



## RATING RATIONALE

14 June 2023

### Mahindra & Mahindra Financial Services Limited

**Brickwork Ratings reaffirms the ratings of the NCDs amounting to Rs. 2200 Crs of Mahindra & Mahindra Financial Services Limited at BWR AAA/Stable.**

#### Particulars:

Facilities**	Amount Rated (Rs. Cr)		Tenure	Rating	
	Previous	Present		Previous Rating ( 2 June 2022)	Present Rating*
<b>Non-Convertible Debentures</b> (Subordinated Debt)	2,200	<b>2,200</b>	Long Term	BWR AAA/Stable (Reaffirmed)	<b>BWR AAA/Stable</b> (Reaffirmed)
<b>Total</b>	2,200	<b>2,200</b>	<b>Rupees Two Thousand Two Hundred Crores Only</b>		
*Please refer to BWR website <a href="http://www.brickworkratings.com/">www.brickworkratings.com/</a> for the definition of the ratings					
** Details of outstanding NCDs are provided in Annexure-I					

#### RATING ACTION/OUTLOOK

Brickwork Ratings has reaffirmed the rating of the subordinated debt of Mahindra & Mahindra Financial Services Limited (MMFSL or the company) at BWR AAA/Stable. The rating has factored in, inter alia, the strength and support of MMFSL's parent Mahindra & Mahindra Limited (M&M) to the company given its strategic importance to M&M, the experienced board and management of MMFSL, comfortable capital adequacy, diversified resource profile and sizable loan portfolio. The rating is, however, constrained by asset quality issues due to the cyclical nature of the sectors catered to by MMFSL and pressure on the company's overall earning profile.

However, BWR derives comfort from a very comfortable provision coverage ratio of almost 60% for FY23. Improved Gross Stage 3 and Net Stage 3 ratio stood at 4.49% and 1.87% respectively for FY23 as against 7.66% and 3.36% for FY22, through improved Collection efficiency which continued to be healthy at 99% during Q4FY23 and 96% during FY23. The collections were facilitated by switching to digital collections, intensified collection efforts, improved review of on-ground data and strengthening of the legal action team. The company has a strong collection team (called 'War Room'), and the focus on timely recoveries is continuous.

#### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

## KEY RATING DRIVERS

### Credit Strengths:-

- **Strategic importance of MMFSL to M&M:** Mahindra and Mahindra Limited, India's largest tractor and utility vehicle manufacturer, holds a 52.16% stake in MMFSL as on 31 Mar 2023, and the latter is of strategic importance to M&M. As on 31 March 2022, 44% of the AUM (Assets under Management) consisted of M&M vehicle financing. It also benefits from the operational and financial support from M&M. This, along with the shared brand name with the parent, helps MMFSL in resource raising and better managing economic down cycles.
- **Experienced board and management:** The board of MMFSL consists of ten directors, vested with the charge of the general supervision, direction and management of the company's operations, and six of these are independent directors. Managing Director & CEO, Mahindra & Mahindra Ltd., Dr. Anish Shah was appointed as the company's chairman with effect from 2nd April 2021. Having joined the Mahindra Group in 2014 as Group President (Strategy), he was appointed Deputy Managing Director and Group CFO in 2019. Mr. Ramesh Iyer, the Vice Chairman and Managing Director has been spearheading the company's growth over the past 25 years. With effect from 14th September 2020, Mr. Vivek Karve was appointed as the CFO, replacing Mr. V. Ravi, who retired on 24th July 2020, upon completion of tenure as CFO and executive director. He has more than 25 years of experience in Finance, Banking, and IT across organizations.

Mr Amit Sinha, Group President – Strategy, Mahindra & Mahindra Limited and member of the Group Executive Board of Mahindra & Mahindra Limited, has been appointed as Non-Independent Non-Executive Director with effect from April 23, 2021. Prior to joining Mahindra & Mahindra Limited, Mr. Amit Sinha has worked with Bain & Company, Tata Motors and IGate Patni (now Capgemini) across India, Singapore and US.

Mr. Raul Rebello, has been appointed as Chief Operating Officer - Mahindra Finance with effect from September 1, 2021. Mr. Raul Rebello appointed as the Whole-time Director designated as “Executive Director and MD & CEO- Designate” with effect from 1st May 2023 upto 29th April 2024(both days inclusive) and as the Managing Director of the Company designated as “Managing Director & CEO”(“MD & CEO”) with effect from 30th April 2024 upto 30th April 2028 (both days inclusive) and as the Key Managerial Personnel of the Company in terms of section 203 of the Companies Act, 2013.Mr. Rebello will assume the office of the MD & CEO effective 30th April 2024, after superannuation of Mr. Ramesh Iyer, Vice-Chairman and MD of the Company on 29th April 2024. Mr. Raul Rebello is a career banker with nearly two decades of extensive work in the domain of rural banking and financial inclusion.

Prior to joining Mahindra Finance, he was with Axis Bank as EVP and Head Rural Lending and Financial inclusion. The Company would be seeking approval of the shareholders of the Company for the above at the ensuing 33rd Annual General Meeting of the Company.



- **Comfortable capital position:** MMFSL is well-capitalised, with a total CRAR of 22.5% as of 31 March 2023, which is above the RBI's minimum stipulated requirement of 15%.
- **Diversified funding profile:** As on 31 Mar 2023 MMFSL had a diversified lender profile, the Borrowings are predominantly from Bank and FIs at 57.40 % followed by insurance & Pension Funds at 17.30%. The company borrows predominantly through Bank Loans at 40.30% followed by NCDs at 26.70%.
- **Sizeable loan portfolio:** MMFSL is primarily engaged in the business of financing the purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment and SME financing, to customers predominantly in the rural and semi-urban areas.

At a standalone level, MMFSL's Loan Book (net of provisions) grew by 32% YoY, from Rs 60,445 Crs as on 31 March 2022 to Rs.79,455 Crs in FY23. During FY23, the total disbursements (amount financed) increased by 80% YoY, to Rs 49,541 Crs as against Rs 27581 Crs during FY22.

As on 31 March 2023, the portfolio (gross of provisions) was well-diversified, with exposure to various asset classes such as auto/utility vehicles (33%), cars (20%), tractors (14%), commercial vehicles (11%), pre-owned vehicles (12%), and SME and others (10%). Geographically, the company's portfolio is well-diversified. As on 31 Mar 2023, 22% of company's portfolio was concentrated in Eastern states, 31% in Northern states, 19% in Southern states and the balance 28% was in West and Central regions. As part of portfolio diversification, the company shall nurture new businesses in the domain of digital finance and leasing, by leveraging the existing customer base through direct marketing initiatives.

#### **Credit Risks:-**

- **Average asset quality:** The standalone Gross Non-Performing Assets (GNPA - Gross Stage 3) stood at 4.49% as on 31 March 2023, against 7.66% as on 31 March 2022. NNPA also improved to 1.87% as on 31 Mar 2023 as against 3.36% as on 31 Mar 2022. In absolute terms also, GNPA was Rs 4,976 Crs as on 31 March 2022 and Rs 3717 Crs as on 31 March 2023. The company targets to maintain its GNPA around 5% p.a. over the medium term. The Stage-3 provision coverage ratio is at 59.5% as on 31 March 2023. The asset quality performance will continue to remain a rating monitorable considering the cyclical nature of the sectors catered to by MMFSL.
- **Debt: Equity Ratio:** The ratio stands at 3.85 on a consolidated basis, compared to 2.95 in the previous year. The weakened ratio is a concern. As informed, the company has no immediate plans to infuse equity on the one hand; on the other, business is expanding, implying higher borrowings and therefore, possibility of the ratio slipping further. However, the strategic importance of this company to the parent, Mahindra & Mahindra, and the continuing support of the parent company are mitigating factors.



## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). MMFSL is evaluated on a consolidated basis; also, the ownership and support of M&M, along with the strategic importance of MMFSL for M&M Ltd has been taken note of.

## RATING SENSITIVITIES

**Negative:** a) A substantial deterioration in asset quality from the current level on a sustained basis.  
b) Significant reduction in support to Mahindra Finance by M&M.

## LIQUIDITY INDICATORS: Adequate

Liquidity- Adequate: As on 31 March 2023, the company had adequate liquidity consisting of Cash/ liquid investments of app ~ Rs 10,400 Crs. There is no negative mismatch across buckets till 5 years. The Liquidity/ ALM position may be considered adequate and comfortable given the positive cumulative mismatches.

## ABOUT THE COMPANY

Mahindra & Mahindra Financial Services Limited (MMFSL) is an RBI-registered systemically important deposit-taking NBFC. It is a subsidiary of Mahindra and Mahindra Limited, one of India's leading tractor and utility vehicle manufacturers. MMFSL has its corporate office in Mumbai, and its operation is focused in rural and semi-urban areas. M&M had around a 52.16% shareholding in MMFSL as of 31 March 2023. It is listed on the NSE and BSE. MMFSL has subsidiaries that are into insurance broking, rural housing finance and asset management, among others. It is primarily in the business of financing the purchase of new and pre-owned auto and utility vehicles, tractors, cars, commercial vehicles, construction equipment and SME financing. It has 1386 offices covering 27 states and 7 union territories in India and reaches out to customers spread over 3,80,000 villages and 7000 towns across the country, as of 31 March 2023.

## KEY FINANCIAL INDICATORS- (CONSOLIDATED)

Key Financial Indicators	Units	FY21	FY22	FY23
Result Type		Audited	Audited	Audited
Loan Assets	Rs. in Crs.	67,076	67,660	86,456
Total Income	Rs. in Crs.	12,170	11,401	12,832
Profit After Tax	Rs. in Crs.	780	1,150	2,071
Networth	Rs. in Crs.	15,875	17,038	18,701
Gearing**	Times	3.51	2.95	3.85
CRAR*	%	26.2%	27.8%	22.5%

Key Financial Indicators	Units	FY21	FY22	FY23
GNPA*	%	8.96%	7.66%	4.49
NNPA*	%	3.97%	3.36%	1.87

\*\* as per BWR calculations \*Standalone

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL**

**ANY OTHER INFORMATION : NA**

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]							
Sr. No	Instrument	Current Rating ( 2023)			Rating History		
		Tenure	Amount (Rs.Crs.)	Rating	2 June 2022	27 May 2021	02 Jun 2020
1.	NCD (Sub Debt)	Long Term	2200	BWR AAA (Stable)	BWR AAA (Stable)	BWR AAA (Stable)	BWR AAA (Stable)
<b>Total</b>			<b>2200</b>	<b>Rs. Two Thousand Two Hundred Crs. Only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS:**

**NCD - SIMPLE**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Bank Financial Institution](#)
- [Banks & Financial Institutions](#)

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**Mahindra and Mahindra Financial Services Limited**

**ANNEXURE I:  
Details of Bank Loan Facilities rated by BWR: NA**

**ANNEXURE II:  
INSTRUMENT (Bonds) DETAILS**

<b>DETAILS OF NCDs OUTSTANDING</b>					
<b>Instrument</b>	<b>Issue Date</b>	<b>Outstanding Amount (Rs. Crs.)</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
NCD Sub Debt	24-Jul-17	50.00	7.75%	24-Jul-24	INE774D08MH1
	24-Jul-17	9.32	7.85%	24-Jul-24	INE774D08MI9
	24-Jul-17	0.22	7.90%	24-Jul-27	INE774D08MJ7
	24-Jul-17	447.02	8.00%	24-Jul-27	INE774D08MK5
	24-Jul-17	1.12	7.95%	24-Jul-32	INE774D08ML3
	24-Jul-17	642.84	8.05%	24-Jul-32	INE774D08MM1
	28-Aug-14	10	9.60%	28-Aug-24	INE774D08LH3
	03-Sep-14	5	9.60%	03-Sep-24	INE774D08LI1
<b>Total</b>		<b>1,165.53</b>			

Out of the overall NCDs of Rs 2,200 Crs rated by BWR, NCDs of Rs 1,034.47 Crs are yet to be issued.



**ANNEXURE- III**  
**List of Entities Consolidated :**

<b>Name of Entity</b>	<b>% ownership</b>	<b>Extent of consolidation</b>	<b>Rationale for consolidation</b>
Mahindra Insurance Brokers Limited	80%	80%	Subsidiary
Mahindra Rural Housing Finance Limited	98.43%	98.43%	Subsidiary
Mahindra Manulife Investment Management Private Limited	51%	51%	Subsidiary
Mahindra Manulife Trustee Private Limited	51%	51%	Subsidiary
Mahindra & Mahindra Financial Services Limited Employees' Stock Option Trust	-	Full	Subsidiary
Mahindra Rural Housing Finance Limited Employee Welfare Trust	-	Full	Subsidiary
Mahindra Finance CSR Foundation	-	Full	Subsidiary
Mahindra Finance USA LLC	49%	49%	Subsidiary
Mahindra Ideal Finance Limited	58.20%	58.20%	Subsidiary

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