



Mahindra & Mahindra Limited

Instrument	Amount	Rating Action
Non Convertible Debenture programme	Rs. 900.0 crore	Upgraded to [ICRA]AAA (stable) from [ICRA]AA+ (stable)
Long-term, fund-based facilities	Rs. 272.0 crore	Upgraded to [ICRA]AAA (stable) from [ICRA]AA+ (stable)
Short-term, non-fund based facilities	Rs. 128.0 crore	[ICRA]A1+ reaffirmed

ICRA has upgraded the long-term rating assigned to the Rs. 900.0 crore*, Non-Convertible Debenture (NCD) programme; and the Rs. 272.0 crore, long-term, fund-based bank facilities of Mahindra & Mahindra Limited (M&M)[†] to [ICRA]AAA (pronounced ICRA triple A) from [ICRA]AA+ (pronounced ICRA double A plus). ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating on the Rs. 128.0 crore, short-term, non-fund based bank facilities of M&M. The outlook on the long-term rating is stable.

The rating upgrade takes into account the strong financial profile of the company as reflected in its healthy cash accruals on the back of its diversified business profile with presence across varied sectors; robust profitability in M&M's core businesses; and strong liquidity in the form of sizeable cash & liquid investments. The ratings also favorably factor in the complementary performance of M&M's farm equipment (FES) and utility vehicles (UV) segments, which has provided stability to overall profitability despite cyclical upturn/ downturn in respective segments over last several years.

M&M has a large investment portfolio, consisting of its group and associate entities, some of which are also listed in the stock markets. The market values of these quoted investments are significantly higher than the book value, providing significant additional cushion to M&M's overall financial flexibility.

ICRA however takes note of increasing competitive pressures in M&M's core automotive and FES businesses, which has resulted in some moderation in the company's domestic UV market share. This apart, the commercial vehicle and two-wheeler businesses, where M&M is a relatively new entrant, is expected to require significant fresh investments and management attention over the medium term. While ICRA draws comfort from M&M's track record of successfully managing its portfolio of businesses, continued success, while maintaining its credit profile, would remain a key rating sensitivity.

In March 2014, M&M completed demerger of the Trucks Business of Mahindra Trucks & Buses Limited (MTBL) into the company. The demerger is expected to result in synergy benefits, operational efficiencies and faster decision making. To strengthen its presence in the CV industry and launch products in segments such as intermediary commercial vehicles (ICVs) and medium commercial vehicles (MCVs), M&M plans to invest ~Rs. 500 crore over a period of three years.

In FY 2014, M&M's auto components businesses (held under its Systech division) have signed a strategic alliance agreement with CIE Automotive S.A. (a Spanish auto components company) aimed at benefiting from the complementary product portfolios and geographical presence of the two entities. As part of the agreement, M&M will acquire a 13.5% stake in CIE Automotive, thereby becoming the second largest shareholder; whereas CIE Automotive's Brazilian listed subsidiary – Autometal S.A. - will acquire majority stakes in M&M's Systech businesses (excluding steel, engineering and aerospace businesses). This transaction results in reduced demand on cash requirements of Indian leg of the auto component business and at the same time gives M&M a foothold in a global automotive component space. Also, the merged entity will have wider geographic presence as well as better economies of scale. The transaction will be largely cash neutral between M&M and CIE Automotive, as proceeds from stake sale by M&M has been used to purchase stake in CIE Automotive.

* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website, www.icra.in, or other ICRA Rating Publications



In FY 2011, M&M acquired 70.04% stake in Ssangyong Motor Company (Ssangyong) for US\$ 463 million, including investments of US\$ 85 million in its corporate bonds. In CY 2013, Ssangyong's revenues grew by strong 25% on the back of healthy 20% volume growth. Consequently, the losses have also trimmed considerably on account of improved operating leverage. Further, in CY 2013, M&M has infused US\$ 50 million in Ssangyong (taking its stake to 72.85%), the proceeds from which were used to repay M&M's US\$ 85 million long-term debt. Since acquisition by M&M, Ssangyong's sales have recovered substantially. However, despite strong double digit domestic volume growth during H1, CY 2014, Ssangyong's financial performance is likely to remain muted in the current year on account of slowdown in Russian market which is Ssangyong's largest market, sharp appreciation in Korean Won and labour contract renewal. Nonetheless, Ssangyong is adequately capitalized to finance its capital expenditure plans of US\$ 1 billion over 2013-16, and ICRA takes comfort from M&M's management's indication of M&M not having to bear any major financial burden on account of Ssangyong.

M&M + MVML (Mahindra Vehicle Manufacturers Limited – a wholly-owned subsidiary of M&M) have maintained their capital expenditure guidance of ~Rs. 7,500 crore and investment plans of ~Rs. 2,500 crore over FY 2014 to FY 2016. However, the management has indicated possible deferment of capex to the tune of ~Rs. 1,000 crore by one-two years as there is no immediate need of capacity addition. Though the planned investments are large, steady cash flow generation from core business, financial flexibility enjoyed by the group and comfortable credit profile partly mitigate the risk. The company's (M&M+MVML) liquidity position remains comfortable supported by its large liquid investments and cash balance. ICRA would however continue to monitor the future investments of M&M and their impact on its credit profile.

After reporting robust growth between FY 2010 and FY 2013, M&M + MVML witnessed a marginal 1.2% yoy growth in overall revenues on account of ~7.0% decline in automotive revenues while FES has witnessed a strong 19.6% yoy growth. In FY 2014, M&M demerged the truck manufacturing business of MTBL into the company, which has been incurring losses to the tune of ~Rs. 350 crore p.a., which had ~90-100 bps impact on overall profitability of M&M + MVML in FY 2014. Otherwise, on account of improved operating leverage, there has been sharp 162 bps improvement in FES operating margin which when coupled with benign commodity prices, better product mix, high focus on other costs, and better realization has resulted in overall operating margin expansion, if we exclude impact of MTBL merger. M&M + MVML continues to enjoy healthy profitability (22.9% RoCE in FY 2014) on the back of strong market leadership position in the UV and tractor segments and strong brand recall, which provides it flexibility to pass on volatility in input prices, to an extent, to its customers. M&M + MVML's capital structure continues to remain at comfortable levels (gearing at 0.28 times as on March 31, 2014) with strong liquidity support in the form of healthy cash surplus (Rs. 3,141.4 crore) and liquid investments (Rs. 1,668.3 crore). M&M's portfolio strengthening through new product launches to sustain its market share in the domestic UV and tractor segments amidst increasing competitive intensity, synergizing its acquisitions, and turning around the M&HCV and two-wheeler businesses would be critical for its credit profile.

Company Profile

Incorporated in 1945 by Mr. Ghulam Mohammad and the two Mahindra brothers (KC & JC Mahindra) as a private limited company - Mahindra & Mohammad, the company was renamed as Mahindra & Mahindra (M&M) in 1948 and was subsequently converted to a public limited company in 1955. Originally incorporated as a manufacturer of utility vehicles (UVs) for the Indian market, currently M&M is the most diversified automobile company in India with presence across 2-wheelers, 3-wheelers, passenger vehicles, commercial vehicles, tractors and earthmovers. Currently, M&M is the market leader in the domestic UV segment and global leader in the tractor market (in terms of units sold). Also, M&M is the third largest player in the domestic three-wheelers market. In the medium & heavy commercial vehicles (M&HCV) segment, M&M, which had presence through joint venture with Navistar, completed the purchase of Navistar's stake in the JV in February 2013, thereby making it a wholly-owned subsidiary. The M&HCV business has been further demerged from this company into M&M in Q4, FY 2014 with effect from April 01, 2013. In FY 2010, M&M bought Renault's stake in passenger car JV thereby making passenger car unit its wholly-owned subsidiary, and subsequently merged the business with M&M in February 2012. M&M has also strengthened its presence in the



tractor segment both in India and China through acquisitions (80% stake in Jiangling Motors in FY 2005, 100% in Punjab Tractors Limited and 51% stake in Jiangsu Yueda Yancheng Tractor Manufacturing Company Limited in FY 2009). During FY 2009, M&M also entered the two-wheelers segment with the acquisition of the assets of Kinetic Motor Company Limited. In FY 2011, M&M forayed into the aerospace and defence business via acquisition of Australian based companies, to cater to the demand of the lucrative domestic defence equipment market which is likely to get boosted on the back of 30% offset clause for defence contract awarded to international defence equipment suppliers. During FY 2011, M&M also bought 70.04% (increased to 72.85% in FY 2014) stake in the Korean car manufacturer – Ssangyong Motor Company Limited – marking its foray into the premium SUV segment. During FY 2014, M&M entered into an agreement to acquire 13.5% stake in CIE Automotive with CIE Automotive's Brazilian listed subsidiary – Autometal S.A. - acquiring majority stakes in M&M's Systech businesses (excluding steel, engineering and aerospace businesses).

On a consolidated basis, in FY 2014, automotive and farm equipment businesses accounted for around 60.6% and 22.8%, respectively, of M&M's business – the other major contributors being financial services (7.2%), systech (5.2%) and steel trading (1.8%).

Recent Results

For the twelve months ended March 31, 2014, M&M (standalone) reported a profit after tax (PAT) of Rs. 3,758.4 crore on an operating income of Rs. 40,513.4 crore as against a PAT of Rs. 3,352.8 crore on an operating income of Rs. 40,431.9 crore for the twelve months ended March 31, 2013.

For the twelve months ended March 31, 2014, M&M + MVML reported a PAT of Rs. 3,905.1 crore on an operating income of Rs. 38,817.1 crore as against a PAT of Rs. 3,634.4 crore on an operating income of Rs. 38,356.6 crore for the twelve months ended March 31, 2013.

For the three months ended June 30, 2014, M&M + MVML reported a PAT of Rs. 896.4 crore on an operating income of Rs. 9,907.3 crore

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