

Mahindra and Mahindra Financial Services Limited

June 26, 2019

Ratings:

Instruments	Amount (Rs. Core)	Rating ¹	Rating Action
Non-Convertible Debenture (NCD) (Proposed)	2,500 (Rs. Two Thousand Five Hundred Crore only)	CARE AAA; Stable [Triple A; Outlook: Stable]	Assigned
Non-Convertible Debenture (NCD)	5,196.50 [#] (Rs. Five Thousand One Hundred Ninety Six Crore Fifty Lakh only) (Reduced from Rs.5,450 Crore)	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed

#: Amount reduced as the company has redeemed NCD of Rs.253.50 crore

Details of instruments / facilities given in Annexure – 1

Detailed Rationale and Key Rating drivers:

The ratings assigned to the debt instruments of Mahindra and Mahindra Financial Services (MMFSL) factor 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 and well-diversified funding profile and moderate profitability profile.

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 have 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.

Detailed description of Key Rating Drivers:

Key Rating Strengths:

Strong parentage, shared brand and Board of Directors and management support

MMFSL is a subsidiary of Mahindra & Mahindra Ltd. 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 has vast experience in corporate and investment banking. The operations of the company are headed by Mr. Ramesh Iyer who is the Vice-Chairman and 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).

Strategically important subsidiary for the parent

MMFSL is a strategically important subsidiary for M&M being the largest financier of vehicles of M&M financing ~30% of total vehicles. MMFSL further supports M&M in sales of rural and semi-urban products like tractors and utility vehicles. As on March 31, 2019, 43% (P.Y.: 55%) of AUM of MMFSL was towards M&M vehicles.

Long track record of operations and diversified OEM base

MMFSL started business in 1991 and hence has a long track record of operations. It has the experience of operating in various business cycles. It started as a captive financier for M&M but from 2002-03 the company has

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

started financing vehicles of other Original Equipment Manufacturers (OEMs) like Maruti Suzuki, Hyundai, Eicher, Nissan, Tata, etc. 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.

Comfortable capital adequacy

MMFSL has consistently maintained comfortable capital adequacy ratio at or above 17%. During FY18 (refers to period from April 01 to March 31), the company raised equity capital of Rs.2,111 crore, out of which Rs.1,055 crore was raised through preferential allotment to M&M; thereby maintaining its majority shareholding at 51.19% and Qualified Institutional placement amounting to Rs.1,056 crore. The equity infusion helped the company to maintain comfortable capital adequacy with Capital Adequacy Ratio (CAR) of 20.30% (Tier I CAR: 15.50%) as on March 31, 2019 as compared to CAR of 21.90% (Tier I CAR: 16.00%) as on March 31, 2018. The company's overall gearing stood at 5.03 times as on March 31, 2019 as compared to 4.46 times as on March 31, 2018.

Comfortable liquidity profile

The company has strong liquidity profile with no negative cumulative mismatch across buckets. The company also 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 other group companies.

Diversified funding profile

MMFSL has a wide spectrum of 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 (approximately Rs.1,300 crore). 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. As on March 31, 2019, the funding profile of the company in terms of investor mix consists of banks (46.4%), insurance & pension funds (15.8%), mutual funds (14.4%), FIs & corporates (10.1%) and others (13.3%).

Diversified portfolio mix

MMFSL, on a standalone basis, had an total assets (including provisions) of Rs.68,941 crore as on March 31, 2019, which is well diversified with various asset classes like Auto/utility vehicles (26%), car (21%), tractor (17%), commercial vehicles & Construction equipment (18%), Pre owned vehicles (9%), SMEs and others (9%) (Share of SMEs: 5%).

Moderate profitability profile

During FY19 (UA), MMFSL saw improvement in recovery and collections resulting in improvement in profitability. It reported PAT of Rs.1,557 crore on total income of Rs.8,810 crore during FY19 as compared to PAT of Rs.1,076 crore on total income of Rs.6,685 crore during FY18. In terms of Return ratios, the company reported Return on Total Assets (ROTA) of 2.62% and Return on Tangible Net-worth² (RONW) of 15.98% as on March 31, 2019.

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 Gross NPA ratio of 5.90% (P.Y.: 9.00%) and Net NPA ratio of 4.80% (P.Y.: 6.20%) respectively as on March 31, 2019 due to revision in provision on loan portfolio which is now based on the Expected Credit Loss (ECL) model and recognition of accrued interest on Stage 3 (NPA) portfolio. Net NPA to net worth was 15.10% (P.Y.: 23.18%) as on March 31, 2019.

Analytical approach: CARE has taken a view based on the standalone financial profile of MMFSL and factoring in the parentage and operational linkages with M&M.

² Tangible Net-worth not adjusted for Intangible Assets & Deferred Tax Assets (DTA)

Applicable criteria:

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

[Criteria for assigning Outlook to Credit Ratings](#)

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

[Rating of Short-term Instruments](#)

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

[Financial ratios - Financial Sector](#)

Liquidity profile:

As on March 31, 2019, the company's asset liability maturity (ALM) profile had no cumulative negative mismatches in the time buckets up to 1 year. Over the next six months, the company had total debt repayments amounting to Rs.5,196 crore against which the company had inflows from advances (performing) to the tune of Rs. 2,445 crore. The company had unutilized limit of Rs.1,118 crore with banks post cash credit balance. Further, the company also had additional unutilized bank term loans / working capital loans sanctioned and documents executed of approximately Rs.1,209 crore.

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 other group companies which have cash surplus which provide comfort. Being part of the Mahindra Group, MMFSL also has the strength to mobilise funds to meet any liquidity requirements.

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 Suzuki, Hyundai, Nissan and Tata. As on March 31, 2019, the company had 1,321 offices covering 27 states and 5 union territories in India and over 5.68 million vehicle finance customer contracts since inception. As of March 31, 2019, MMFSL had a total assets (including provisions) of Rs.68,941 crore. The AUM of MMFSL comprises of asset class like Auto/utility vehicles (26%), car (21%), tractor (17%), commercial vehicles & Construction equipment (18%), Pre owned vehicles (9%), SMEs and others (9% comprising majorly trade SME loans) as on March 31, 2019. MMFSL is a strategically important subsidiary for M&M since M&M vehicles constitute ~43% of AUM of MMFSL as on March 31, 2019. MMFSL is crucial to M&M's sales of rural and semi-urban products like tractors and utility vehicles and is the largest financier of M&M vehicles. MMFSL has four main subsidiaries namely, Mahindra Insurance Brokers Limited (MIBL) (80% stake; Balance 20% with Inclusion Resources Pvt. Ltd. (IRPL), subsidiary of AXA XL Group), Mahindra Rural Housing Finance Limited (MRHFL) (89% stake; Balance 9.68% with National Housing Bank (NHB), 1.57% with MRHFL Employee Welfare Trust. In March 2019, the Board of Directors of the Company approved the acquisition of 9.68% of MRHFL held by NHB for a consideration of Rs. 2,867.76 million), 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., 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 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:

(Rs. Crore)

Particulars	FY18 (UA)	FY19 (UA)
Total Operating Income	6,634	8,723
PAT	1,076	1,557
Interest Coverage (times)	1.54	1.60
Total Assets [^]	52,158	66,676
Net NPA (%)	6.20	4.80
ROTA (%)	-	2.62

UA: Unaudited; ^: Not adjusted for Intangible Assets & Deferred tax Assets (DTA)

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	Date Of Issue	Date Of Maturity	Coupon (%)	Amount (Rs. Cr)	Existing Rating
Non-Convertible Debenture (NCD) (Proposed)	-	-	-	2,500	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	175.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
2.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
3.	Debentures-Non Convertible Debentures	LT	400.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
4.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
5.	Debentures-Non Convertible Debentures	LT	700.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
6.	Debt-Subordinate Debt	LT	300.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
7.	Debentures-Non Convertible Debentures	LT	971.50	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16) 2)CARE AAA

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
								(08-Jul-15)
8.	Debentures-Non Convertible Debentures	LT	400.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
9.	Debt-Subordinate Debt	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (04-Mar-16) 2)CARE AAA (05-Jan-16)
10.	Debt-Subordinate Debt	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	1)CARE AAA; Stable (09-Oct-17)	1)CARE AAA; Stable (31-Dec-16)	1)CARE AAA (05-Jan-16)
11.	Debentures-Non Convertible Debentures	LT	475.00	CARE AAA; Stable	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-Oct-18) 2)CARE AAA; Stable (12-Apr-18)	-	-	-
13.	Debt program	LT	10000.00	CARE AAA; Stable	1)CARE AAA; Stable (08-Oct-18)	-	-	-
14.	Debentures-Non Convertible Debentures	LT	1,000.00	CARE AAA; Stable	1)CARE AAA; Stable (12-Dec-18)	-	-	-
15.	Debentures-Non Convertible Debentures	LT	2,500.00	CARE AAA; Stable	-	-	-	-

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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