

Rating Rationale

January 13, 2023 | Mumbai

Mahindra and Mahindra Financial Services Limited

'CRISIL AAA/Stable' assigned to Fixed Deposits; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.13317 Crore (Enhanced from Rs.3317 Crore)
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.10000 Crore Fixed Deposits	CRISIL AAA/Stable (Assigned)
Rs.1000 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.8500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
Subordinated Debt Aggregating Rs.281.3 Crore	CRISIL AAA/Stable (Reaffirmed)

The common independent director on CRISIL Ratings Limited and Mahindra and Mahindra Financial Services Limited boards did not participate in the rating process or in the meeting of the rating committee, when the rating for securities of Mahindra and Mahindra Financial Services Limited was discussed. This rating was also not discussed in the meeting of CRISIL Ratings' Board of Directors.

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 assigned its 'CRISIL AAA/Stable' rating to the Rs 10,000 crore fixed deposit programme of Mahindra and Mahindra Financial Services Limited (Mahindra Finance), and reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the other debt instruments and bank facilities of the company.

On January 6, 2023, CRISIL Ratings had upgraded its rating on the long-term bank facilities and debt instruments of Mahindra Finance to 'CRISIL AAA/Stable' from 'CRISIL AA+/Stable'. The upgrade was driven by the stronger support stance of the parent Mahindra and Mahindra Ltd (M&M; 'CRISIL AAA/Stable/CRISIL A1+'), towards Mahindra Finance as well as improvement in the business performance of the latter.

CRISIL Ratings expects M&M to maintain majority shareholding in Mahindra Finance and exercise management oversight for the company to conduct its business in line with governance and compliance standards that all Mahindra group entities follow, including Mahindra Finance, honouring its debt obligation in a timely manner. CRISIL Ratings also expects the financial services business housed in Mahindra Finance to remain strategically important to M&M. Mahindra Finance is the largest financier of M&M's automotive and tractor business and has strong relationships with its dealer network. With extensive experience, expertise and penetration in rural and semi urban markets, Mahindra Finance is a key part of M&M's growth strategy in these markets.

Mahindra Finance has done two equity capital issuances in the past five years; M&M participated in both and had infused Rs 2,696 crore into Mahindra Finance – demonstrating the strong financial and strategic linkages. M&M is expected to support Mahindra Finance on an ongoing basis and in case of distress, given the majority ownership, shared brand name and the strategic importance of the financial services business.

The rating reflects the gradual improvement in Mahindra Finance's profitability and asset quality, though the latter continues to be modest. The rating also factors in Mahindra Finance's strong position in the utility vehicle (UV) and tractor financing business in rural and semi-urban areas, adequate capitalisation, and stable resource profile.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of Mahindra Finance and its key subsidiaries, Mahindra Rural Housing Finance Ltd (MRHFL) and Mahindra Insurance Brokers Ltd (MIBL). While MRHFL is in the rural housing finance segment, a fund-based business, MIBL is in insurance broking, a fee-based business. CRISIL Ratings has factored in the strong support the company is likely to receive from its parent, M&M, on an ongoing basis and in times of distress.

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:

- **Majority ownership by, and strategic importance to, M&M**

The ratings factor in the strategic, financial and operational linkages between Mahindra Finance and M&M. The parent participated in the rights issue in August 2020 following which its stake went up to 52.2% from 51.2%. M&M is expected to remain the largest shareholder and maintain controlling interest in Mahindra Finance over the medium term, as the company is of strategic importance to M&M.

Mahindra Finance continues to finance around 30% each of M&M's UV and light commercial vehicle (LCV) sales. Market share in tractors was impacted during the Covid-19 pandemic and has now increased. However, financing of M&M vehicles as a proportion of Mahindra Finance's yearly total loan disbursements has reduced over the past few years. As part of its growth strategy, Mahindra Finance has been increasingly financing vehicles of other manufacturers. The captive finance business accounted for 46% of the overall loan book in fiscal 2022. Furthermore, M&M's majority ownership of Mahindra Finance, shared brand and strong linkages imply a moral obligation on M&M's part to support Mahindra Finance in case of distress.

- **Strong and established market position in rural and semi-urban areas, particularly in the UV and tractor financing businesses**

Mahindra Finance's market position in the UV and tractor financing segments remains strong, owing to the operational linkages with M&M, which enables the company to access the parent's widespread dealer network. The company finances consumer purchases of auto/UVs (31% of gross business assets as on September 30, 2022), commercial vehicles (CV)/commercial equipments (CEs) (11%), tractors (14%), cars (20%) and other assets. The company has plans to diversify and increase its non-vehicle portfolio over the medium term. It has recently started offering products such as small and medium enterprise (SME) loans, loan against property (LAP), leasing and digital lending. The scalability of this portfolio remains a monitorable.

Disbursements remained subdued in fiscal 2021 and the first half of fiscal 2022 as the company adopted a cautious approach owing to challenging business environment. Consequently, overall gross business assets of Mahindra Finance remained flat at Rs 64,961 crore as on March 31, 2022. However, disbursements have picked up and stood at Rs 21,296 crore in the first half of fiscal 2023 (106% year-on-year growth); gross loan assets witnessed 14% growth in the first half of fiscal 2023 and stood at Rs 73,817 crore as on September 30, 2022.

The company has considerably strengthened its distribution network: it had 1,386 branches across 27 states and 7 Union Territories as on September 30, 2022, with a large number of branches in semi-urban and rural areas, where it enjoys strong market share. To leverage its existing presence in these geographies, Mahindra Finance entered rural housing finance through MRHFL.

- **Adequate capitalisation and stable resource profile**

Capitalisation continues to be adequate, as reflected in tier I and overall capital adequacy ratios of 20.5% and 23.8% respectively, as on September 30, 2022 (24.3% and 27.8%, respectively, as on March 31, 2022). Networth was sizeable at Rs 15,746 crore and gearing at 4.3 times as on September 30, 2022 (Rs 15,628 crore and 3.6 times, respectively, as on March 31, 2022). The company's capital profile is also supported by its demonstrated ability to raise equity capital. In August 2020, the company raised Rs 3,089 crore of equity capital through rights issue, which resulted in improvement in gearing. Networth coverage for net non-performing assets (NPAs) stood at 7.6 times as on September 30, 2022.

Stable and diversified resource profile and substantial unutilised bank limits provide significant financial flexibility to raise resources at competitive costs to meet increasing funding requirement. As on September 30, 2022, the company had a fairly diverse borrowing mix consisting of 27% of NCDs, 11.6% of securitisation, 9.9% of fixed deposits and 36.4% of bank borrowings. Cost of borrowing was healthy at 6.6% in the first half of fiscal 2023 (6.5% in fiscal 2022) and is expected to remain better than industry average over the medium term.

Weakness:

- **Modest asset quality**

Mahindra Finance's asset quality is modest despite showing improvement in recent times. Gross stage 3 assets stood at 6.7% as on September 30, 2022, as against 7.66% as on March 31, 2022, and 8.96% as on March 31, 2021. The improvement in asset quality was driven by reduction in gross stage 3 assets across all asset classes. Furthermore, the outstanding restructured portfolio stood at Rs 3,003 crore (4.1% of the overall portfolio) as on September 30, 2022.

The company is increasingly focusing on collection and recovery efforts and CRISIL Ratings notes that Mahindra Finance has shown ability to ultimately recover from delinquent accounts even post loan maturity date. Overall ultimate credit loss has been in the range of 2% to 3% over the past 10 years. The company's track record in the vehicle financing business, understanding of the target customer segment and robust underwriting practices may support the asset quality metrics. The company's ability to manage collections and asset quality going forward will be a key monitorable. The impact of the revised norms of the Reserve Bank of India (RBI) on asset classification as part of the circular released on November 12, 2021, and further extended upto September 30, 2022, as per RBI circular dated February 15, 2022, will need to be monitored closely.

Weakening of asset quality and increase in provision coverage ratio impacted profitability in fiscal 2021 (0.4% return on managed assets [RoMA]) and in the first quarter of fiscal 2022 (-8.2% RoMA annualised). Thereafter, the company has witnessed quarter-on-quarter improvement in profitability as reflected in RoMA of 1.3% in fiscal 2022 (reported profit of Rs 989 crore). The increase in profitability is partly supported by reversal in provisioning cost. The company further reported PAT of Rs 671 crore (annualised RoMA of 1.7%) in the first half of fiscal 2023. Ability to contain asset quality and credit cost will remain a key rating sensitivity factor.

Liquidity: Superior

Liquidity was comfortable with positive cumulative mismatch in each bucket up to one year as on September 30, 2022. Cash and equivalent and other liquid assets stood at around Rs 10,600 crore as on September 30, 2022. The company has sufficient liquid surplus to repay debt for the next three months assuming no collection. Moreover, being a part of the M&M group, additional liquidity support will be available to the entity as and when required

Environment, social and governance (ESG) profile

CRISIL Ratings believes the ESG profile of Mahindra Finance supports its already strong credit risk profile.

The ESG profile of financial institutions typically factors in governance as a key differentiator. The sector has reasonable social impact because of its substantial employee and customer base. While the sector does not have a direct adverse environmental impact, lending decisions may have a bearing on environment and other sustainability factors.

Mahindra Finance has demonstrated focus on strengthening various aspects of its ESG profile.

Key ESG highlights:

- In order to manage and reduce its environmental footprint, the company aims to increase its electric vehicle financing portfolio on continuous basis.
- Mahindra Finance has adopted watershed management system and rainwater harvesting project with communities on pilot basis. It is committed to sustainable e-waste management system as well, and 100% of the e-waste is sent for recycling through registered recyclers.
- The company has impacted 51,763 lives through corporate social responsibility (CSR) initiatives. Also, it has purchased maximum supplies from local vendors for all its subsidiaries.
- Majority of the Board members are independent directors and there is a segregation in chairperson and executive positions. The company has a dedicated investor grievance redressal mechanism and the disclosures put out by it are extensive.

There is growing importance of ESG among investors and lenders. The company's commitment to ESG will play a key role in enhancing stakeholder confidence, given high share of foreign investors as well as access to both domestic and foreign capital markets.

Outlook: Stable

CRISIL Ratings believes Mahindra Finance will benefit from the support it is likely to receive from M&M, given the majority shareholding of, and Mahindra Finance's strategic importance to, its parent. CRISIL Ratings also believes the company will maintain its strong market position and adequate capitalisation over the medium term.

Rating Sensitivity factors**Downward Factors:**

- Significant reduction in support to Mahindra Finance or downward rating action on M&M may result in a corresponding rating action on Mahindra Finance
- Deterioration in the asset quality and profitability on sustained basis
- Material reduction in shareholding by M&M

About the Company

Mahindra Finance, a non-banking financial company (NBFC), was incorporated in 1991. M&M, the majority shareholder, held 52.2% in Mahindra Finance as on September 30, 2022. Mahindra Finance ranks among the larger NBFCs in India with gross loan assets of Rs 73,817 crore as on September 30, 2022 (Rs 64,961 crore as on March 31, 2022). The company finances consumer purchases of UVs, LCVs, tractors, cars and other assets. It has recently started offering products such as SME loans, LAP, leasing and digital lending. To leverage its extensive branch network and rural clientele, the company has entered the rural housing finance business through its subsidiary, MRHFL. MIBL is the insurance broking arm of Mahindra Finance, providing insurance broking services both in the life and non-life segments.

On consolidated basis, total income and net profit were Rs 11,401 crore and Rs 1,150 crore, respectively, in fiscal 2022, against Rs 12,170 crore and Rs 780 crore, respectively, in fiscal 2021.

On standalone basis, the company reported profit of Rs 989 crore on total income (net of interest expense) of Rs 5,799 crore in fiscal 2022 (Rs 335 crore and 5,784 crore, respectively, in fiscal 2021). This increase in profitability was led by reversal in provisioning cost.

Key Financial Indicators

As on / year ended		September 30, 2022	March 31, 2022
Total assets	Rs crore	86386	75289
Total income	Rs crore	5108	9719
Profit after tax (PAT)	Rs crore	671	989
Gross NPA*	%	6.70	7.66
Return on assets (annualised) ^	%	1.7	1.3
Adjusted gearing	Times	4.3	3.6

*on business assets

^on average total assets

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.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating outstanding with outlook
INE774D08LC4	Subordinated Debt	17-Jan-13	9.8	17-Jan-23	40	Complex	CRISIL AAA/Stable
INE774D08LD2	Subordinated Debt	23-Apr-13	9.7	24-Apr-23	80	Complex	CRISIL AAA/Stable
INE774D08LF7	Subordinated Debt	24-May-13	9.5	24-May-23	47.8	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures^	NA	NA	NA	1000	Simple	CRISIL AAA/Stable
NA	Subordinated Debt^	NA	NA	NA	113.5	Complex	CRISIL AAA/Stable
NA	Commercial Paper	NA	NA	7-365 days	8500	Simple	CRISIL A1+
NA	Cash Credit	NA	NA	NA	1727	NA	CRISIL AAA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	10000	NA	CRISIL AAA/Stable
NA	Fixed Deposit Programme	NA	NA	NA	10000	Simple	CRISIL AAA/Stable
NA	Short Term Bank Facility	NA	NA	NA	1590	NA	CRISIL A1+

^not yet issued/ availed

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Mahindra Insurance Brokers Limited	Full	Subsidiary
Mahindra Rural Housing Finance Limited	Full	Subsidiary
Mahindra Finance USA LLC	Proportionate	Joint Venture

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	13317.0	CRISIL A1+ / CRISIL AAA/Stable	06-01-23	CRISIL A1+ / CRISIL AAA/Stable	15-07-22	CRISIL AA+/Stable / CRISIL A1+	31-08-21	CRISIL AA+/Stable / CRISIL A1+	31-08-20	CRISIL AA+/Stable / CRISIL A1+	CRISIL AA+/Stable / CRISIL A1+
			--		--	17-06-22	CRISIL AA+/Stable / CRISIL A1+		--		--	--
Commercial Paper	ST	8500.0	CRISIL A1+	06-01-23	CRISIL A1+	15-07-22	CRISIL A1+	31-08-21	CRISIL A1+	31-08-20	CRISIL A1+	CRISIL A1+
			--		--	17-06-22	CRISIL A1+		--		--	--
Fixed Deposits	LT	10000.0	CRISIL AAA/Stable		--	17-06-22	Withdrawn	31-08-21	F AAA/Stable	31-08-20	F AAA/Stable	F AAA/Stable
Non Convertible Debentures	LT	1000.0	CRISIL AAA/Stable	06-01-23	CRISIL AAA/Stable	17-06-22	Withdrawn	31-08-21	CRISIL AA+/Stable	31-08-20	CRISIL AA+/Stable	CRISIL AA+/Stable
Subordinated Debt	LT	281.3	CRISIL AAA/Stable	06-01-23	CRISIL AAA/Stable	15-07-22	CRISIL AA+/Stable	31-08-21	CRISIL AA+/Stable	31-08-20	CRISIL AA+/Stable	CRISIL AA+/Stable
			--		--	17-06-22	CRISIL AA+/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	52	Dena Bank	CRISIL AAA/Stable
Cash Credit	100	ICICI Bank Limited	CRISIL AAA/Stable
Cash Credit	100	Indian Bank	CRISIL AAA/Stable
Cash Credit	10	IndusInd Bank Limited	CRISIL AAA/Stable
Cash Credit	20	Kotak Mahindra Bank Limited	CRISIL AAA/Stable
Cash Credit	125	Punjab National Bank	CRISIL AAA/Stable
Cash Credit	50	Standard Chartered Bank Limited	CRISIL AAA/Stable
Cash Credit	50	Vijaya Bank	CRISIL AAA/Stable
Cash Credit	75	The Federal Bank Limited	CRISIL AAA/Stable
Cash Credit	100	Axis Bank Limited	CRISIL AAA/Stable
Cash Credit	65	Bank of Baroda	CRISIL AAA/Stable
Cash Credit	100	Bank of Maharashtra	CRISIL AAA/Stable
Cash Credit	100	Canara Bank	CRISIL AAA/Stable
Cash Credit	500	State Bank of India	CRISIL AAA/Stable
Cash Credit	10	YES Bank Limited	CRISIL AAA/Stable
Cash Credit	75	Central Bank Of India	CRISIL AAA/Stable
Cash Credit	20	Citibank N. A.	CRISIL AAA/Stable
Cash Credit	100	Corporation Bank	CRISIL AAA/Stable
Cash Credit	75	DBS Bank Limited	CRISIL AAA/Stable
Proposed Long Term Bank Loan Facility	10000	Not Applicable	CRISIL AAA/Stable
Short Term Bank Facility	250	MUFG Bank Limited	CRISIL A1+
Short Term Bank Facility	90	Axis Bank Limited	CRISIL A1+
Short Term Bank Facility	300	Bank of America N.A.	CRISIL A1+
Short Term Bank Facility	100	Societe Generale Bank	CRISIL A1+
Short Term Bank Facility	100	IndusInd Bank Limited	CRISIL A1+
Short Term Bank Facility	200	Kotak Mahindra Bank Limited	CRISIL A1+
Short Term Bank Facility	450	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Short Term Bank Facility	100	YES Bank Limited	CRISIL A1+

This Annexure has been updated on 13-Jan-23 in line with the lender-wise facility details as on 13-Jan-23 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
Rating criteria for hybrid debt instruments of NBFCs/HFCs
CRISILs criteria for rating fixed deposit programmes
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

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