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FOR IMMEDIATE RELEASE
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ICRA reaffirms the LAA+ (stable outlook) and A1+ ratings for bank facilities of Mahindra & Mahindra Limited; reaffirms the LAA+ (stable outlook) rating for its NCD programme

Rating History

Instrument	Amount	Amount Outstanding	Rating		
	In Rs. Crore	In Rs. Crore	As on January 2011	As on December 2009	As on December 2008
Non-Convertible Debenture programme	400.0	400.0	LAA+ (stable)	LAA+ (stable)	LAA+ (negative)
Non-Convertible Debenture programme	200.0	0.0	Withdrawn	LAA+(stable)	LAA+(negative)
Long-term, fund-based facilities	272.0	N.A.	LAA+ (stable)	LAA+ (stable)	LAA+ (negative)
Short-term, non-fund based facilities	128.0	N.A.	A1+	A1+	A1+

ICRA has reaffirmed the LAA+ (pronounced L double A plus) rating with stable outlook on the Rs. 400.0 crore[1], Non-Convertible Debenture programme; and the Rs. 272.0 crore, long-term, fund-based bank facilities of Mahindra & Mahindra Limited (M&M)[2]. ICRA has also reaffirmed the A1+ (pronounced A one plus) rating on the Rs. 128.0 crore, short-term, non-fund based bank facilities of M&M. ICRA has also withdrawn the LAA+ (stable outlook) rating outstanding on Rs. 200.0 crore, Non-Convertible Debenture programme of M&M as there is no amount outstanding against the same.

The ratings continue to reflect the leadership position of M&M in the domestic utility vehicles (UV) and tractor segments, with market share of over 50% and 40%, respectively; its diversified business profile with presence across varied sectors; strong profitability indicators; and comfortable credit profile. The rating strengths are however, partially offset by the inherent cyclicality and rising competitive pressures in its core automotive and farm equipment businesses, besides the rising commodity prices and interest rates, and the large size of the ongoing investments, which are likely to result in increased pressures on the profitability and capital structure of M&M. ICRA, however, derives comfort from the ongoing improvement in accruals from its existing businesses, which have improved its financial flexibility. ICRA would continue to monitor the M&M future investments of M&M and their impact on its credit profile.

While the acquisition of 70% stake in Ssangyong Motor Company (Ssangyong) for US$ 463 million is likely to benefit the company from Ssangyong's established product technology and wide dealership network, turning around its operations and successful integration would be the key to achieve the desired result from such acquisitions.

M&M is likely to remain in investment mode over the medium term with the proposed large-scale capital expenditure and investment plans including for the medium and heavy commercial vehicles (M&HCV) facility and a manufacturing facility for UVs and light commercial vehicles (LCVs). The enhanced business risk on account of these investments (M&HCV being a new business area for the company) is mitigated to some extent by the presence of an international partner (Navistar International Corporation) and the established franchise of M&M in the automobile segment.

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[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

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The operating performance has improved considerably in 2009-10, as evident from improvement in its profitability and cash accruals, which along with the conversion of fully and compulsorily convertible debentures (FCDs) and the recent conversion of zero coupon foreign currency convertible bonds (ZCCBs) into equity, has further strengthened its capital structure. While the improved performance has continued in H1, 2010-11 as well, ICRA takes note of the supply constraints envisaged and the rising commodity prices, pressurising M&M's volume sales as well as margins, though the impact has not been significant. Nonetheless, the liquidity profile of the company remains comfortable on the back of healthy cash reserves and large liquid investments, thereby adding to its financial flexibility.

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. Originally incorporated as a manufacturer of utility vehicles (UVs) for the Indian market, M&M started with the import and assembly of 'Willys Jeep kits' in 1945; subsequently adding new divisions - Tractors (1963), light commercial vehicles (LCVs, 1965), three-wheelers (2001), passenger cars (2005) and medium & heavy commercial vehicles (M&HCVs, 2005). Currently, M&M is the largest tractor and UV manufacturer in India, and in 2009-10, it has emerged as the largest tractor manufacturer globally. Also, M&M is the third largest player in the domestic three-wheelers market. In the passenger car and M&HCV segment, M&M has presence through joint ventures with leading international original equipment manufacturers (OEMs) – Renault and Navistar, respectively. In 2009-10, M&M bought Renault's stake in the passenger car JV, thereby making its passenger car unit as its wholly owned subsidiary. M&M has also been strengthening its presence in the tractor segment in India and China through acquisitions. In 2008-09, the company concluded the merger of Punjab Tractors Limited, and also acquired a 51% stake in Jiangsu Yueda Yancheng Tractor Manufacturing Company Limited (a Chinese tractor manufacturing company), M&M's second acquisition in China after acquiring an 80% stake in the JV with Jiangling Motors in 2004-05, which has further strengthened its presence in one of the fastest growing tractor markets globally. In 2008-09, M&M also entered into the two-wheelers segment with the acquisition of the assets of Kinetic Motor Company. At present, Mahindra Two-Wheelers (the re-christened entity) has six products in the markets, including two motorcycles that were launched recently. In 2009-10, M&M also entered into the sub-1T LCV segment through its products – Maxximo and Gio.

For the six months ending September 30, 2010, on a consolidated basis, automotive and farm equipment business accounted for around 40.5% and 29.1%, respectively, of the total revenues of M&M; the other major contributors being Systech (9.7%), IT (7.4%) and financial services (5.4%).

Recent Results

For the six months ending September 30, 2010, M&M reported an operating profit of Rs. 1,670.6 crore (PY: Rs 1,440.2 crore) on an operating income of Rs. 10,594.5 crore (PY: Rs. 8,800.4 crore). The operating profitability in H1, 2010-11 declined by 59 bps to 15.8% athough net profitability has been almost in line with H1, 2009-10 owing to reduced interest cost facilitated by reduced borrowings.

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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