CRISIL Ratings

Rating Rationale

January 12, 2023 | 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.500 Crore (Reduced from Rs.1000 Crore) Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
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). CRISIL Ratings has also **withdrawn** its rating on Rs.500 crore commercial paper (See 'Annexure - Details of Rating Withdrawn' for details) at the client's request as the same are not utilised. The withdrawal is in line with CRISIL Ratings' withdrawal policy..

The ratings continue to reflect the leadership position of M&M in the tractor industry in India, 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 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). While M&M's market share in the utility vehicle (UV) segment has reduced from 26% in FY18 to 14.7% in FY21, it was maintained at 15% in FY22 and improved to 18.9% in 8MFY23 mainly on account of new launches in fiscal 2022.

In the first half of fiscal 2023, the company's operating income rose by 61% year-on-year to Rs 40,452 crore over a low base, coupled with strong growth in auto volume. Volume, particularly in the UV segment, grew by 82% owing to launches and easing of chip shortage. The launch of vehicles in fiscal 2022, including XUV700, Thar and Scorpio N, has led to boost in demand for the UV segment. The market share of M&M in the UV segment increased to 18.9% over the eight months through fiscal 2023 (15% in fiscal 2022). Tractor volume, too, grew by 12% year-on-year in the first half of fiscal 2023 on a low base. Given the increase in volume, operating profit before depreciation, interest and tax grew to Rs 4,837 crore in the first half of fiscal 2023 from Rs 3,292 crore in the corresponding period of the previous fiscal; however, operating margin moderated to 12% because of continued impact of input commodity inflation (13.1% in the first half of fiscal 2022). The earnings before interest and taxes margin in the auto segment grew at a healthy pace to ~6% in the first half of fiscal 2023 from 2.2% the first half of fiscal 2022 given the continued price hikes, structured cost reduction program and better operating leverage.

The auto segment should continue to report healthy volume given the strong order book of the launched models, including Scorpio N and XUV 700 and Thar. Furthermore, M&M is expected to add new models, including XUV-400 (electric sport utility vehicle) and vehicle refreshes. Tractor volume growth is expected to moderate in the second half of fiscal 2023 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 its core businesses. The company also has investments in group entities in the agriculture, financial services, hospitality, aerospace, consulting services, defence, 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 has made financial adjustments to factor in this support. For the financing business undertaken by Mahindra and Mahindra Financial Services Ltd ('CRISIL AAA/Stable/CRISIL A1+'), CRISIL Ratings has adjusted its assets and liabilities as per its capital allocation approach.

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 position in the tractor industry in India and healthy market position of 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 the market dynamics. It also has a strong presence in the LCV segment. M&M was able to regain its market share in goods LCV (lower than 7.5 metric tonne [MT] gross vehicle weight division) at above 40% in fiscal 2023, aided by easing of chip shortage and launches. However, established presence in these segments ensured healthy cash flow and resilient profitability.

Good product development capabilities, proficient channel management and 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 a conservative capital structure and significant market value of investments

The financial risk profile is robust, as reflected in 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:

High competition in the UV segment

The market share of M&M in the broader UV segment remained at 15% in fiscal 2022, having declined from 26% in fiscal 2018 (as per CRISIL Research data), amid increased competition. However, with its new launches, M&M has gained market share of 18.9% in the UV segment over the eight months through fiscal 2023. The company's recent launches have garnered a strong response from the market, as reflected by outstanding bookings of over 2.6 lakh units as of September 2022. Nevertheless, entry of players and a large number of launches in the UV segment will continue to exert competitive pressure.

Exposure to cyclicality in the auto and tractors segments

Demand for tractors remains vulnerable to monsoons. A bad monsoon can result in high intra-cycle volatility in the 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. Furthermore, with focus on generation of return on capital employed, capital allocation will focus on companies with strong business prospects. Stake of M&M in Ssangyong Motor Company fell to 5.15% after M&M and other creditors approved a rehabilitation plan. It has already created a provision of its entire investment in SYMC by fiscal 2021. M&M also sold 30% stake in Mahindra Susten Pvt Ltd (the renewables business) in fiscal 2023. Turnaround in loss-making investee companies and the company's policy for these will be key monitorables.

Liquidity: Superior

Annual cash accrual of Rs 7,000-7,500 crore expected over fiscals 2023-2024, along with large cash and liquid surplus of about Rs 12,099 crore as on March 31, 2022 (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 fiscals 2023 and 2024. Financial flexibility is further enhanced by access to capital markets and significant investments in listed subsidiaries/associates, which can be liquidated, if required.

Environment, social, and governance (ESG) profile

M&M's ESG profile supports its already strong credit risk profile. The auto sector has a significant impact on the environment because of the high greenhouse gas (GHG) emissions of its core operations as well as products. The sector also has a significant social impact because of its large workforce across its own operations and value chain partners and focus on innovation and product development. M&M has continuously focused on mitigating its environmental and social risks.

Key ESG highlights

- M&M aims to become carbon neutral by 2040, whereby it envisages to reduce scope 1 and scope 2 GHG emissions 47% per equivalent product unit by 2033 from a 2018 base year. It also plans to reduce scope 3 GHG emissions 30% per sold product unit by 2033 from a 2018 base year.
- It has signed the Energy Productivity (EP)100 Cooling Challenge and commits to doubling its energy productivity by 2030.
- Its water recycling rate has increased to 43% in fiscal 2021 from 40% in fiscal 2020. The company has been water positive (generating more water than being used, through processes such as rainwater harvesting and recycling) since 2014 and all its plants have zero wastewater discharge. It has set a target of reducing net freshwater consumption by 3% on-year for the next three years.
- M&M recycled 86% of its hazardous waste through authorized recyclers and cement co-processing plants while remaining was landfilled where it surpassed the target.
- It's lost time injury frequency rate (LTIFR) stood at 0.16 for fiscal 2022, one of the lowest in the industry.
- The governance structure is characterised by majority of its board comprising independent directors (none of them having tenure exceeding ten years), presence of lead independent director, chairman and CEO positions being split, dedicated investor grievance redressal mechanism and extensive disclosures.

There is growing importance of ESG among investors and lenders. M&M's commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its high share of market borrowings (~50%) in its overall debt and access to both domestic and foreign capital markets

Outlook: Stable

The 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
- Significant and sustained decline in the market share of the core business leading to sustained negative free cash flow

About the Company

M&M, incorporated in 1945, is among the top tractor manufacturers in the world and is 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 Chakan, all in Maharashtra; Zaheerabad, Telangana; Rudrapur and Haridwar, Uttarakhand; and Jaipur, Rajasthan.

The Mahindra group, through its subsidiaries and group companies, operates across 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**	**2022**	**2021**
Revenue	**Rs crore**	**57,446**	**44,629**
Profit After Tax (PAT)	**Rs crore**	**4,935**	**984**
PAT Margin	**%**	**8.6**	**2.2**
Adjusted net debt/adjusted networth	**Times**	**0.2**	**0.2**
Interest coverage	**Times**	**43**	**21**

**Standalone CRISIL Ratings-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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. 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	8-June-2020	6.19%	8-June-25	500.00	Complex	CRISIL AAA/Stable
NA	Commercial paper	NA	NA	7-365 days	500.00	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 - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level
NA	Commercial Paper	NA	NA	7-365 days	500	Simple

Annexure - List of Entities Consolidated

Name	Consolidation	Rationale for consolidation
Mahindra Electric Mobility Ltd	Full consolidation	Strong financial and business linkages
Mahindra Trucks and Buses	Full consolidation	
Mahindra Heavy Engines	Full consolidation	
SsangYong Motor Company	Moderate consolidation	Moderate financial and business linkages
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	
PT Mahindra Accelo Steel Indonesia	Moderate consolidation	
Classic Legends Private Limited	Moderate consolidation	
Bristlecone India Limited	Moderate consolidation	
Mahindra and Mahindra Financial Services Ltd	Capital allocation	Adjustments for the assets and liabilities as per the capital allocation approach of CRISIL Ratings

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
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		--	12-01-22	CRISIL A1+ / CRISIL AAA/Stable	30-12-21	CRISIL A1+ / CRISIL AAA/Stable	18-12-20	CRISIL A1+ / CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--		--		--	28-09-20	CRISIL A1+ / 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+	CRISIL A1+
			--		--		--		--	09-04-20	CRISIL A1+	--
Commercial Paper	ST	500.0	CRISIL A1+		--	12-01-22	CRISIL A1+	30-12-21	CRISIL A1+	18-12-20	CRISIL A1+	CRISIL A1+
			--		--		--		--	28-09-20	CRISIL A1+	--
			--		--		--		--	29-05-20	CRISIL A1+	--
			--		--		--		--	09-04-20	CRISIL A1+	--
Non Convertible Debentures	LT	1475.0	CRISIL AAA/Stable		--	12-01-22	CRISIL AAA/Stable	30-12-21	CRISIL AAA/Stable	18-12-20	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--		--		--	28-09-20	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)	Name of Lender	Rating
Fund-Based Facilities&	**250**	**State Bank of India**	**CRISIL AAA/Stable**
Fund-Based Facilities	**100**	**HDFC Bank Limited**	**CRISIL AAA/Stable**
Fund-Based Facilities	**500**	**Axis Bank Limited**	**CRISIL AAA/Stable**
Working Capital Demand Loan	**500**	**State Bank of India**	**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
Rating Criteria for Commercial Vehicle Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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About CRISIL Limited

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It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

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