

March 25, 2020

Mahindra Electric Mobility Limited: [ICRA]A+(Stable)/[ICRA]A1 assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-Based / Non-Fund Based Facilities	100.00	130.00	[ICRA]A+ (Stable) / [ICRA]A1; assigned / outstanding
Long-term Loan	-	100.00	[ICRA]A+ (Stable) assigned
Total	100.00	230.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to favourably factor in the strategic importance of Mahindra Electric Mobility Limited (MEML) for its promoter entity, Mahindra & Mahindra Limited's (M&M, rated [ICRA]AAA (Stable) / [ICRA]A1+) foray in the electric vehicle (EV) business, the financial and operational support provided by the promoter Group and the presence of senior executives of M&M on MEML's board of directors. The ratings are, however, constrained by the nascent stage of the EV industry in India, given the weak public charging infrastructure and high upfront cost, MEML's sub-optimal capacity utilisation resulting in operating losses and stretched coverage indicators, and the susceptibility of MEML's profitability to foreign exchange fluctuations due to the current high import content. Over the three years (FY2020-FY2022) period, the company will be investing about Rs. 1,000 crore towards capacity addition, research and development (R&D) infrastructure and new product development, which will be funded by a mix of debt and equity infusion from promoters. Consequently, the debt level as well as coverage indicators will weaken from the current level, thereby exerting further pressure on MEML's credit profile. The ratings draw comfort from the promoter group's timely support to MEML for maintaining adequate liquidity and support any financial exigencies, as the company's own cash flows from operations are likely to remain stretched over the medium term.

ICRA notes that the company has prioritised its focus towards electric three-wheeler (e3W) segment, which is likely to witness early adoption of electrification as compared to other conventional segments like passenger vehicles (PVs) or commercial vehicles (CVs). Consequently, the company's turnover as well as profitability is expected to witness steady improvement over the medium term. M&M management has indicated MEML achieving EBIDTA breakeven in FY2021.

Key rating drivers

Credit Strengths

Strategic importance for M&M's foray in the EV business; financial and operational support from M&M: MEML is a core part of M&M's foray into the EV segment. Going forward, MEML will be the sole supplier of EV kits for lithium ion (Li-ion) based EVs under the Mahindra brand. Moreover, MEML is also working closely with other Mahindra Group entities to supply EV kits for their platforms / models. M&M will be launching eKUV 100 and eXUV 300 over the next 12-18 months, for which the EV kits will be supplied by MEML. Presence of senior executives from M&M's management team on MEML's board of directors and track record of timely infusion of funds from the Group also provides comfort.

MEML's incremental capital expenditure (capex) and investment plans of ~Rs. 1,000 crore is part of M&M + MVML's (Mahindra Vehicle Manufacturers Limited) Rs. 17,000 crore guidance of capex and investment over FY2020-FY2022.

Early mover in the Indian EV market: MEML is a pioneer in the Indian EV segment and is also a member of various policy decision bodies in India pertaining to automotive electrification. Being the first mover, the company has extensive data of about 135 million km for its EV travelled across India, which helps in designing and development of products.

Credit Challenges

Nascent stage of EV industry in India, with high dependence on government incentives to make any meaningful inroads: The Indian EV industry is still in a nascent stage as the weak public charging infrastructure and high upfront prices of EVs have constrained the growth prospects. The growth trajectory over the medium term remains contingent on the government regulations and level of incentives. ICRA notes that MEML has prioritised its focus towards e3W segment, which is likely to witness early adoption of electrification as compared to other conventional segments like PVs or CVs.

Under-utilisation of capacity and weak demand result in operating losses; weak coverage indicators: Due to sub-optimal capacity utilisation, the company is incurring operating losses and the operating performance is likely to remain weak over the next two-three years. The company is investing about Rs. 1,000 crore over FY2020-FY2022 towards R&D, product development and capacity addition, which will be funded by a mix of debt and equity infusion from the promoter. Consequently, the coverage indicators will continue to remain weak over the medium term.

Susceptible to foreign exchange fluctuations owing to current high import content: Currently, the EV components ecosystem is weak in India; hence, the original equipment manufacturers (OEMs) rely on imports for meeting a substantial share of their raw material requirement, especially pertaining to battery-cell and electronic components. While MEML is working on increasing its localisation level, overall import content (primarily due to battery-cells) will continue to remain sizeable, thereby exposing the company to fluctuations in foreign exchange.

Liquidity Position: Adequate

Out of the sanctioned Rs. 40 crore working capital facilities, MEML's utilisation is about Rs 35 crore as on January 31, 2020, providing adequate liquidity buffer. The company's own cash flows from operations are likely to remain modest over the medium term. Timely financial support from the promoter group

ICRA expects the promoter Group to provide timely financial support to MEML to tide over any short-term cash flow mismatches and maintain its liquidity at satisfactory level.

Rating Sensitivities

Positive Trigger: Substantial improvement in profitability and coverage indicators, such that RoCE is above 12% and TD/OPBDITA is below 2.5 times on a sustained basis.

Negative Trigger: Deterioration in the credit profile of the key promoter entity i.e. M&M or weakening in linkages with the promoter Group will result in rating downgrade. Moreover, any adverse regulatory decisions or a change in the government's stance towards electrification impacting financial profile of the company would also be a credit negative. Weakening in capital structure such that leverage exceeds 1.2 times on a sustained basis will also exert downgrade pressure.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Passenger Vehicle Manufacturers Impact of Parent or Group support on an Issuer's Credit Rating
Parent / Group Support	Parent / Group Company: Mahindra & Mahindra Limited (M&M) The rating assigned to MEML factors in the very high likelihood of its parent, M&M [rated [ICRA]AAA (Stable) / [ICRA]A1+], extending financial support to it because of close business linkages between them. We also expect M&M to be willing to extend financial support to MEML 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 having extended timely financial support to MEML in the past, whenever a need has arisen.
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company:

Incorporated in 1996, Mahindra Electric Mobility Limited, formerly known as the Reva Electric Car Company Limited (RECL), is involved in designing and manufacturing of compact EVs. In May 2010, Reva was acquired by M&M (rated [ICRA]AAA (Stable) / [ICRA]A1+). At present, MEML sells Li-Ion e3W – Treo and Treo Yaari (discontinued the electric city smart hatchback e2OPlus from April 2019), and also sells EV kits to the electric sedan eVerito being manufactured by M&M and electric commercial vehicle eSupro (passenger and cargo) being manufactured by MVML. Under internal restructuring, during FY2016, MEML's shareholding was transferred from M&M to its wholly-owned subsidiary MVML (rated [ICRA]AAA (Stable) / [ICRA]A1+).

Being of strategic importance for M&M's automotive business, senior management team from M&M is involved in key decision-making process. Dr. Pawan Goenka, Managing Director of M&M, is also on the board of MEML, along with other veterans like Mr. Rajan Wadhera (President – Automotive Sector, M&M) and Mr. V Parthasarthy (Group CFO – M&M).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	127	249
PAT (Rs. crore)	(129)	(53)
OPBDIT/OI (%)	-67.2%	-6.0%
RoCE (%)	-55.6%	-20.9%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	(0.14)	(1.76)
Interest coverage (times)	(76.7)	(15.5)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Current Rating 25-Mar-2020	Earlier Rating 21-Aug-2019	FY2019	FY2018	FY2017
1	Fund-based / Non-fund Based Facilities	Long-term / Short-term	130.0	88.1	[ICRA]A+ (Stable) / [ICRA]A1	[ICRA]A+ (Stable) / [ICRA]A1	-	-	-
2	Term Loan	Long-term	100.0	75.0	[ICRA]A+ (Stable)	-	-	-	-

*Amounts in Rs. crore; *As on January 31, 2020*

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 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
NA	Fund-based / Non-fund Based facilities	-	-	-	130.0	[ICRA]A+ (Stable) / [ICRA]A1
NA	Long-term Loan	FY2020	MCLR+5bps	FY2025	100.0	[ICRA]A+ (Stable)

Source: Mahindra Electric Mobility Limited

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