

August 12, 2021

Mahindra & Mahindra Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	1500.0	1500.0	[ICRA]AAA (Stable); reaffirmed
Long-term Loans	1800.0	1800.0	[ICRA]AAA (Stable); reaffirmed
Long-term, Fund-based Facilities	15.25	-	-
Long-term, Non-fund Based Facilities	57.50	42.50	[ICRA]AAA (Stable); reaffirmed
Short-term, Non-fund Based Facilities	350.0	400.0	[ICRA]A1+; reaffirmed/assigned
Commercial Paper	1000.0	1000.0	[ICRA]A1+; reaffirmed
Total	4722.75	4742.50	

*Instrument details are provided in Annexure-1

Rationale

The ratings reflect the strong financial profile of Mahindra & Mahindra Limited (M&M)¹, characterised by healthy free cash flows on the back of its diversified business across varied sectors, robust profitability in its core businesses and superior liquidity in the form of sizeable cash as well as liquid investments. The ratings favourably factor in the complementary performance of the farm equipment (FES) and automotive (auto) segments, which has provided stability to the overall profitability despite cyclical performances in the respective segments over the last several years. M&M enjoys a large investment portfolio of its Group 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 additional cushion to M&M's overall financial flexibility. The ratings factor in the decline in M&M's domestic utility vehicles (UV) volumes and moderation in market share despite overall UV segment witnessing 12.1% growth during FY2021. Company has launched "Thar" UV, which has received favourable customer response and will be launching XUV 700 in the next six months which should help in arresting market share decline in the UV segment.

M&M has maintained its dominant position in the domestic tractor industry, the market share in Q1FY22 being ~41.8%. ICRA believes that the three-brand strategy of Mahindra, Swaraj and Trakstar, should help it to sustain its market share around 40% level over the medium term. In its global FES business, M&M is present in four out of the five largest tractor markets in the world. Some of these overseas entities have reported subdued performances in the past. However, they have turned around and are profitable at PBIT level since Q2FY2021. ICRA notes that M&M has taken impairment in some of the subsidiaries in FY2020 and FY2021. M&M's management is working toward growth in the global markets, the benefits of which will be reflected over the medium term.

¹ Earlier, ICRA has taken a combined view of M&M along with its wholly owned subsidiary Mahindra Vehicle Manufacturers Limited (MVML). Subsequent to the NCLT order dated April 26, 2021, MVML has been merged with M&M with effect from April 01, 2019.

In the domestic utility vehicles (UV) business, the increasing competition resulted in a steady decline in the company's market share from 18.97% in FY2020 to 14.66% in FY2021. It has improved to 15.4% during Q1FY22. ICRA notes that M&M has new product launches in pipeline and recently launched "Thar" has received favourable response from the market. While the incremental sales volume from the new models will support M&M's overall volumes, improvement in its market share is challenging against the backdrop of successful launches by its competitors. A material reduction in M&M's market position in its core automotive and FES segments; thereby, resulting in a significant deterioration in its profitability and cash flows would be a credit negative.

The performance of M&M's South Korean subsidiary, Ssangyong Motor Company (Ssangyong) deteriorated further in CY2019 and CY2020 owing to slowdown in exports. M&M has made a provision for impairment of its investments in Ssangyong in FY2020 and FY2021. Ssangyong has filed for restructuring process in December 2020. M&M has ceased consolidating Ssangyong from December 28, 2020.

M&M has provided a capex guidance of Rs. 12,000 crores for FY2022 to FY2024 while the guidance for investments in subsidiaries and group companies during the same period stands at Rs. 5,000 crores. Although the planned investments are large, steady cash flow generation from its core business, along with the financial flexibility enjoyed by the Group and its comfortable credit profile partly mitigate the risk. M&M was net-debt free as on March 2021, and ICRA expects company's leverage to remain low in the medium term, despite sizable capex & investment plans. The company's liquidity position remains superior supported by its large (around Rs. 10,700 crore) cash balance and liquid investments as on March 31, 2021. ICRA notes the tighter capital allocation norms laid out by the company such that it will continue to support those entities, which have a clear path to 18% return on equity (RoE) and those that have a delayed or unclear path to profitability but a quantifiable strategic impact and exit those with unclear path to profitability.

While ICRA draws comfort from M&M's track record of successfully managing its portfolio of businesses, its continued success while maintaining its credit profile, would remain a key rating sensitivity. Strengthening M&M's UV portfolio through new product launches amid the increasing competition, synergising its acquisitions and turning around its loss-making businesses would remain critical for maintaining its credit profile.

Key rating drivers and their description

Credit strengths

Strong position in domestic tractor industry with an established rural franchise; diversified automotive company – M&M has a dominant market share in the domestic tractor industry, the market share in Q1, FY 22 being ~41.8%. ICRA believes that the three-brand strategy of Mahindra, Swaraj and Trakstar, should help it to sustain its market share around 40% level over the medium term. In the automotive business, M&M is amongst the top three CV and UV original equipment manufacturers (OEMs) in India with a strong position in pick-ups (2T-3.5T) segment and large UV segment.

Healthy credit profile, supported by robust cash surplus resulting in healthy liquidity – M&M's credit profile remains strong supported by robust cash accruals. Although the total debt has increased as on March 31, 2021 as against March 31, 2020, the gearing continues to remain low on the back of healthy cash accruals. It had cash and liquid investments to the tune of ~Rs. 10,726 crore as on March 31, 2021 and it continues to maintain its net debt free status.

Inherent value in some of its businesses, with potential to generate cash flows through stake sale for the Group – M&M enjoys a large investment portfolio, consisting of its Group entities, some of which are listed in the stock markets. These businesses are spread across sectors such as financial services, information technology (IT), infrastructure and hospitality. The market values of these quoted investments are significantly higher than the book value, providing additional cushion to M&M's overall financial flexibility.

Credit challenges

Stiff competition in core automotive business impacting market share, could also result in weak pricing scenario, pressurising margins – In the UV segment, company has underperformed the broader market trend primarily due to aging product profile and weak presence in the fast-growing compact UV segment. It lost market share from 18.9% in FY2020 to 14.6% in FY2021. It has improved to 15.4% during Q1FY22. ICRA believes that further improvement in its market share is challenging amid the successful launches by its competitors, though some support can be provided by the recently launched New Thar and expected volume contribution by soon to be launched XUV 700. Overall, both FES and automotive businesses are inherently cyclical, which could have a bearing on M&M's credit profile in case of a prolonged slowdown in demand.

Maintaining capital structure amid significant medium-term investments remains crucial – M&M incurred a capex of ~Rs. 3,300 crore in FY2021. It has provided a capex guidance of Rs. 12,000 crores for FY2022 to FY2024. The guidance for investments in subsidiaries and group companies during the same period stands at Rs. 5,000 crores. Although the planned investments are large, steady cash flow generation from its core business, the financial flexibility enjoyed by the Group and its comfortable credit profile partly mitigates the risk.

Achieving turnaround of loss-making businesses / subsidiaries remains a challenge – In the M&HCV business, M&M has been able to significantly reduce breakeven level post its merger into M&M. Given the sharp headwinds in the industry, M&M's sales volume in the M&HCV business declined in FY2021. However, the volume decline is in line with the broader trend in the industry. Furthermore, the international two-wheeler business is a drag on the overall profitability. The performance of Ssangyong deteriorated further in CY2019 and CY2020 due to slowdown in exports. Consequently, M&M has made a provision for impairment of its investments in Ssangyong in FY2020 and FY2021. M&M has ceased consolidating Ssangyong from December 28, 2020. M&M's global FES business has turned around and is profitable at PBIT level since Q2FY2021. M&M is working towards growth in its global FES business. In this context, ICRA notes the tighter capital allocation norms laid out by the company such that it will continue to support those entities, which have a clear path to 18% RoE and those that have a delayed or unclear path to profitability but a quantifiable strategic impact. It plans to exit those with an unclear path to profitability.

Liquidity position: Superior

Driven by modest operating profitability and negative working capital cycle, M&M+MVML's liquidity position is superior, characterised by sizeable cash balance and liquid investments (of over Rs. 10,700 crore) as on March 31, 2021. The liquidity profile will remain superior despite the estimated capex & investment outlay of Rs 17,000 crore over next three fiscals, supported by steady cash flow generation from core business and the financial flexibility enjoyed by the Group. M&M has a large investment portfolio, consisting of its Group entities, some of which are 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.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on the ratings could arise in case of any significant deterioration in M&M's capital structure as well as debt coverage indicators because of debt-funded capex and investments or any large inorganic acquisition. Material decline in M&M's market position in its core automotive and FES segments, thereby resulting in a significant deterioration in its profitability and cash flows would also be a negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Passenger Vehicle Manufacturers Rating Methodology for Tractor Industry Rating Methodology for Commercial Vehicle Manufacturers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the financials of M&M, as merged with MVML. ICRA has also considered the funding support likely to be extended by M&M to its major investee companies (including MMFSL).

About the company

Incorporated in 1945 by Mr. Ghulam Mohammad and the two Mahindra brothers (KC and JC Mahindra) as a private limited company, Mahindra & Mohammad, the company was renamed as Mahindra & Mahindra in 1948 and was subsequently converted to a public limited company in 1955. M&M is the most diversified automobile company in India with presence across two-wheelers, three-wheelers, PVs, CVs, tractors and earthmovers. M&M has a strong position in the domestic large utility vehicles and tractor markets, with a market share of ~40% in the latter. In terms of volumes, M&M is the world's largest tractor manufacturer and among the top three PV manufacturers in India. Through its subsidiaries and Group companies, M&M has presence in financial services, auto components, hospitality, infrastructure, retail, logistics, steel trading and processing, IT businesses, agri, aerospace, consulting services, defence, energy and industrial equipment.

On a consolidated basis, in FY2021, automotive and farm equipment businesses accounted for around 35% and 33% respectively of M&M's business—the other major contributors being financial services (16%), hospitality (2%) and real estate (0.2%).

Key financial indicators (audited)

M&M + MVML	FY2020	FY2021
Operating Income (Rs. crore)	44,865.5	44,574.4
PAT (Rs. crore)	739.7	922.9
OPBDIT/OI (%)	14.2%	15.7%
PAT/OI (%)	1.6%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.50	0.75
Total Debt/OPBDIT (times)	0.55	1.10
Interest Coverage (times)	51.00	17.63

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	Type	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
			Amount Rated	Amount Outstanding as of Mar 31, 2021	Date & Rating		Date & Rating in FY2021				Date & Rating in FY2020		Date & Rating in FY2019
			(Rs. crore)	(Rs. crore)	12-Aug-21	14-Jun-21	21-Dec-2020	10-Dec-2020	31-Aug-2020	13-Apr-2020	07-Oct-2019	29-Jul-2019	29-Jun-2018
1	Non-Convertible Debenture Programme	Long-term	1500.0	1500.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Fund-based Facilities	Long-term	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-fund Based Facilities	Long-term	42.50	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-fund Based Facilities	Short-term	400.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Term Loan	Long-term	1800.0	1800.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-
6	Commercial Paper	Short-term	1000.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non Convertible Debentures	Simple
Long-Term Non-fund based facilities	Simple
Term loans	Simple
Short-Term Non-fund based facilities	Very Simple
Commercial Paper	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE101A08096	Non-Convertible Debenture Programme	Apr-2020	6.65%	Apr-2023	1000.0	[ICRA]AAA (Stable)
INE101A08070	Non-convertible Debenture Programme	Jul-2013	9.55%	Jul-2063	500.0	[ICRA]AAA (Stable)
NA	Term Loan 1	May-2020	6.15%	May-2023	1000.0	[ICRA]AAA (Stable)
NA	Term Loan 2	May-2020	6.35%	May-2025	800.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 1	NA	NA	NA	6.25	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 2	NA	NA	NA	6.25	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 3	NA	NA	NA	30.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 4	NA	NA	NA	400.0	[ICRA]A1+
INE101A14136	Commercial Paper	NA	NA	NA	500.0	[ICRA]A1+
INE101A14144	Commercial Paper	NA	NA	NA	500.0	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

Kinjal.shah@icraindia.com

Rupa Pandey

+91 22 61143456

rupa.pandey@icraindia.com

Ashish Modani

+91 20 66069912

ashish.modani@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited



Registered Office

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



Branches



© Copyright, 2021 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 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.