

August 16, 2023

## Mahindra Heavy Engines Limited: Long-term placed on Rating watch with positive implication

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	20.00	20.00	[ICRA]AA+; Placed on Rating watch with positive implication
Long-term / Short-term, Fund based / Non-fund Based Facilities	5.00	5.00	[ICRA]AA+/[ICRA]A1+; Long-term placed on rating watch with positive implication; short-term outstanding
<b>Total</b>	<b>25.00</b>	<b>25.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

On August 04, 2023, Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA(Stable)/[ICRA]A1+) announced on stock exchanges that the Board of Directors of M&M has approved scheme of merger by absorption of Mahindra Heavy Engines Limited (MHEL) subject to requisite approvals and consents. MHEL is a wholly owned subsidiary of M&M.

ICRA has taken note of the above event and has placed the long-term rating of MHEL on rating watch with positive implications, given the proposed merger of MHEL into an entity with a relatively stronger credit profile. ICRA will continue to monitor the progress on the merger and take the appropriate action, as and when required.

The ratings continue to factor in MHEL's status as a wholly-owned subsidiary of M&M, for whom it acts as a captive supplier of engines, and the pricing arrangement for supplying heavy and light engines to M&M. The ratings consider the financial and operational support provided by the promoter group and the presence of senior executives of M&M on MHEL's board of directors. The ratings also draw comfort from the promoter group's track record of extending timely support to MHEL for maintaining adequate liquidity and supporting any financial exigencies.

Please refer to the following [link](#) for the previous detailed rationale that captures the key rating drivers and their description, the liquidity position and rating sensitivities.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Manufacturers</a>
Parent/Group support	Parent / Group Company: Mahindra & Mahindra Limited (M&M) The ratings assigned to MHEL factor in the high likelihood of its parent, M&M, extending financial support, given the high strategic importance that MHEL holds for it. We also expect M&M to be willing to extend financial support to MHEL out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of M&M extending timely financial support to MHEL, whenever a need has arisen.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MHEL.

## About the company

Mahindra Heavy Engines Limited (erstwhile Mahindra Navistar Engines Private Limited), was incorporated as a 51:49 joint venture (JV) between M&M and Navistar; M&M acquired Navistar's 49% stake in the JV in 2013, making it a wholly-owned subsidiary. MHEL has set up a facility to manufacture engines in the 180–315HP range at Chakan, Maharashtra, and has been operating as a captive supplier for M&M's M&HCV division (erstwhile Mahindra Navistar Automotives Limited's foray into M&HCVs). In FY2016, the company commissioned an assembly line for smaller engines, which are used in M&M's smaller UVs. The facility is located adjacent to M&M's auto plant in Chakan. In FY2020, MHEL also started supplying transmission assemblies for M&M's ICV range.

MHEL's board of directors comprises of 5 directors, including Mr. Pankaj Sonalkar (associated with M&M since 2015), Mr. Nozar Bharucha, Mr. Shrikant Marathe (ex-Director – ARAI), Ms. Smita Mankad (Independent Director) and Mr. Vinay Khanolkar. Presence of senior management from M&M indicate strategic importance of MHEL for parent entity.

## Key financial indicators (audited)

MHEL (Standalone)	FY2022	FY2023
Operating income	1,141.9	1,454.2
PAT	83.0	68.8
OPBDIT/OI	13.5%	8.4%
PAT/OI	7.3%	4.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.5
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	216.0	128.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 16, 2023	Nov 28, 2022	Aug 16, 2021	May 29, 2020
1 Fund-based Work Capital Facilities	Long-term	20.00	-	[ICRA]AA+ %	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2 Fund-based / Non-fund Based Facilities	Long-term	-	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3 Fund-based / Non-fund Based Facilities	Long-term / Short term	5.00	-	[ICRA]AA+ % / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
4 Unallocated amount	Long-term / Short term	-	-	-	-	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+

%: On Rating Watch with positive implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-Based Working Capital Facilities	Simple
Fund-Based / Non-Fund Based Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Working Capital Facilities	NA	NA	NA	20.00	[ICRA]AA+; rating watch with positive implication
NA	Fund-based / Non-fund Based Facilities	NA	NA	NA	5.00	[ICRA] AA+/[ICRA]A1+; Long-term rating on watch with positive implication; short-term outstanding

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not applicable

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**

+91 22 6114 3442

[Kinjal.shah@icraindia.com](mailto:Kinjal.shah@icraindia.com)

**Sruthi Thomas**

+91 124 4545 822

[sruthi.thomas@icraindia.com](mailto:sruthi.thomas@icraindia.com)

**Trisha Agarwal**

+91 22 6114 3457

[trisha.agarwal@icraindia.com](mailto:trisha.agarwal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.