing Finance Ltd (98.43% stake; Balance 1.57% with MRHFL Employee Welfare Trust), Mahindra Asset Management Company Pvt. Ltd. (100%) and Mahindra Trustee Company Pvt. Ltd. (100%). It also has a US based joint venture company, Mahindra Finance USA LLC.(49%, balance with Rabobank group subsidiary), 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. As on March 31, 2019 on a consolidated basis, the Company had a tangible net worth of Rs.10,506 crore and a gross loan portfolio of Rs.61,250 crore. MMFSL is headed by Mr. Ramesh Iyer as the Managing Director and Mr. Dhananjay Mungale is the company's Chairman (independent director). Mr. Iyer has been associated with the company since inception and is also a member of Group Executive Board of M&M. Mr. Mungale is the independent chairman of the company and brings with him vast experience of corporate and investment banking

Brief Financials: (Standalone)

(Rs. Crore)

Particulars*	FY18 (A)	FY19 (A)
Total Operating Income	6,685	8,810
PAT	1,076	1,557
Interest Coverage (times)	1.54	1.60
Total Assets	52,158	66,676
Net NPA (%)	6.2%	4.8%
ROTA (%)	2.21	2.62

A: Audited *as per IND AS. Total Assets are net off Deferred Tax Assets, Revaluation Reserves and Intangible assets. All ratios are as per CARE Calculations

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Instrument Type	Date of Issuance	ISIN	Coupon Rate (%)	Date Of Maturity	Size of Issue (Rs. Crore)	Rating assigned along with Outlook
Secured NCD	15-Dec-14	INE774D07KT2	8.95	13-Dec-24	175.00	CARE AAA; Stable
Secured NCD	23-Jan-15	INE774D07KW6	8.79	23-Jan-25	250.00	CARE AAA; Stable
Secured NCD	10-Mar-15	INE774D07LB8	8.70	10-Mar-25	55.00	CARE AAA; Stable
Secured NCD	24-Mar-15	INE774D07LE2	8.72	24-Mar-25	50.00	CARE AAA; Stable
Secured NCD	22-Apr-15	INE774D07LO1	9.00	22-Apr-25	500.00	CARE AAA; Stable
Secured NCD	24-Jun-15	INE774D07MK7	9.00	24-Jun-25	500.00	CARE AAA; Stable
Secured NCD	29-Jun-15	INE774D07ML5	8.95	29-Jun-22	97.00	CARE AAA; Stable
Secured NCD	29-Jun-15	INE774D07MM3	8.95	27-Jun-25	15.00	CARE AAA; Stable
Secured NCD	09-Oct-15	INE774D07NN9	8.75	09-Oct-25	250.00	CARE AAA; Stable
Secured NCD	30-Oct-15	INE774D07NT6	8.48	30-Oct-20	250.00	CARE AAA; Stable
Secured NCD	29-Mar-16	INE774D07OM9	8.82	29-Mar-21	271.00	CARE AAA; Stable
Secured NCD	04-Apr-16	INE774D07OP2	8.68	04-Sep-19	100.00	Withdrawn
Secured NCD	01-Sep-16	INE774D07PN4	8.05	30-Aug-19	50.00	Withdrawn
Secured NCD	15-Sep-16	INE774D07PR5	ZERO*	16-Sep-19	125.00	Withdrawn
Secured NCD	29-Nov-16	INE774D07QF8	7.50	29-Nov-21	20.00	CARE AAA; Stable
Secured NCD	27-Mar-17	INE774D07RD1	7.85	25-Mar-22	25.00	CARE AAA; Stable
Secured NCD	19-Apr-18	INE774D07SC1	8.25	19-Apr-22	200.00	CARE AAA; Stable
Secured NCD	19-Nov-18	INE774D07SM0	9.49	22-Feb-22	120.00	CARE AAA; Stable
Secured NCD	08-Aug-19	INE774D07TG0	8.48	08-Aug-29	2,000.00	CARE AAA; Stable
Secured NCD	05-Mar-20	INE774D07TL0	7.45	11-Dec-24	400.00	CARE AAA; Stable
Secured NCD	05-Mar-20	INE774D07TM8	7.75	05-Mar-30	77.50	CARE AAA; Stable
Secured NCD [#]	18-Jan-19	INE774D07SR9	9.00	18-Apr-22	79.00	CARE AAA; Stable
Secured NCD [#]	18-Jan-19	INE774D07SS7	9.05	18-Apr-22	326.41	CARE AAA; Stable
Secured NCD [#]	18-Jan-19	INE774D07ST5	9.10	18-Jan-24	93.30	CARE AAA; Stable
Secured NCD [#]	18-Jan-19	INE774D07SU3	9.15	18-Jan-24	442.26	CARE AAA; Stable
Secured NCD [#]	18-Jan-19	INE774D07SV1	9.20	18-Jan-27	17.55	CARE AAA; Stable
Secured NCD [#]	18-Jan-19	INE774D07SW9	9.30	18-Jan-27	851.61	CARE AAA; Stable

§: Private Placement, #: Public Issue, &: Partly paid – Rs.400 crore *XIRR: 7.95%

@: Partly paid – Rs.1,000 crore issue size

% of FV	20	20	20	20	20
Date	19-Apr-18	19-Apr-20	19-Apr-21	19-Apr-21	19-Apr-22

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	175.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
2.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
3.	Debentures-Non Convertible Debentures	LT	400.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
4.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
5.	Debentures-Non Convertible Debentures	LT	700.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
6.	Debt-Subordinate Debt	LT	300.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
7.	Debentures-Non Convertible Debentures	LT	971.50	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
8.	Debentures-Non Convertible Debentures	LT	225.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
9.	Debt-Subordinate Debt	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
10.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)
11.	Debentures-Non Convertible Debentures	LT	200.00 (reduced from 475)	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16) 2)CARE AAA (18-Apr-16)
12.	Debentures-Non Convertible Debentures	LT	1250.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18) 2)CARE AAA; Stable (12-Apr-18)	-	-
13.	Debt program	LT	10000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (08-Oct-18)	-	-
14.	Debentures-Non Convertible Debentures	LT	1,000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Jan-20)	1)CARE AAA; Stable (12-Dec-18)	-	-
15.	Debentures-Non Convertible Debentures	LT	2,500.00	CARE AAA; Stable	1) CARE AAA; Stable (08-Jan-20) 2) CARE AAA; Stable (26-Jun-19)	-	-	-

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

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