CRISIL Ratings

Rating Rationale

December 30, 2021 | Mumbai

Mahindra and Mahindra Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.1350 Crore**
Long Term Rating	**CRISIL AAA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.475 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.500 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.500 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**
Rs.1000 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities and debt instruments of Mahindra and Mahindra Limited (M&M).

The ratings continue to reflect the leadership position of M&M in the Indian tractor industry, its strong presence in the light commercial vehicles (LCVs) segment, and the benefits of diversification. The ratings also factor in the strong financial risk profile, supported by a robust balance sheet with low leverage and high financial flexibility. These strengths are partially offset by the decline in market share in the utility vehicle (UV) space over the last few years, and exposure to cyclicality inherent in the farm equipment (tractor) and automotive (auto) segments and risks pertaining to acquisitions and investments in subsidiaries/joint ventures (JVs).

During the first half of fiscal 2022, M&M's operating income rose by 45% year-on-year to Rs 25,068 crore over a low base, coupled with strong growth in both auto and tractor volume. Volume, particularly in the UV segment was adversely hit by shortage of semiconductors. Operating margin moderated to 13.1% (220 basis points lower than the level in first half of fiscal 2021), largely due to steep input commodity inflation. CRISIL Ratings expects the shortage of semiconductors to ease gradually over the next several months, and this, along with healthy demand from its new launches, particularly the XUV 7OO and Thar, should support volume growth in the UV segment. Improving economic activity and healthy demand from sectors such as e-commerce and logistics should lead to higher demand for LCVs. Tractor volume growth is expected to moderate given the high base, yet remain healthy aided by a strong rural economy. Operating margin should be supported by easing commodity inflation and multiple price hikes taken by the company

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of M&M and its ventures in the UV, CV and farm equipment segments, which are considered as its core businesses. The company also has investments in group entities in the agriculture, financial services, hospitality, aerospace, consulting services, defense, information technology, chemicals, energy, industrial equipment, logistics, real estate, retail, components, and steel industries. These group entities should receive support from M&M, depending on their strategic importance to the latter, and the extent of its shareholding and investments in them. CRISIL Ratings moderately consolidates SYMC, given the limited financial support being extended to the entity.

CRISIL Ratings has made financial adjustments to factor in this support. For the financing business undertaken by Mahindra and Mahindra Financial Services Ltd ('CRISIL AA+/Stable/FAAA/Stable/CRISIL A1+'), CRISIL Ratings has adjusted its assets and liabilities as per its capital allocation approach.

Refer annexure for the details of entities consolidated as per CRISIL Rating's approach and its analytical treatment

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Leadership in the Indian tractor industry and healthy market position in LCVs**
  The company enjoys a leadership position in the domestic tractor industry in all major regions, and has maintained a market share of around 40% over the last decade, aided by its superior channel reach and strong understanding of market dynamics. It also has a strong presence in LCVs. Market share in the goods LCV (lower than 7.5 metric tonne [MT] gross vehicle weight [GVW]) division has been sustained at over 37% in the last five years. Established presence in these segments ensured healthy cash flow and resilient profitability.

  Good product development capabilities, proficient channel management along with sufficient production capacity , should help the company maintain its strong market position over the medium term. This, along with product and geographic diversity, should ensure a stable business risk profile, despite the impact of increasing competition and inherent cyclicality.

- **Robust financial risk profile supported by conservative capital structure, and significant market value of investments**
  Financial risk profile is robust, marked by sizeable networth, conservative gearing and surplus liquidity. Healthy free cash flow should support the financial risk profile, especially given the moderate planned capital expenditure (capex) and investments in the near term. Moreover, financial flexibility is significant because of investments in listed subsidiaries and associates, which are currently valued much higher than their book value. The strong financial risk profile provides cushion to counter the impact of cyclicality and competitive intensity in the domestic auto and tractor segments.

Weaknesses:

- **Declining market share in the intensely competitive UV segment**
  While M&M's focus remains on core SUV space, its market share dropped in broader UV segment to 15% in fiscal 2021, from 19% in fiscal 2020 (as per CRISIL research data), amidst increased competition and limited launches. However, the company's recent launches have garnered a strong response from the market, as reflected from outstanding bookings of over 1.6 lakh units on October 2021. Nevertheless, entry of new players and large number of launches in the UV segment will continue to exert competitive pressure.

  In January 2021, M&M announced that it will not be pursuing its JV plan with Ford Motor Company ; however, this is unlikely to have any impact over the existing model launch pipeline.

- **Exposure to cyclicality in auto and tractors segments**
  Demand for tractors remains vulnerable to monsoons. A bad monsoon can result in high intra-cycle volatility in demand for tractors. Moreover, availability of finance and other factors affecting rural income, such as crop prices and non-farm income, also constrain demand. Nevertheless, profitability has demonstrated resilience to downturns in industry volume in the past, given the company's pricing power and cost efficiency. The domestic auto industry has also displayed a degree of cyclicality in line with industrial growth. Also, susceptibility to regulatory changes, especially pertaining to diesel vehicles, persists.

- **Exposure to risks pertaining to acquisitions, and investments in subsidiaries and JVs**
  Given its growth aspirations and acquisitive strategy, M&M may seek opportunities in strategic acquisitions in key products and markets. Most of these acquisitions are likely to be in line with the key line of business and should strengthen the overall business risk profile. Some of the investments in segments such as electric vehicles and medium and heavy CV segments are in early stages, with the company likely to follow a conservative approach towards capital allocation. Further, with focus on generation of return on capital employed, capital allocation will focus on companies with strong business prospects. Going forward, turnaround in loss-making investee companies and M&M's policy towards the same is a key monitorable.

Liquidity: Superior

Cash accrual of 5,000-6,000 crore expected over fiscals 2022-24, along with a large cash and liquid surplus of about Rs 10,832 crore as on March 31, 2021 (M&M Standalone), supports liquidity. This should more than suffice to fund incremental capex/investment plans, working capital and long-term and short-term debt obligations for fiscal 2022. Financial flexibility is further enhanced by access to capital markets and significant investments in listed subsidiaries/associates, which can be liquidated, if required.

Outlook: Stable

Strong financial risk profile should help M&M absorb the impact of cyclicality and competitive intensity in its core auto and farm equipment business, and the moderate performance of some of its investments.

Rating Sensitivity factors

Downward factors

- Any large, debt-funded investments (including acquisitions), support to subsidiaries, or lower-than-expected cash flow , weakening the financial risk profile.
- Continued decline in UV market share, leading to significant negative free cash flow generation.

About the Company
M&M, incorporated in 1945, is among the leading tractor manufacturers in the world, and a leading manufacturer of goods LCVs in India. It also manufactures UVs, medium and heavy CVs, three-wheelers, two-wheelers, and passenger cars. The company has manufacturing facilities in Mumbai, Nashik, Igatpuri, Nagpur and at Chakan (part of M&M's 100% subsidiary - Mahindra Vehicle Manufactures Ltd), (all in Maharashtra), Zaheerabad (Andhra Pradesh), Rudrapur and Haridwar (both in Uttarakhand) and Jaipur (Rajasthan).

The Mahindra group, through its subsidiaries and group companies, operates in varied sectors such as information technology, financial services, and vacation ownership. In addition, it has presence in the agribusiness, aerospace, components, consulting services, defence, energy, industrial equipment, logistics, real estate, retail, steel, commercial vehicles, and two wheeler industries, among others.

Key Financial Indicators*

Particulars for Period Ended March 31	Unit	2021	2020
Revenue	Rs crore	45,041	45,488
Profit after tax (PAT)	Rs crore	269	1,331
PAT margins	%	0.6	2.9
Adjusted debt/adjusted networth	Times	0.2	0.1
Interest coverage	Times	21	66

**Standalone CRISIL-adjusted numbers*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Level	Rating assigned with outlook
INE101A08070	Debentures	04-Jul-13	9.55%	04-Jul-63	500.00	Simple	CRISIL AAA/Stable
INE101A08088	Debentures	27-Sep-16	7.57%	25-Sep-26	475.00	Simple	CRISIL AAA/Stable
INE101A08112	Debentures	08-Jun- 20	6.19%	08-June-25	500.00	Complex	CRISIL AAA/Stable
NA	Commercial Paper	NA	NA	7-365 days	1000.00	Simple	CRISIL A1+
NA	Fund-Based Facilities*	NA	NA	NA	250.00	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities	NA	NA	NA	100.00	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities	NA	NA	NA	500.00	NA	CRISIL AAA/Stable
NA	Working Capital Demand Loan	NA	NA	NA	500.00	NA	CRISIL A1+

**Interchangeable with non-fund based facilities*

Annexure – List of entities consolidated

Name	Consolidation
Mahindra Vehicles Manufacturing Ltd	Full consolidation
Mahindra Electric Mobility Ltd	Full consolidation
Mahindra Trucks and Buses	Full consolidation
Mahindra Heavy Engines	Full consolidation
SsangYong Motor Company	Moderate consolidation
Mahindra Engineering and Chemicals Ltd	Moderate consolidation
Mahindra Holidays and Resorts India Ltd	Moderate consolidation
Mahindra USA Inc	Moderate consolidation
Mahindra Susten Ltd	Moderate consolidation
Mahindra Aerospace Ltd	Moderate consolidation
Mahindra First Choice Wheels Ltd	Moderate consolidation
Mahindra Defence Systems Ltd	Moderate consolidation
Mahindra Logistics Ltd	Moderate consolidation
Mahindra Agri Solutions Ltd	Moderate consolidation
Mahindra EPC Irrigation Ltd	Moderate consolidation
Mahindra Lifespace Developers Ltd	Moderate consolidation
Mahindra and Mahindra Financial Services Ltd	Capital allocation

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	1350.0	CRISIL A1+ / CRISIL AAA/Stable		--	18-12-20	CRISIL A1+ / CRISIL AAA/Stable	04-10-19	CRISIL AAA/Stable	28-09-18	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	28-09-20	CRISIL A1+ / CRISIL AAA/Stable	30-09-19	CRISIL AAA/Stable		--	--
			--		--	29-05-20	CRISIL AAA/Stable		--		--	--
			--		--	09-04-20	CRISIL AAA/Stable		--		--	--
Non-Fund Based Facilities	ST		--		--	29-05-20	CRISIL A1+	04-10-19	CRISIL A1+	28-09-18	CRISIL A1+	CRISIL A1+
			--		--	09-04-20	CRISIL A1+	30-09-19	CRISIL A1+		--	--
Commercial Paper	ST	1000.0	CRISIL A1+		--	18-12-20	CRISIL A1+	04-10-19	CRISIL A1+	28-09-18	CRISIL A1+	CRISIL A1+
			--		--	28-09-20	CRISIL A1+	30-09-19	CRISIL A1+		--	--
			--		--	29-05-20	CRISIL A1+		--		--	--
			--		--	09-04-20	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	1475.0	CRISIL AAA/Stable		--	18-12-20	CRISIL AAA/Stable	04-10-19	CRISIL AAA/Stable	28-09-18	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	28-09-20	CRISIL AAA/Stable	30-09-19	CRISIL AAA/Stable		--	--
			--		--	29-05-20	CRISIL AAA/Stable		--		--	--
			--		--	09-04-20	CRISIL AAA/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Fund-Based Facilities*	**250**	**CRISIL AAA/Stable**
Fund-Based Facilities	**100**	**CRISIL AAA/Stable**
Fund-Based Facilities	**500**	**CRISIL AAA/Stable**
Working Capital Demand Loan	**500**	**CRISIL A1+**

**Interchangeable with non-fund based facilities*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Pankaj Rawat Media Relations **CRISIL Limited** B: +91 22 3342 3000 pankaj.rawat@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Manish Kumar Gupta Senior Director **CRISIL Ratings Limited** B:+91 124 672 2000 manish.gupta@crisil.com Naveen Vaidyanathan Director **CRISIL Ratings Limited** B:+91 22 3342 3000 naveen.vaidyanathan@crisil.com Krishna Pandey Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 Krishna.Pandey@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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