

October 17, 2025

SML Mahindra Limited: Long-term rating upgraded and removed from Watch with Positive Implications; Stable outlook assigned; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term Fund-based – Term loans	53.04	131.25	[ICRA]AA+ (Stable); upgraded from [ICRA]AA- and removed from watch with positive Implications; Stable outlook assigned
Long-term Fund-based – Cash credit	210.00	260.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA- and removed from watch with positive Implications; Stable outlook assigned
Short-term – Fund-based working capital	380.00	250.00	[ICRA]A1+; Reaffirmed
Total	643.04	641.25	

*Instrument details are provided in Annexure I

Rationale

In May 2025, the long-term rating for SML Mahindra Limited (SML) had been placed on watch with positive implications, following an in-principal approval provided by the board of the company for acquisition of its 58.96% stake by Mahindra & Mahindra Limited (M&M). M&M had entered share purchase agreements with Sumitomo Corporation (Sumitomo) and Isuzu Motors Limited, Japan (Isuzu) to acquire their respective holdings in SML. These transactions were subject to necessary stakeholder and regulatory approvals and were accompanied by an open offer from M&M to acquire an additional 26% stake in SML.

Following receipt of the requisite approvals, M&M completed the acquisition of the 58.96% stake on August 1, 2025. However, the open offer did not see material subscription. Given these developments, ICRA has removed the long-term rating from watch with positive implications and upgraded the rating, while also assigning a Stable outlook to the same. The rating upgrade factors in an expectation of improvement in the credit profile of SML over the medium term, driven by M&M's ownership and control. With M&M being a leading player in the automotive industry with a diversified presence, SML is likely to benefit from various operational synergies across product development, sourcing, distribution, and support functions over the medium term, which is likely to strengthen SML's earnings trajectory.

The upgrade also factors in SML's improved earnings profile, supported by its established presence in the school and executive bus segments. Benefitting from operating leverage benefits on account of a healthy scale of operations and various cost efficiency measures, the company's return and credit metrics improved materially in FY2025. SML reported moderate growth in bus sales in FY2025 (about 6% YoY growth in bus sales volume) and a healthy revenue of approximately Rs. 2,398 crore in FY2025 (around 9% YoY growth), aided by both volume and realisation growth. Backed by improved scale of operations, the company's operating profit margins improved to 9.8% in FY2025 (from 8.2% in FY2024). Despite seasonal working capital requirements for inventory buildup during the school bus season, SML reduced its working capital debt to approximately Rs. 225 crore as of March 31, 2025, from Rs. 350 crore a year earlier. Future capex requirements, primarily for regulatory compliance and maintenance, are expected to be funded largely through internal accruals.

ICRA continues to positively view SML's strong market position in the school and executive bus segments, supported by its brand strength and expanding sales network. Given the significance of the bus segment to its overall business (constitute around 70% of sales volumes), the company has been focusing on upgrading its product portfolio to compete more effectively in the staff sub-segment and has launched front overhang (FOH) diesel buses over the recent past.

The company's business profile continues to be constrained by its limited presence in the goods carrier segment (trucks). SML's product portfolio is restricted to light commercial vehicles (LCVs) and intermediate commercial vehicles (ICVs) in the range of 3.5–12.0 tonnes. Nevertheless, with focused efforts, the company has been able to improve its market share in this category over the last three years, aided by acceptability of its new cabin and increased focus of its marketing team and dealers on truck sales. The parentage of M&M is expected to aid SML's product development capabilities and help it enhance its product profile, going forward.

ICRA notes that SML's revenue growth prospects over the medium to long-term remain exposed to the gradual shift towards electric vehicles (EVs). Although penetration of electric buses (e-buses) is primarily limited to the state road transport undertakings (SRTU) at present, the e-bus market in India is likely to witness a healthy traction over the medium term. Accordingly, SML's ability to adapt to the transition towards EVs will remain critical to support its business prospects, and it may need to invest materially to enhance its product profile.

The Stable outlook factors in an expectation of sustained healthy performance of SML Mahindra Limited (SML), going forward, aided by steady demand in the commercial vehicle (CV) industry, especially in the bus segment, wherein SML has a strong presence.

Key rating drivers and their description

Credit strengths

Access to operational and financial support from parent entity, M&M – M&M has acquired a controlling stake of 58.96% in SML through share purchase agreements. This includes the transfer of 43.96% equity from Sumitomo, Japan, and 15.00% from Isuzu, Japan, making SML a subsidiary of M&M, with effect from August 1, 2025. The strong parentage of M&M enhances the financial flexibility of the company and opens up room for synergies such as cross selling of products, enhanced distribution network and access to the Mahindra Group's technical expertise.

Strong market position in the school bus and executive coach segments in India – SML has a strong presence in the school bus and executive coach segments with an overall market share of 8-9% in the domestic bus segment in FY2025. The company's strong presence in this segment is supported by its strong brand and expanding sales channel. School buses account for 90-95% of the company's total bus sales.

Product launches aimed at plugging gaps in product portfolio, coupled with expanding sales network to support earning growth over medium term – To make its vehicles more attractive, the company has taken several initiatives over the last few years. In the special application vehicle segment, the company has launched new tippers, which are witnessing a healthy demand. The company also manufactures ambulances, whose sales picked up during the pandemic. Moreover, in the special application vehicle segment, the company manufactures a vehicle for the cold chain market, whose demand is expected to increase. In addition, SML has begun exports to African markets. Further, efforts are underway to tap additional high potential markets with rising demand for commercial vehicles. SML is also strengthening its dealership network in neighbouring countries like Nepal, Sri Lanka and Bangladesh, which is expected to improve its exports prospects. These efforts to plug portfolio gaps and expand its sales network are likely to support SML's business growth and help maintain its market position over the medium term.

Credit challenges

Exposed to cyclicity in the CV industry; higher share of buses partially mitigates the risk – SML is exposed to cyclicity in the CV industry, which leads to volatility in its cash flows and profit margins. However, this is partially mitigated by the higher share of buses in its portfolio, which enjoys comparatively steadier demand. In FY2025, the goods carrier segment accounted for around 30% of SML's total sales volumes compared to 87% for the industry. This indicates lower dependence on the cyclical goods carrier segment vis-à-vis the relatively less cyclical passenger carrier segment. However, this also restricts the addressable market for SML as the bulk of CV sales by other players such as Tata Motors Limited and Ashok Leyland Limited is generated from the goods carrier segment. SML's product portfolio remains highly skewed towards passenger carriers, primarily buses.

Low market share in the CV industry because of limited product range in the goods carrier segment and intense competition in the bus segment with presence of several large players – SML is a niche player in the domestic CV industry with a modest market share because of its limited product range compared to large CV original equipment manufacturers. The key reason for the low market share is SML’s absence in some of the key sub-segments of the LCV and M&HCV goods segments (which account for around 80% of industry sales). At present, the company has limited capabilities to compete with incumbents in the goods carrier segments, especially in the HCV category (i.e., vehicles above 12 tonnes). Its product offerings in the goods carrier segment include five key brands—viz., Supreme, Samrat, Super, Prestige and Sartaj—each offered in multiple variants based on gross vehicle weight (GVW) specifications and applications. However, these products are limited to the niche 3.5–12 tonne category, with only one model of Samrat series being present in the high volume segments. Nevertheless, with focused efforts, the company has been able to improve its market share in the LCV truck segment aided by— a) acceptability of its new cabin; b) increased focus of its marketing team and dealers on truck sales (as the demand for its key product segment, buses, was subdued); and c) addition of several new dealers and replacement of weak performing dealers with high performing dealers.

Environment and Social Risks

Environmental considerations: Automotive manufacturers remain exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with the Government focused on reducing the adverse impact of automobile emissions. Accordingly, an OEM’s prospects remain linked to its ability to meet tightening emission requirements. The companies in the sector may need to invest materially to develop products to meet regulatory thresholds or expected transition to alternative fuel vehicles, which may have a moderating impact on their return and credit metrics. The exposure to litigation/penalties arising from issues related to waste and water management for the OEM remains relatively low.

Social considerations: Automotive OEMs have a healthy dependence on human capital and retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption free operations. Another social risk that automotive OEMs face pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication, but could also harm the company’s reputation and create a more long-lasting adverse impact on demand. Entities like SML also remain exposed to any major shift in consumer preferences/demographics, which are a key demand driver and, accordingly, may need to make material investments to realign their product portfolio.

Liquidity position: Adequate

SML’s liquidity is **adequate**, characterised by expected cash flow from operations of Rs. 100-120 crore p.a. and average buffer of about Rs. 156.7 crore in fund-based working capital limits over the sanctioned limits of Rs. 590.0 crore in the 15-month period ending in June 2025. In relation to these sources of cash, SML has capex requirements of Rs. 75-85 crore in FY2026, debt repayments of Rs. 35-40 crore in FY2026 and expected dividend outflows in FY2026. The entity is also likely to benefit from its strong financial flexibility as part of the Mahindra Group.

Rating sensitivities

Positive factors – The company’s ability to materially strengthen its business profile over the medium term, by improving its product diversification and gaining market share in the commercial vehicle industry, would be favourably considered for an improvement in the rating.

Negative factors – Pressure on the ratings could arise in case of a weakening in the financial risk profile due to a large debt-funded capex or slowdown in demand. Additionally, pressure on the ratings could arise if SML cedes material market share in its addressable segments. The ratings could also be downgraded in case of material deterioration in the credit profile of its parent company, M&M, or weakening of financial and operational linkages with the parent company.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Commercial Vehicles
Parent/Group support	Parent Company: Mahindra and Mahindra Limited (M&M) ICRA expects the parent entity, M&M (58.96% stake) to be willing to extend financial support to SML out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Incorporated in 1983, SML Mahindra Limited (formerly SML Isuzu Limited) is a commercial vehicle OEM with a healthy market position in the school bus segment. It operates in the LCV and medium CV (MCV) segments of the automobile industry and has a product portfolio of buses, trucks (including tippers) and specific application vehicles. The company has a manufacturing facility at Nawanshahar, Punjab, with a production capacity of around 24,000 units per annum.

The company was set up as 'Swaraj Vehicles Limited' for manufacturing LCVs and was promoted by Punjab Tractors Limited (PTL) in technical and financial collaboration with Mazda Motor Corporation, Japan, and Sumitomo Corporation, Japan. However, the technical collaboration agreement with Mazda expired in 2004, when Mazda exited by selling off its stake to Sumitomo. Around the same time, SML entered a technical collaboration agreement with Isuzu Motors, Japan. Sumitomo and Isuzu owned 43.96% and 15.00% stake, respectively, in the company.

In CY2025, M&M has acquired a controlling stake of 58.96% in SML through share purchase agreements. This includes the transfer of 43.96% equity from Sumitomo, Japan, and 15.00% from Isuzu, Japan, making SML a subsidiary of M&M, with effect from August 1, 2025.

Key financial indicators (audited)

SML Standalone	FY2024	FY2025
Operating income	2,195.5	2,398.3
PAT	107.9	121.7
OPBDIT/OI	8.2%	9.8%
PAT/OI	4.9%	5.1%
Total outside liabilities/Tangible net worth (times)	3.2	2.4
Total debt/OPBDIT (times)	2.4	1.4
Interest coverage (times)	5.9	7.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current ratings (FY2026)					Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Oct 17, 2025	Date	Rating	FY2025		FY2024		FY2023	
						Date	Rating	Date	Rating	Date	Rating
Longterm Fund based – Term Loan	Long term	131.25	[ICRA]AA+ (Stable)	May 05, 2025	[ICRA]AA- Rating watch with positive implications	Sep 06, 2024	[ICRA]AA- (Stable)	Aug 14, 2023	[ICRA]A+ (Stable)	Aug 01, 2022	[ICRA]A+ (Negative)
						-	-	-	-	Jul 18, 2022	[ICRA]A+ (Negative)
Long term Fund based – Cash Credit	Long term	260.00	[ICRA]AA+ (Stable)	May 05, 2025	[ICRA]AA- Rating watch with positive implications	Sep 06, 2024	[ICRA]AA- (Stable)	Aug 14, 2023	[ICRA]A+ (Stable)	Aug 01, 2022	[ICRA]A+ (Negative)
						-	-	-	-	Jul 18, 2022	[ICRA]A+ (Negative)
Short -term –Fund-based working capital	Short term	250.00	[ICRA]A1+	May 05, 2025	[ICRA]A1+	Sep 06, 2024	[ICRA]A1+	Aug 14, 2023	[ICRA]A1	Aug 01, 2022	[ICRA]A1
						-	-	-	-	Jul 18, 2022	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	Simple
Short-term – Fund-based working capital	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	Term Loan-I	October 2022	NA	December 2025	0.50	[ICRA]AA+ (Stable)
NA	Term Loan-II	September 2024	NA	March 2027	10.02	[ICRA]AA+ (Stable)
NA	Term Loan-III	December 2024	NA	June 2028	91.67	[ICRA]AA+ (Stable)
NA	Term Loan-IV	March 2023	NA	January 2028	29.06	[ICRA]AA+ (Stable)
NA	Cash Credit	NA	NA	NA	260.00	[ICRA]AA+ (Stable)
NA	Short-term Fund Based Limits	NA	NA	NA	250.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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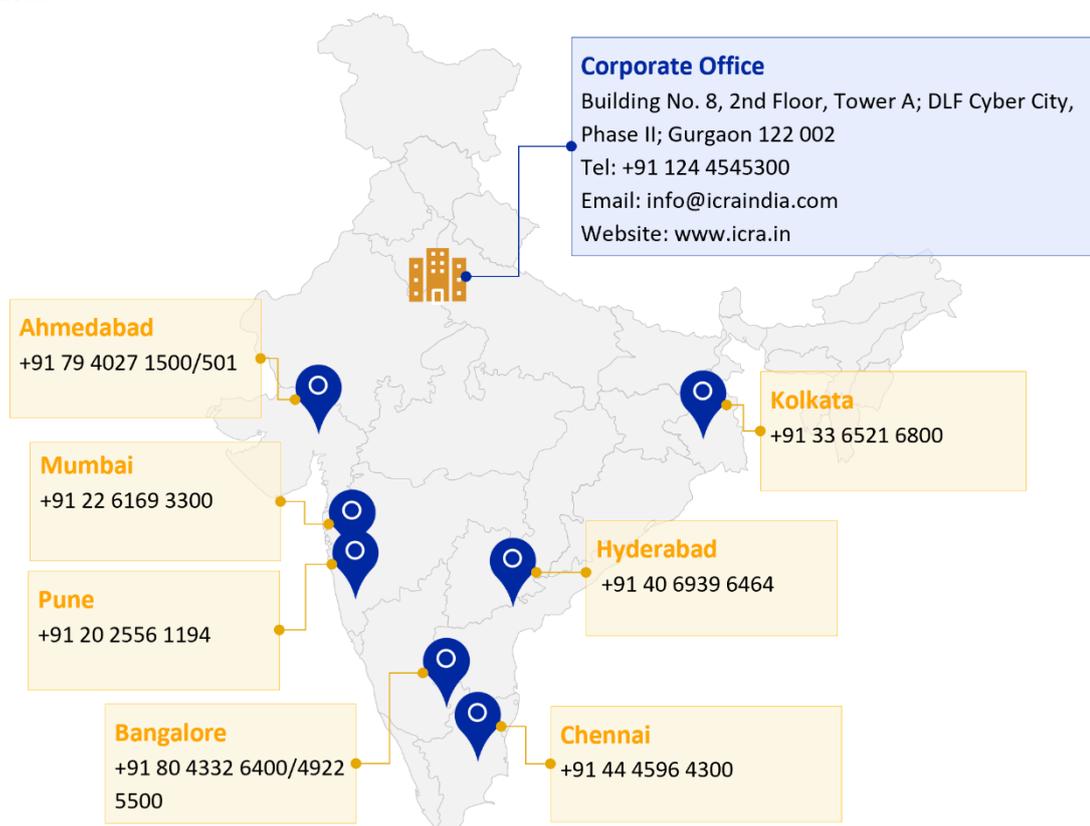
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