July 29, 2019

Mahindra & Mahindra Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Non-convertible Debenture Programme	500.0	500.0	[ICRA]AAA (Stable); reaffirmed
Long-term, Fund-based Facilities	65.0	65.0	[ICRA]AAA (Stable); reaffirmed
Long-term, Non-fund Based Facilities	110.0	110.0	[ICRA]AAA (Stable); reaffirmed
Short-term, Non-fund Based Facilities	350.0	350.0	[ICRA]A1+; reaffirmed
Total	**1025.0**	**1025.0**	

** Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation reflects the strong financial profile of Mahindra & Mahindra Limited (M&M), as characterised by healthy cash accruals on the back of its diversified business across varied sectors, robust profitability in its core businesses, and strong liquidity in the form of sizeable cash and liquid investments. The rating also favourably factors in the complementary performance of the farm equipment (FES) and utility vehicles (UV) segments of Mahindra & Mahindra Limited and Mahindra Vehicle Manufacturers Limited (M&M+MVML, 100% subsidiary of M&M), which has provided stability to overall profitability despite cyclical performances in respective segments over the last several years. M&M also has 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 significant additional cushion to M&M's overall financial flexibility.

While M&M has maintained its dominant position in the domestic tractor industry, it witnessed a moderation in its market share to 40.2% in FY2019 due to inventory corrections it had undertaken ahead of its competitors. However, its three-brand strategy of Mahindra, Swaraj and Trakstar, should help it to sustain its market share above the 40% level over the medium term. To scale up its FES business further, M&M has acquired several entity/ies in Turkey and Finland over the last two to three years. These overseas entities have reported subdued performances and are likely to add to the company's profitability going forward only. Consequently, while M&M+MVML's FES reported healthy profit before interest and tax (PBIT) margin of 19.3% during FY2019, the PBIT margin was relatively modest at 10.8% (over 14.1% during FY2018) at a consolidated level, due to subdued performance in these newly acquired subsidiaries and sizeable net loss of ~Rs. 549 crore in a subsidiary due to a one off inventory correction.

In the domestic UV business, the increasing competitive pressures have resulted in a steady decline in the company's market share over the last five years—to 25.0% in FY2019. M&M launched three new products—Marazzo, XUV 3OO and Alturas G4—during FY2019, which helped it regain its leadership position in the domestic UV industry during Q4 FY2019. 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.

ICRA notes that the merger of the medium and heavy commercial vehicle (M&HCV) business into M&M with effect from FY2014 facilitated improvement in its cost structure and operational efficiencies, resulting in a reduction in the breakeven sales volumes, and an improvement in M&M's market share to 3.2% in FY2019 from 1.4% in FY2014. M&M also merged its two-wheelers business with effect from April 01, 2017 and revised its strategy by focusing on the fast growing and high margin premium motorcycle segment in India. In the two-wheeler segment, globally, the company is present through Peugeot Motocycles S.A.S., which continues to report losses.

The performance of M&M's South Korean subsidiary—Ssangyong Motor Company (Ssangyong)—has remained weak (net loss of Rs. 392.2 crore in FY2019) due to slowdown in exports. Ssangyong faces high dependence on its key models, Rexton and Tivoli. The company is enhancing its product portfolio; and in CY2019, it had new launches like Rexton Sports KHAN and New Korando. The ability of the company to improve its product portfolio and reduce its dependence on a few models remain a key monitorable. M&M has infused KRW 50 billion (Rs. 316.5 crore) equity in FY2019 in Ssangyong. However, as indicated by the management, going forward, Ssangyong is expected to meet its funding requirements through internal accruals and / or external borrowings, without M&M having to bear any major financial burden.

M&M+MVML's (combined) guidance of capital expenditure (capex) and investment plans has increased to Rs. 18,000 crore over FY2020 to FY2022, as against Rs. 15,000 crore over FY2019 to FY2021. With incremental investment requirement in new product development and some of the businesses, M&M+MVML's capex and investment requirements have steadily increased over the last few years. 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 mitigate the risk. The company's (i.e., M&M+MVML) liquidity position also remains comfortable, supported by its large (around Rs. 3,243 crore) liquid investments and cash balance (Rs. 3,832 crore) as on March 2019.

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 increasing competitive intensity, synergising its acquisitions and turning around the Ssangyong and two-wheeler businesses would remain critical for maintaining its credit profile.

ICRA also notes M&M's decision to merge MVML with effect from April 01, 2019, to rationalise the Group holding structure.

Outlook: Stable

ICRA expects M&M+MVML to maintain its healthy credit profile, supported by its leadership position in the domestic tractor industry and the domestic UV industry, despite loss of market share in the latter. While there could be short-term aberrations due to inherent cyclicality in the tractor as well as automotive segments, M&M+MVML's overall credit profile will continue to remain robust because of healthy accruals and strong liquidity in the form of investments in listed Group entities and associated companies. The outlook may be revised to Negative in case of a significant decline in its operating profit margins due to a slowdown in demand or an inability to synergise its acquisitions, resulting in a weakening of its credit profile. Any significant debt-funded acquisition or sizeable increase in the capex and investments, resulting in a deterioration in its credit profile, could also be a credit negative.

Key rating drivers

Credit strengths

Strong position in the domestic UV and tractor segments, with an established rural franchise; diversified automotive company – M&M has a dominant market share in both UV and tractor segments in India. While M&M has maintained its dominant position in the domestic tractor industry, it witnessed a moderation in its market share to 40.2% in FY2019. However, its three-brand strategy of Mahindra, Swaraj and Trakstar, should help it to recover some lost ground in FY2020 with clear leadership position across all regions of India, which is expected to sustain, going forward. In the domestic UV business, the increasing competitive pressures have resulted in a steady decline in the company's market share over the last five years—to 25.0% in FY2019. M&M launched three new products—Marazzo, XUV 3OO and Alturas G4—during FY2019, which helped it regain its leadership position in the domestic UV industry during Q4 FY2019. While the incremental sales volume from the new models will support M&M's overall volumes, ICRA believes improvement in its market share is challenging against a backdrop of successful launches by its competitors. M&M also has a strong position in the pick-up segment with a market share of 62.9% in the 2-3.5T (goods) segment during FY2019 and is gradually gaining traction in the largely duopolistic Indian M&HCV (goods) segment.

Healthy credit profile, supported by robust cash surplus resulting in healthy liquidity – M&M's credit profile remains strong supported by low leverage and robust cash accruals. As on March 31, 2019, M&M+MVML had cash and liquid investments to the tune of Rs. 7,075 crore, which aids its financial flexibility.

Inherent value in some of its businesses, with potential to generate cash flows through stake sale for the Group – M&M has a large investment portfolio, consisting of its Group entities, some of which are also listed in the stock markets. These businesses are spread across sectors like information technology (IT), infrastructure and hospitality. 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.

Credit challenges

Growing competitive pressures in core automotive business impacting market share, could also result in weak pricing scenario (higher discounts), pressurising margins – While M&M has maintained its leadership position in the large UV segment, relative underperformance in the fast growing compact UV segment (UV1 segment, which drove ~71% of total domestic UV sales in FY2019) resulted in a steady decline in M&M's market share in the UV segment to 25.0% in FY2019. While the incremental sales volume from the proposed new launches during FY2020 will support M&M's overall volumes, ICRA believes improvement in its market share is challenging amid the successful launches by its competitors. 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 in the light of significant investments over the medium term – M&M+MVML's (combined) guidance of capex and investment plans increased to Rs. 18,000 crore over FY2020 to FY2022, as against Rs. 15,000 crore over FY2019 to FY2021. With the weak performance of several subsidiaries and incremental investments required in new product development, M&M+MVML's capex and investment requirements have steadily increased over the last few years. Though the planned investments are large, steady cash flow generation from core businesses, the financial flexibility enjoyed by the Group and the comfortable credit profile partly mitigate the risk. The company's (M&M+MVML) liquidity position also remains comfortable, supported by its large (around Rs. 3,243 crore) liquid investments and cash balance (Rs. 3,832 crore) as on March 2019.

Achieving turnaround of two-wheelers business and Ssangyong operations remains a challenge; losses in these operations drags consolidated profitability – In the M&HCV business, M&M has been able to significantly reduce breakeven level post its merger into M&M. However, the two-wheeler business is a drag on overall profitability. M&M has also merged the two-wheelers business with effect from April 01, 2017, and revised its strategy with a focus on the fast growing and high margin premium motorcycle segment in India. In the two-wheeler segment, globally, the company is present through Peugeot Motocycles S.A.S., which continues to report losses. The performance of Ssangyong has also remained weak (net loss of Rs. 392.2 crore in FY2019) due to slowdown in exports. Ssangyong has limited product portfolio as compared to other larger competitors in the industry, and it has high dependence on select models / platforms like Tivoli and Rexton. The company is enhancing its product portfolio; and in CY2019, it had new launches like Rexton Sports KHAN and New Korando. The ability of the company to improve its product portfolio and reduce its dependence on a few models remain a key monitorable. M&M has infused KRW 50 billion (Rs. 316.5 crore) equity in FY2019 in Ssangyong. However, as indicated by the management, going forward, Ssangyong is expected to meet its funding requirements through internal accruals and / or external borrowings, without M&M having to bear any major financial burden.

Liquidity position

Driven by modest operating profitability and negative working capital cycle, M&M+MVML's liquidity position is healthy, as characterised by sizeable cash balance (Rs. 3,832 crore) and liquid investments (Rs. 3,243 crore) as on March 31, 2019. Despite the planned capex and investment, M&M+MVML's liquidity profile will remain healthy supported by steady cash flow generation from core business and the financial flexibility enjoyed by the Group. ICRA also draws comfort from the management intent to maintain a steady-state liquidity of ~Rs. 5,000-6,000 crore.

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 combined financials of M&M along with its wholly-owned subsidiary, MVML (rated [ICRA]AAA (Stable) / [ICRA]A1+), due to their strong operational, financial and managerial linkages. ICRA has also considered the potential funding requirement of its major investee companies that may have to be supported by M&M. ICRA has further taken into account the market value of the quoted equity investments along with its portfolio of unlisted investments, which accord high financial flexibility.

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, passenger vehicles, commercial vehicles, tractors and earthmovers. M&M has a strong position in the domestic large utility vehicles and tractor markets, with a market share in excess of 40% in the latter. In terms of volumes, M&M is the world's largest tractor manufacturer and among the top three passenger vehicle manufacturers in India. Through its subsidiaries and Group companies, M&M has a 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 FY2019, automotive and farm equipment businesses accounted for around 56.5% and 21.4%, respectively, of M&M's business—the other major contributors being financial services (9.9%), hospitality (2.1%) and real estate (0.6%).

Key financial indicators (audited, M&M+MVML)

	FY2018	FY2019
Operating Income (Rs. crore)	47,577.4	52,848.2
PAT (Rs. crore)	4,623.2	5,401.2
OPBDIT/ OI (%)	14.8%	14.2%
RoCE (%)	22.8%	21.3%
Total Debt/ TNW (times)	0.11	0.08
Total Debt/ OPBDIT (times)	0.49	0.39
Interest Coverage (times)	37.4	51.3

Source: Mahindra & Mahindra Limited

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating July 2019	Date & Rating in FY2019 June 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 April 2016
1	Non-Convertible Debenture Programme	Long-term	500.0	500.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Fund-based Facilities	Long-term	65.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-fund Based Facilities	Long-term	110.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-fund Based Facilities	Short-term	350.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fund-based / Non-fund Based Facilities	Long-term / Short-term	-	-	-	-	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+

**As on March 31, 2019*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE101A08070	Non-convertible Debenture Programme	Jul-2013	9.55%	Jul-2063	500.0	[ICRA]AAA (Stable)
NA	Fund-based Facility 1	NA	NA	NA	18.0	[ICRA]AAA (Stable)
NA	Fund-based Facility 2	NA	NA	NA	15.0	[ICRA]AAA (Stable)
NA	Fund-based Facility 3	NA	NA	NA	32.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 1	NA	NA	NA	21.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 2	NA	NA	NA	15.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 3	NA	NA	NA	6.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 4	NA	NA	NA	6.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 5	NA	NA	NA	32.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 6	NA	NA	NA	30.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facility 1	NA	NA	NA	350.0	[ICRA]A1+

Source: Mahindra & Mahindra Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Ashish Modani
+91 20 6606 9912
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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

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