Mahindra & Mahindra Limited

Instrument	Amount	Rating Action
Non-Convertible Debenture programme	Rs. 500.0 crore	[ICRA]AAA (stable) reaffirmed
Non-Convertible Debenture programme	Rs. 400.0 crore	[ICRA]AAA (stable) withdrawn
Long-term, fund-based facilities	Rs. 88.0 crore	[ICRA]AAA (stable) reaffirmed
Long-term, non-fund based facilities	Rs. 81.0 crore	[ICRA]AAA (stable) reaffirmed
Short-term, non-fund based facilities	Rs. 132.0 crore	[ICRA]A1+ reaffirmed
Long-term/ short-term, fund-based/ non-fund based facilities	Rs. 99.0 crore	[ICRA]AAA (stable)/ [ICRA]A1+ reaffirmed

ICRA has reaffirmed the [ICRA]AAA (pronounced ICRA triple A) rating assigned to the Rs. 500.0 crore[1] Non-Convertible Debenture progarmme; the Rs. 88.0 crore, long-term, fund-based bank facilities; and the Rs. 81.0 crore, long-term, non-fund based bank facilities of Mahindra & Mahindra Limited (M&M)[2]. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 132.0 crore, short-term, non-fund based bank facilities of M&M. ICRA has also reaffirmed the [ICRA]AAA/ [ICRA]A1+ ratings assigned to the Rs. 99.0 crore, long-term/ short-term, fund-based/ non-fund based bank facilities of M&M. The outlook on the long-term rating is stable. Further, subsequent to the redemption of Rs. 400 crore Non-Convertible Debenture programme on maturity, ICRA has withdrawn the [ICRA]AAA (stable outlook) rating assigned to the instrument, as there is no amount outstanding against the rated instrument.

While rating Mahindra & Mahindra Limited (M&M), ICRA has taken a consolidated view of M&M along with its wholly-owned subsidiary Mahindra Vehicle Manufacturers Limited (MVML).

The ratings reaffirmation reflects 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 its 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+MVML'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 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.

The domestic tractor industry sales continue to remain sluggish, marred by weak rural incomes on account of consecutive crop failures, a second consecutive year of weak south-west monsoon as well as only a modest increase in minimum support prices (MSPs) of various crops. However, while M&M lost some of its market share in Western and Central India in FY2015, strong growth in the Southern region has helped the company to gain market share in overall domestic tractor industry during FY2016. Despite industry slowdown, M&M benefits from economies of scale and strong market position, enabling it to retain benefits of benign commodity prices.

ICRA however takes note of the increasing competitive pressures in M&M's core UV business, which has resulted in some moderation in the company's domestic UV market share over the last three years. While competition has intensified in the domestic UV segment, M&M has maintained its leadership position with over 50% market share in the large UV (UV2) segment and has gained market share in the compact UV segment post launch of TUV 3OO and KUV 1OO during FY2016. However, its largest selling UV i.e. Bolero is witnessing pressures due to weak rural incomes. Further, adverse regulatory measures, primarily the ban on diesel vehicles with engine capacity in excess of 2.0 litres in the NCR region starting Q4 FY2016, reducing price gap between petrol and diesel prices, and levy of infrastructure cess have an adverse impact on the company's larger diesel vehicles sales. Nonetheless, M&M has launched sub 2.0 litre diesel variants of XUV and Scorpio

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website, www.icra.in, or other ICRA Rating Publications

in NCR region and a petrol variant of KUV 1OO to address the above, and is also in the process of developing larger petrol engines in collaboration with Ssangyong for its other UV platforms.

This apart, the commercial vehicle, two-wheeler and Ssangyong businesses, continue to impact the profitability of the company at consolidated level, and are expected to require sizeable investments and management attention over the medium term. With a revival in the domestic medium & heavy commercial vehicles (M&HCV) industry in FY2016, M&M's M&HCV business has also witnessed a volume growth. However, the volumes are lower compared to the required breakeven volumes. Nonetheless, post merger of the M&HCV business into M&M, the business has witnessed improvement in cost structure and operational efficiencies, resulting in reduced losses.

M&M's two-wheeler business, operated under Mahindra Two Wheelers Limited (MTWL), remains a marginal player in the domestic two-wheeler industry and is consistently incurring losses, requiring regular funds infusion by M&M to trim losses and fund product development expenditure. While acquisition of 51% stake Peugeot's two-wheeler's business (acquired in January 2015 at a total consideration of EUR 28 million) is expected to help the company in designing and technological capabilities, its (Peugeot 2W) business is expected to remain in losses in the near term given declining volumes and overall contraction in volumes of vehicles upto 50cc where Peugeot has sizeable share. For M&M to create a meaningful presence in the domestic two wheeler market, it will require sizeable investments in creating a service network apart from investments in new product development.

Since acquisition by M&M, Ssangyong's sales have recovered handsomely in the Korean market; however, the Russian market, which is the major market for Ssangyong, has been facing a slowdown due to external factors, which has impacted overall sales volumes. Hence, Ssangyong's financial performance is likely to remain muted in the near term. Nonetheless, Ssangyong is adequately capitalized to finance its capital expenditure plans, 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.

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.

During December 2015, M&M, along with its group company Tech Mahindra Limited (TechM), have jointly entered into an agreement to acquire 76.06% stake in automotive designing firm Pininfarina of Italy, with the two companies holding 40% and 60% stake, respectively. The total consideration for the acquisition is EUR 25.3 million; in addition, M&M and TechM will also be making an open offer for acquisition of remaining stake to public shareholders for EUR 8 million, and will also undertake a rights issue of EUR 20 million. The companies would also extend corporate guarantee to the tune of EUR 114.5 million to the lenders, creditors and lessors of Pininfarina. While Pininfarina has been a loss-making entity, M&M expects to benefit from its designing capabilities and brand.

In FY2015, despite revival in the domestic automotive industry (growth of 3.7%), M&M+MVML reported de-growth of 9.0% in total revenues – 1.7% de-growth in auto segment revenues on account of lack of presence in the compact UV segment, and 6.9% de-growth in FES revenues (the domestic tractor industry de-growth of 13.1%). However, during 9m, FY2016, M&M+MVML reported yoy growth of 2.6% primarily driven by 8.5% growth in the automotive segment, whereas FES segment revenue declined by 6.4%. Nonetheless, M&M+MVML continues to enjoy healthy profitability on account of benign commodity prices. M&M+MVML's capital structure also continues to remain at comfortable levels (gearing at 0.22 times as on March 31, 2015), with strong liquidity support in the form of healthy cash surplus and liquid investments (Rs. 4,603 crore as on December 31, 2015).

M&M+MVML have maintained their capital expenditure guidance of ~Rs. 7,500 crore and investment plans of ~Rs. 2,500 crore over FY2016 to FY2018. 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. ICRA would however continue to monitor the future investments of M&M and their impact on its credit profile.

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. M&M is the most diversified automobile company in India with presence across 2-wheelers, 3-wheelers, passenger vehicles, commercial vehicles, tractors and earthmovers. M&M has a dominant position in the domestic large utility vehicles (UV2) and tractor markets, with market share in excess of 40%. In terms of volumes, M&M is the world's largest tractor manufacturer and third largest passenger vehicle manufacturer in India. M&M, through its subsidiaries and group companies, has presence in financial services, auto components, hospitality, infrastructure, retail, logistics, steel trading & processing, information technology businesses, agri, aerospace, consulting services, defence, energy and industrial equipment.

On a consolidated basis, in 9m FY2016, automotive and farm equipment businesses accounted for around 59.3% and 22.6%, respectively, of M&M's business – the other major contributors being financial services (8.1%), hospitality (1.8%) and steel trading (1.6%).

Recent Results

For the twelve months ended March 31, 2015, M&M+MVML reported a profit after tax (PAT) of Rs. 3,423.3 crore on an operating income of Rs. 37,468.3 crore as against a PAT of Rs. 3,905.1 crore on an operating income of Rs. 38,817.1 crore for the twelve months ended March 31, 2014.

For the nine months ended December 31, 2015, M&M+MVML reported a PAT of Rs. 2,629.7 crore on an operating income of Rs. 28,696.4 crore.

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