

Mahindra & Mahindra Limited

January 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	184	CARE AAA; Stable (Triple A; Outlook:Stable)	Reaffirmed
Short term Bank Facilities	66	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	250 (Rupees Two Hundred and Fifty crore)		

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) continues to factor in its dominant market position in the Indian tractor industry and Light commercial vehicles (LCV) segment. Although, M&M has also witnessed some moderation in its sales volume amidst the current industry wide slow down faced by commercial vehicle manufactures, however it continued to hold market share in some of the key commercial vehicles categories. The rating also continues to factor in the experience and depth of management, marked by successful implementation of well laid-out succession plan.

The rating continues to favorably take into account the company's strong financial risk profile, marked by strong debt coverage indicators and superior liquidity position on back of large un-encumbered liquid investments.

The rating also factors in the exposure of the company to inherent cyclicity of the automobile industry and increasing competition in Utility Vehicle segment. However, the same is partially mitigated by the diversified business portfolio of the company.

M&M's ability to maintain its strong market position in the automotive business and any deterioration in the financial risk profile on the back of substantial capex requirements towards product development and investment in subsidiaries will be the key monitorables.

Rating Sensitivities

Negative Factors

- Any large debt funded organic or inorganic investment weakening the financial risk profile.
- Further decline in UV market share to below 20% coupled with significant negative 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 holds leadership position in tractor segment since last three decades; it held market share of over 40% till March 2019. M&M continues to have a healthy market share in the UV segment; however the same has reduced since FY16. At the end of FY19, the market share stood at 25.0% (PY: 25.4%). The reduction in the market share is on the back of 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 has also made some new launches in FY19 which include Marazzo, XUV300 and Altruas G4. Further, M&M is also in the process of developing three new models which will be launched starting Q4FY21.

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. Pawan Goenka, Managing Director. 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.

Ability to maintain stability in the operating performance in FY19 and H1FY20 despite headwinds in the auto industry:

The auto industry has been facing headwinds since H2FY19 due to confluence of factors which include increase in capacity of commercial vehicles due to revised axle load norms, lack of availability of finance and general economic slowdown. These factors continued to impact the demand for automobiles especially Commercial vehicle segment in

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

H1FY20 as well. However, despite the slowdown, M&M on a combined basis has been able to maintain stability in its operating performance as evinced by healthy operating margin of 14.2% in FY19 (PY: 14.80%) and 14.05% in H1FY20 (Previous period: 15.14%). Although the volumes have declined in H1FY20, benign material costs supported margins to an extent.

Robust financial risk profile:

M&M has a robust financial risk profile marked by low overall gearing (Total debt/Equity) of 0.08x at the end of March 31, 2019 on a combined basis. The leverage ratios of M&M continue to remain strong as evidenced by Total debt/GCA of 0.36x at the end of March 31, 2019. Interest coverage ratio also remained robust at 51.33x as on March 31, 2019. M&M follows a policy of meeting its capex requirements as well as investments requirements largely through internal accruals. Thus going forward as well, the debt coverage indicators are expected to remain robust. As on September 30, 2019, the overall gearing equity ratio stood at 0.07x.

Key Rating Weaknesses

Macro-economic factors and the inherent cyclicality of the automobile industry:

The core business of M&M is highly dependent on the economic stability and seasonality associated with the automobile industry. M&M has been adversely impacted by the significant increase in competition especially in the UV segment, with the entry of compact SUV, and has therefore witnessed significant reduction in its market share. In order to combat this, the company has already made some new launches in FY19 and would be launching 3 new models in the course of next couple of years. The diversified portfolio of the company and its presence across various businesses has helped to mitigate the risk of cyclical nature of the business.

Liquidity: Strong

The liquidity position of M&M is strong as reflected by cash and cash equivalents of Rs.2791.61 crore and current investments of Rs.3075.49 crore as on September 30, 2019. M&M had unutilized fund based working capital limit of Rs.516.47 crore as on September 30, 2019. Furthermore, the working capital cycle continued to remain negative during FY19 due to the prudent working capital management practices followed by the company.

Analytical approach:

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. Further, MVML is also in the process of being merged with M&M. CARE has also factored in the support required to be extended by M&M (combined entity) to its group companies.

Applicable Criteria

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

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

[Short Term Instruments](#)

[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 40.2% in tractor segment in India in FY19.

Covenants of rated instrument / facility: Not available

Brief Financials (Rs. crore) M&M (Combined)	FY18 (UA)	FY19 (UA)	H1FY20 (UA)
Total operating income	47,577.36	52,848.21	23,740.52
PBILDT	7,043.42	7,530.06	3,334.36
PAT	4,623.22	5,401.18	3614.54
Overall gearing (times)	0.11	0.08	0.07
Interest coverage (times)	37.43	51.33	52.70

UA: Unaudited

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

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	-	-	-	-	66.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	184.00	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 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.	Non-fund-based - ST-BG/LC	ST	66.00	CARE A1+	1)CARE A1+ (05-Apr-19)	1)CARE A1+ (05-Apr-18)	1)CARE A1+ (28-Apr-17)	1)CARE A1+ (11-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	184.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-19)	1)CARE AAA; Stable (05-Apr-18)	1)CARE AAA; Stable (28-Apr-17)	1)CARE AAA (11-Apr-16)

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

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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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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