Mahindra

Mahindra & Mahindra Ltd.
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REF:NS:SEC:
26th September, 2016

National Stock Exchange of India Limited
"Exchange Plaza", 5th Floor,
Plot No.C/1, G Block
Bandra-Kurla Complex
Bandra (East), Mumbai 400051.

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400001.

Bourse de Luxembourg
Societe de la Bourse de Luxembourg
Societe Anonyme/R.C.B. 6222,
B.P. 165, L-2011 Luxembourg.

London Stock Exchange Plc
10 Paternoster Square
London EC4M 7LS.

Dear Sir,

Sub: Credit rating by India Ratings and Research Private Limited

India Ratings Assigns Mahindra & Mahindra's INR4.75bn Non-Convertible Debentures Final 'IND AAA'/Stable.

Please find enclosed a press release in respect of the same.

Kindly take the above on record.

Yours faithfully,
For MAHINDRA & MAHINDRA LIMITED

NARAYAN SHANKAR
COMPANY SECRETARY

Encl: a/a

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India Ratings Assigns Mahindra & Mahindra's INR4.75bn NCDs Final ' IND AAA'/Stable

Ind-Ra-Mumbai- 26 September 2016: India Ratings and Research (Ind-Ra) has assigned Mahindra & Mahindra Limited's (M&M) INR4.75bn unsecured, non-convertible debenture (NCD) programme a final 'IND AAA' rating with Stable Outlook.

The rating action is based on the receipt of final documentation conforming to information previously shared by the company with the agency. A list of outstanding ratings is at the end of this commentary.

The proceeds of the NCDs are to be used for capex, long term working capital expenditure and other general corporate purposes. The NCDs are being issued with a face value of INR1m and entail a coupon of 7.57%, which will be paid annually. They have a tenor of 10 years with a bullet payment at the end of the tenor. The NCDs will be listed on the wholesale debt market segment of the Bombay Stock Exchange. Axis Trustee Limited has been appointed as a trustee for this issue. Ind-Ra has taken a consolidated view of M&M and all its non-financial subsidiary companies to arrive at the rating, excluding its financial services subsidiary - Mahindra & Mahindra Financial Services Limited (MMFSL, 'IND AAA'/Stable).

KEY RATING DRIVERS

Strong Market Position: M&M has maintained its leadership in the domestic market for tractors and utility vehicles, with market shares of 40.9% and 37.9% (in volume terms), respectively, in FY16. During April-June 2016, its market share in the tractor segment improved to 43.9%, while in the utility vehicle segment it declined to 31.6%. The decline is mainly attributed to new launches by peers in this period. The company is also the number one player in the light commercial vehicle goods carrier segment (below 3.5 tonnes), with a share of 51% and 49.4%, respectively, in FY16 and 1QFY17.

Also, M&M has retained its strong market position in the farm equipment and auto segments, supported by multiple product platforms and new launches on an ongoing basis, backed by its strong R&D capability. Its revenue grew at a CAGR of 18% on a standalone basis during FY05-FY16. The farm equipment and auto businesses together accounted for 81.4% and 85.4%, respectively, of the consolidated revenue and EBIT (before unallocable expenses) in FY16.

Meaningful Diversification: M&M is engaged in diverse businesses such as financial services, auto components, hospitality, infrastructure, retail, logistics, steel trading & processing, information technology businesses, agriculture, aerospace, consulting services, defence, energy and industrial equipment. This provides stability to its consolidated credit profile, shielding the company, to an extent, against variation in demand in individual business divisions.

In FY14, the slowdown in auto sales due to cyclicality was offset by strong demand for tractors due to an abundant monsoon. Similarly, in FY15 and FY16 the impact of deficient monsoon on revenue due to lower tractor sales was offset by fairly stable auto sales. As demand drivers for the auto segment (GDP growth rate, disposable income, fuel prices, level of industrial production, interest rates) are different from those for farm equipment (adequacy of rainfall, interest subvention schemes, cost of labour in rural areas), demand cycles for products of the two divisions are independent of each other. Within these two divisions, the company has a wide range of product offerings at various price points to cater to several customer segments.

Strong Financial Profile: To compute some key financial metrics and facilitate meaningful comparisons with relevant peer groups, Ind-Ra has adjusted numbers keeping MMFSL in mind (this includes financial support in case of need). M&M's financial profile (consolidated, excluding MMFSL) is characterised by a low financial leverage ratio and a high coverage ratio. Based on Ind-Ra computations on ex-MMFSL basis, its operating revenue was INR714,617.3m in FY16 (FY15: INR659,274.5m) and its EBITDA margin was 7.8% (7.2%). Its net adjusted leverage (adjusted debt net of cash /EBITDAR) was 0.96x in FY16 (FY15: 0.79x) and EBITDA gross interest coverage was 11.0x (9.2x). For FY17-FY19, Ind-Ra expects the company to maintain these metrics.

The stability of M&M's financial profile can be gauged by its key metrics being in a fairly close range since

FY00. Median through-the-cycle values for FY00-FY16 of standalone EBITDA margin and EBITDA gross interest coverage were 11.2% and 18.8x, respectively. On ex-MMFSL basis, Ind-Ra expects the company to register a slight improvement in the margins as well as overall credit metrics in FY17, subject to a normal monsoon.

Conservative Financial Policy: M&M follows an extremely conservative financial policy, with gearing (debt/equity) ratio (ex-MMFSL basis) of less than 0.6x during FY11-FY16 (FYE16: 0.41x). Ind-Ra expects the company to maintain its consolidated (ex-MMFSL) gearing at less than 0.7x. To maintain tight control over gearing, the company explores diverse options for acquisitions such as internal accruals, equity participation and debt in limited amounts. M&M expects capex and investment over FY17-FY19 to be around INR100,000m and would be funded mostly from internal accruals. As a result, its gearing as well as net leverage is not likely to materially exceed the current levels.

Strong Liquidity: On ex-MMFSL basis, M&M reported large positive net cash flow from operations of close to INR168bn for FY14-FY16. The company expects to remain cash flow positive over the next three years. Its cash and current investments stood at INR71,836.3m at FYE16 (FYE15: INR64,518.4m). In addition, its fund-based facilities (INR4,000m at M&M standalone) were not utilised in the 12 months ended August 2016 as the company has been able to meet its working capital entirely from internal accruals. Ind-Ra expects its debt repayments over FY17-FY19 (over INR40,000m per year) to be comfortably funded out of cash flow from operations.

RATING SENSITIVITIES

Negative: Higher-than-expected support to MMFSL could be negative for the rating. This could be on account of MMFSL's weak standalone financial performance due to a weak monsoon leading to muted tractor sales. M&M's consolidated (ex-MMFSL) net leverage (net adjusted debt/EBITDAR) being sustained above 1.5x due to higher-than-expected debt-funded capex or otherwise could also have a negative rating impact.

COMPANY PROFILE

Incorporated in 1945 as a unit assembling Willys Jeeps, M&M is a USD17.8bn multinational group engaged in diverse businesses such as utility vehicles, commercial vehicles, tractors, two-wheelers, information technology, financial services, hospitality, real estate, defence, aerospace, agri business, consulting services, energy, industrial equipment, logistics, and steel. For FY16, it reported consolidated revenue of INR780,156m (FY15: INR714,480m), EBITDA of INR96,473.9m (INR87,932.9m), net profit of INR32,112.6m (INR31,374.7m) and total on-balance sheet debt of INR439,697.3m (INR379,114.6m).

M&M's ratings (including the above) are as follows:
- Long Term Issuer Rating: 'IND AAA'/Stable
- INR4.75bn NCD programme: ' IND AAA'/Stable
- INR8bn non-fund based working capital limits: 'IND A1+'
- INR7bn CP: 'IND A1+'

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Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Applicable criteria, 'Corporate Rating Methodology', dated 4 April 2016, are available at www.indiaratings.co.in.

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