

CONFIDENTIAL

CRISIL
Ratings

RL/MRHFL/343504/NCD/0624/90775/82615046

June 11, 2024

Mr. Dinesh Prajapati

Chief Financial Officer

Mahindra Rural Housing Finance Limited

4th Floor, Mahindra Towers,

Dr.G.M. Bhosale Marg

P.K. Kurne Chowk, Worli

Mumbai City - 400018



Dear Mr. Dinesh Prajapati,

Re: CRISIL rating on the Rs.4230 Crore Non Convertible Debentures of Mahindra Rural Housing Finance Limited.

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

Please refer to our rating letter dated May 10, 2024 bearing Ref. no: RL/MRHFL/343504/NCD/0524/87806/150759778 & RL/MRHFL/343504/NCD/0524/87807/137679183 & RL/MRHFL/343504/NCD/0524/87809/82615046 & RL/MRHFL/343504/NCD/0524/87805/74900192

Rating outstanding on the captioned debt instruments is "CRISIL AAA/Stable" (pronounced as "CRISIL triple A rating" with Stable outlook). Securities with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such securities carry lowest credit risk..

In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

As per the latest SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us for any clarifications you may have at debtissue@crisil.com

Should you require any clarifications, please feel free to contact us.

With warm regards,

Yours sincerely,

Vani Ojasvi
Associate Director - CRISIL Ratings

Nivedita Shibu
Director - CRISIL Ratings



Disclaimer: A rating by CRISIL Ratings reflects CRISIL Ratings' current opinion on the likelihood of timely payment of the obligations under the rated instrument, and does not constitute an audit of the rated entity by CRISIL Ratings. Our ratings are based on information provided by the issuer or obtained by CRISIL Ratings from sources it considers reliable. CRISIL Ratings does not guarantee the completeness or accuracy of the information on which the rating is based. A rating by CRISIL Ratings is not a recommendation to buy / sell or hold the rated instrument; it does not comment on the market price or suitability for a particular investor. CRISIL Ratings has a practice of keeping all its ratings under surveillance and ratings are revised as and when circumstances so warrant. CRISIL Ratings is not responsible for any errors and especially states that it has no financial liability whatsoever to the subscribers / users / transmitters / distributors of its ratings. CRISIL Ratings' criteria are available without charge to the public on the web site, www.crisilratings.com. CRISIL Ratings or its associates may have other commercial transactions with the company/entity. For the latest rating information on any instrument of any company rated by CRISIL Ratings, please visit www.crisilratings.com or contact Customer Service Helpdesk at CRISILratingdesk@crisil.com or at 1800-267-1301

CRISIL Ratings Limited

A subsidiary of CRISIL Limited, an S&P Global Company
Corporate Identity Number: U67100MH2019PLC326247

No. CARE/HO/RL/2024-25/1378

Shri Mr. Shadab Khan
Manager
Mahindra Rural Housing Finance Limited
Unit no.203, Amiti Building, Agastya Corporate Park
LBS Marg, Kamani Junction, Kurla West
Mumbai
Maharashtra 400070



May 29, 2024

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Dear Sir,

Credit rating for proposed Debt Issue / Non-Convertible Debentures

Please refer to our letter no. **CARE/HO/RL/2024-25/1094** dated April 19, 2024 and your request for revalidation of the rating assigned to the debt instruments company, for a limit of Rs.8,000.00 crore.

2. The following rating(s) have been reviewed:

Sr. No.	Instrument	Amount (₹ crore)	Rating ¹	Rating Action
1.	Non Convertible Debentures	65.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
2.	Non Convertible Debentures	7,635.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
3.	Subordinate Debt	300.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

3. Please arrange to get the rating revalidated, in case the proposed issue is not made within **six months** from the date of this letter.

4. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

CARE Ratings Limited

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai
Phone: +91-22-6754 3456 • www.careedge.in

CIN-L67190MH1993PLC071691

Instrument type	ISIN	Issue Size (Rs cr.)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Trustee/IPA	Details of top 10 investors
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5. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the debt instruments, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such instruments. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the aforementioned rating actions in any manner considered appropriate by it, without reference to you.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.
9. CARE Ratings Ltd. ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



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CIN-L67190MH1993PLC071691



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Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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CIN-L67190MH1993PLC071691

Rating Rationale

May 10, 2024 | Mumbai

Mahindra Rural Housing Finance Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2125 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Rs.2500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.1000 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD AAA/Stable (Reaffirmed)
Rs.500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.200 Crore Subordinated Debt	CRISIL AAA/Stable (Reaffirmed)
Rs.800 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.300 Crore Subordinated Debt	CRISIL AAA/Stable (Reaffirmed)
Rs.430 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.135 Crore Non Convertible Debentures	Withdrawn (CRISIL AAA/Stable)
Rs.1000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/CRISIL PPMLD AAA/Stable/CRISIL A1+' ratings on the existing bank facilities and debt instruments of Mahindra Rural Housing Finance Limited (MRHFL).

CRISIL Ratings has also **withdrawn** its rating on Rs.135 crore non-convertible debentures, (see the 'Annexure - Details of Rating Withdrawn' for details) on receipt of independent confirmation that these instruments are fully redeemed and at the request of the company, in line with its withdrawal policy.

The prefix 'PPMLD' indicates that the principal amount of the debentures is protected, while returns remain market-linked. Also, payments to investors are not fixed and are linked to external variables such as government bond yields, commodity prices, equity indices, foreign exchange rates, or equity valuation of the company.

The ratings continue to reflect the company's majority ownership by, and strategic importance to, the parent, Mahindra and Mahindra Financial Services Ltd (Mahindra Finance; rated 'CRISIL AAA/Stable/CRISIL A1+'). CRISIL Ratings expects Mahindra Finance to maintain majority shareholding in MRHFL, and to exercise management oversight for the company to conduct its business in line with governance and compliance standards that all Mahindra group entities follow, including, MRHFL honouring its debt obligations in timely manner.

The ratings on MRHFL continue to be driven by expectation of strong support from the majority owner Mahindra Finance and the company's adequate capitalisation and resource profile. These strengths are partially offset by modest scale of operations with geographical concentration, and weak asset quality.

Analytical Approach

CRISIL Ratings has analysed the standalone business and financial risk profiles of MRHFL and has factored in the strong support the company is likely to receive from its parent, Mahindra Finance, on an ongoing basis and in times of distress.

Key Rating Drivers & Detailed Description

Strengths:

Expectation of strong support from majority owner, Mahindra Finance

The strategic importance of MRHFL to Mahindra Finance is reflected in the latter's strategy to focus on rural and semi-urban customers and exercise strategic oversight on MRHFL. This is in addition to regular capital infusion, ongoing management integration and assistance from Mahindra Finance. Also, the parent is expected to maintain its majority shareholding in the company and ensure the MRHFL's business is conducted in line with governance and compliance standards that all Mahindra group entities follow, including, MRHFL honouring its debt obligations in timely manner.

MRHFL's operations will remain significant to Mahindra Finance given the healthy growth prospects of the semi-urban, rural and affordable housing finance segment. To execute this, MRHFL has calibrated its business strategy towards the semi-urban market with moderately higher loan ticket sizes and customers with better credit profile. MRHFL also benefits

significantly from managerial and operational integration with, and access to the branch network of, Mahindra Finance and, these synergies are expected to continue over the medium term.

Adequate resource profile

MRHFL's resource profile benefits from the established track record of Mahindra Finance in raising funds from the market. Mahindra Finance and other Mahindra group companies also support MRHFL through inter corporate deposits (ICDs). The company has a fairly diversified resource mix with 37% of the borrowing from banks, 47% from NCDs, 7% from subordinate debt, 6% from ICDs and 3% from commercial papers as on March 31, 2024. Besides this, MRHFL may access other available avenues in coming years to raise funds at competitive rates.

Adequate capitalization

Capitalisation continues to be adequate, as reflected in Tier I capital adequacy ratio of 32.9% as on March 31, 2024 (34.9% as on March 31, 2023). Since inception, the parent has infused equity of Rs 513 crore till date. Absolute networth was Rs 1,488 crore and gearing at 4.3 times as on March 31, 2024 (Rs 1,482 crore and 4.6 times, respectively, as on March 31, 2023). Networth coverage for net non-performing assets (NPAs) stood at 3.3 times as on March 31, 2024.

Weaknesses:

Modest scale of operations with geographical concentration

Scale of operations, albeit stable, has remained modest with the total loan book of Rs 7,208 crore as on March 31, 2024, stagnant as compared to Rs 7,199 crore as on March 31, 2023 and Rs 7,602 crore as on March 31, 2022. Earlier, between 2015 and 2022, gross advances saw compound annual growth of around 32% however, the Covid-19 pandemic-led disruptions followed by the management's call to recalibrate its growth strategy to restore asset quality, led to subdued growth in the last four fiscals. Management is focusing on reviving asset quality and to achieve the same, the company is shifting towards higher ticket size loans being extended to customers with better credit profile who reside in semi-urban pockets. Resultantly, the total loan portfolio corresponding to ticket size of Rs 2 lakh and above, has gone up to 65% as on March 31, 2024 compared to 27% as on March 31, 2020.

Loan book remains geographically concentrated with Maharashtra and Tamil Nadu forming 47% of the overall portfolio as on March 31, 2024 (51% as on March 31, 2023). Nevertheless, the management is taking active steps to reduce the loan book exposure in Maharashtra and Tamil Nadu over the medium term. The company has entered relatively new markets of Punjab, Haryana, Odhisa, Delhi while focusing on established geographies such as Gujarat, Karnataka and Telangana.

Weak asset quality

Asset quality remains susceptible to seasonality in the cash flow of the rural borrowers, who are primarily engaged in agriculture and related activities, and have relatively weaker credit risk profiles. Furthermore, the company was earlier present in markets where risks related to marketability of property are significantly high. Hence, asset quality remains weaker than peers, with gross stage 3 assets (GS3) at 9.03% as on March 31, 2024 (10.5% as on March 31, 2023). The absolute GS3 declined to Rs 651 crore as on March 31, 2024 from 753 crore as on March 31, 2023 supported by write-off worth Rs 119 crore. As per the revised norms of the Reserve Bank of India (RBI) on the asset classification as part of the circular released on November 12, 2021, gross NPA stood at 12.8% as on March 31, 2024.

The proportion of outstanding restructured book (under the RBI August 2020 and May 2021 Resolution Framework for Covid-19-related stress) remains high in relation to the total loan book. Performance of the restructured book and overall asset quality will remain a key monitorable.

As a strategic move, the company has increased its focus on affordable housing segment over past few years, thereby reducing exposure to agriculture segment; non-agriculture customers increased to 84% of total loan portfolio as on March 31, 2024 compared to 48% as on March 31, 2018. Further, given the challenging macro environment, MRHFL has taken various measures towards improving collections and has tightened underwriting norms. However, given the customer profile, MRHFL's ability to manage collections and asset quality will remain a key monitorable.

Liquidity: Superior

Liquidity position remains strong with positive cumulative mismatch in each bucket upto one year as on March 31, 2024. As on March 31, 2024, MRHFL had unutilised bank lines of Rs. 395 crore and contingent line of Rs. 900 Crore from its parent. Liquidity is further supported with cash, cash equivalents and other liquid assets of around Rs 979 crore as on March 31, 2024. This liquidity is sufficient to repay debt obligations for next three months. Moreover, being a part of the M&M Group, additional liquidity support will be available to the entity as and when required.

Outlook: Stable

CRISIL Ratings believes MRHFL will remain strategically important to Mahindra Finance and the parent will maintain its majority equity stake and provide operational, managerial and financial support.

Rating Sensitivity Factors

Downward factors:

- Downward change in the credit risk profile of Mahindra Finance by 1 notch could have a similar rating change on MRHFL
- Reduced support from the parent because of a significant decline in ownership or in the strategic importance of MRHFL
- Significant deterioration in asset quality, impacting earnings on a sustained basis

About the Company

MRHFL was established as a wholly owned subsidiary of Mahindra Finance in April 2007. Being one of the pioneers in the rural housing finance business in India, the company intends to leverage its understanding and experience in rural markets

by providing housing loans to untapped semi-urban and rural segments. The loan portfolio stood at Rs 7,208 crore as on March 31, 2024 (Rs 7,199 crore as on March 31, 2023).

For fiscal 2024, MRHFL reported profit after tax (PAT) of ~Rs 4 crore and total income of Rs 1,294 crore, against Rs 22 crore and Rs 1,350 crore, respectively, in the previous fiscal.

Key Financial Indicators

As on/for the period ending (As per IND-AS)	Unit	March 31, 2024	March 31, 2023
Total assets	Rs crore	8231	8718
Total income	Rs crore	1294	1350
Profit after tax	Rs crore	4	22
Gross Stage 3	%	9.03	10.5
Net Stage 3	%	6.29	7.8
Return on assets	%	0.04	0.3
Gearing	Times	4.3	4.6

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Instrument	Date of issue	Coupon rate (%)	Date of maturity	Issue size (Rs.Crore)	Complexity Level	Outstanding rating with outlook
NA	Working Capital Demand Loan	NA	NA	NA	140	NA	CRISIL AAA/Stable
INE950O08261	Non-convertible debentures	18-Apr-2023	8.55%	18-Jun-2025	300	Simple	CRISIL AAA/Stable
INE950O07248	Non-convertible debentures	1-Jun-2018	9.18%	1-Jun-2028	35.1	Simple	CRISIL AAA/Stable
INE950O07388	Non-convertible debentures	11-Jan-2022	7.90%	9-Jan-2032	110	Simple	CRISIL AAA/Stable
INE950O08287	Non-convertible debentures	12-May-2023	8.31%	12-Dec-2025	375	Simple	CRISIL AAA/Stable
INE950O08279#	Non-convertible debentures	12-May-2023	8.31%	12-May-2027	375	Simple	CRISIL AAA/Stable
INE950O08154	Subordinated debt	7-Aug-2018	9.40%	7-Aug-2028	35	Complex	CRISIL AAA/Stable
INE950O08196	Subordinated debt	16-Dec-2020	7.90%	16-Dec-2030	50	Complex	CRISIL AAA/Stable
INE950O08162	Subordinated debt	21-Jan-2020	9.00%	21-Jan-2030	100	Complex	CRISIL AAA/Stable
INE950O07396@	Non-convertible debentures	26-Sep-2022	8.35%	24-Sep-2032	100	Simple	CRISIL AAA/Stable
INE950O07420	Non-convertible debentures	30-Jan-2023	8.20%	30-Jan-2026	300	Simple	CRISIL AAA/Stable
INE950O07438	Non-convertible debentures	23-Jan-2024	8.45%	22-Jan-2027	200	Simple	CRISIL AAA/Stable
INE950O07446	Non-convertible debentures	28-Feb-2024	8.4%	28-Feb-2029	250	Simple	CRISIL AAA/Stable
INE950O07453	Non-convertible debentures	26-Mar-2024	8.45%	25-Mar-2027	225	Simple	CRISIL AAA/Stable
NA	Term Loan 1	NA	NA	30-Mar-2029	200	NA	CRISIL AAA/Stable
NA	Term Loan 2	NA	NA	24-Nov-2028	150	NA	CRISIL AAA/Stable

NA	Proposed Long Term Bank Loan Facility*	NA	NA	NA	1635	NA	CRISIL AAA/Stable
NA	Subordinated debt^	NA	NA	NA	315	Complex	CRISIL AAA/Stable
NA	Long Term Principal Protected Market Linked Debentures^	NA	NA	NA	1000	Highly Complex	CRISIL PPMLD AAA/Stable
NA	Non-convertible debentures^	NA	NA	NA	1959.9	Simple	CRISIL AAA/Stable
INE950O14BQ6	Commercial paper	11-Mar-2024	7.98	11-Mar-2025	200	Simple	CRISIL A1+
INE950O14BR4	Commercial paper	18-Apr-2024	7.63	26-Feb-2025	175	Simple	CRISIL A1+
NA	Commercial paper	NA	NA	7-365 days	625	Simple	CRISIL A1+

^Not yet issued

@Including re-issuance of Rs 50 crore in Dec 2022.

*Interchangeable with short term bank facility

#Partly paid up (current o/s: Rs. 0.375 Cr)

Annexure - Details of Rating Withdrawn

ISIN	Instrument	Date of issue	Coupon rate (%)	Date of maturity	Issue size (Rs.Crore)	Complexity Level	Outstanding rating with outlook
INE950O07263	Non-convertible debentures	25-Jun-2018	9.25%	22-Mar-2024	75	Simple	Withdrawn
INE950O07156	Non-convertible debentures	26-May-2017	8.27%	15-Jan-2024	60	Simple	Withdrawn

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2125.0	CRISIL AAA/Stable		--	27-12-23	CRISIL AAA/Stable	31-05-22	CRISIL AA+/Stable	25-06-21	CRISIL AA+/Stable	CRISIL AA+/Stable
			--		--	16-10-23	CRISIL AAA/Stable		--		--	--
			--		--	16-05-23	CRISIL AAA/Stable		--		--	--
			--		--	06-04-23	CRISIL AAA/Stable		--		--	--
			--		--	09-03-23	CRISIL AAA/Stable		--		--	--
			--		--	07-02-23	CRISIL AAA/Stable		--		--	--
			--		--	13-01-23	CRISIL AAA/Stable		--		--	--
			--		--	06-01-23	CRISIL AAA/Stable		--		--	--
Commercial Paper	ST	1000.0	CRISIL A1+		--	27-12-23	CRISIL A1+	31-05-22	CRISIL A1+	25-06-21	CRISIL A1+	CRISIL A1+
			--		--	16-10-23	CRISIL A1+		--		--	--
			--		--	16-05-23	CRISIL A1+		--		--	--
			--		--	06-04-23	CRISIL A1+		--		--	--
			--		--	09-03-23	CRISIL A1+		--		--	--
			--		--	07-02-23	CRISIL A1+		--		--	--
			--		--	13-01-23	CRISIL A1+		--		--	--
			--		--	06-01-23	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	4230.0	CRISIL AAA/Stable		--	27-12-23	CRISIL AAA/Stable	31-05-22	CRISIL AA+/Stable	25-06-21	CRISIL AA+/Stable	CRISIL AA+/Stable

			--	--	16-10-23	CRISIL AAA/Stable		--		--	--
			--	--	16-05-23	CRISIL AAA/Stable		--		--	--
			--	--	06-04-23	CRISIL AAA/Stable		--		--	--
			--	--	09-03-23	CRISIL AAA/Stable		--		--	--
			--	--	07-02-23	CRISIL AAA/Stable		--		--	--
			--	--	13-01-23	CRISIL AAA/Stable		--		--	--
			--	--	06-01-23	CRISIL AAA/Stable		--		--	--
Subordinated Debt	LT	500.0	CRISIL AAA/Stable	--	27-12-23	CRISIL AAA/Stable	31-05-22	CRISIL AA+/Stable	25-06-21	CRISIL AA+/Stable	CRISIL AA+/Stable
			--	--	16-10-23	CRISIL AAA/Stable		--		--	--
			--	--	16-05-23	CRISIL AAA/Stable		--		--	--
			--	--	06-04-23	CRISIL AAA/Stable		--		--	--
			--	--	09-03-23	CRISIL AAA/Stable		--		--	--
			--	--	07-02-23	CRISIL AAA/Stable		--		--	--
			--	--	13-01-23	CRISIL AAA/Stable		--		--	--
			--	--	06-01-23	CRISIL AAA/Stable		--		--	--
Long Term Principal Protected Market Linked Debentures	LT	1000.0	CRISIL PPMLD AAA/Stable	--	27-12-23	CRISIL PPMLD AAA/Stable		--		--	--
			--	--	16-10-23	CRISIL PPMLD AAA/Stable		--		--	--
			--	--	16-05-23	CRISIL PPMLD AAA/Stable		--		--	--
			--	--	06-04-23	CRISIL PPMLD AAA/Stable		--		--	--
			--	--	09-03-23	CRISIL PPMLD AAA/Stable		--		--	--
			--	--	07-02-23	CRISIL PPMLD AAA/Stable		--		--	--
			--	--	13-01-23	CRISIL PPMLD AAA r /Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility*	1635	Not Applicable	CRISIL AAA/Stable
Term Loan	200	Axis Bank Limited	CRISIL AAA/Stable
Term Loan	150	HDFC Bank Limited	CRISIL AAA/Stable
Working Capital Demand Loan	50	ICICI Bank Limited	CRISIL AAA/Stable
Working Capital Demand Loan	10	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Working Capital Demand Loan	10	HDFC Bank Limited	CRISIL AAA/Stable
Working Capital Demand Loan	20	Vijaya Bank	CRISIL AAA/Stable

Working Capital Demand Loan	50	State Bank of India	CRISIL AAA/Stable
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*Interchangeable with short term bank facility

Criteria Details

Links to related criteria
<u>CRISILs Bank Loan Ratings - process, scale and default recognition</u>
<u>Rating Criteria for Finance Companies</u>
<u>Rating criteria for hybrid debt instruments of NBFCs/HFCs</u>
<u>Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</u>
<u>CRISILs Criteria for rating short term debt</u>

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Mahindra Rural Housing Finance Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Issuer rating [^]	0.00	CARE AAA; Stable	Reaffirmed
Long-term instruments	300.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	7,635.00	CARE AAA; Stable	Assigned
Non-convertible debentures	65.00	CARE AAA; Stable	Reaffirmed

[^]The rating is subject to the company maintaining an overall gearing not exceeding 10x.
Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the issuer rating and debt instruments of Mahindra Rural Housing Finance Limited (MRHFL) factors in its strong parentage of Mahindra & Mahindra Financial Services Limited (MMFSL; rated 'CARE AAA; Stable'), which, in turn, is a subsidiary of Mahindra and Mahindra Limited (M&M; rated 'CARE AAA; Stable/CARE A1+') and the transition of the company towards the affordable segment and the monthly EMI structure. As on June 30, 2023, the company has 40% (28% in March 2022) exposure towards the affordable segment, with all the incremental disbursements having a monthly EMI structure. By the end of FY25, the company expects the affordable segment to reach 50% of the total assets of MRHFL. Furthermore, MRHFL has taken various measures towards improving the collections and has tightened the underwriting norms.

The ratings also reflect the demonstrated financial, operational, and managerial support from MMFSL. Furthermore, MRHFL benefits from the parent group by way of the shared 'Mahindra' brand and branch network with MMFSL, which are considered as key credit strengths. The ratings continue to factor in MRHFL's comfortable capitalisation levels and liquidity profile, supported by its strong parentage and resource-raising ability and moderate financial performance.

The ratings, however, also factor in MRHFL's weak asset quality, including the relatively unseasoned portfolio and geographical concentration, in addition to the interest rate risk and high operational expenditure (opex) model. The continued support of MMFSL, the capital adequacy levels, asset quality, and profitability are the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Moderation in the credit profile of the parent company.
- Significant dilution in the stake by the parent company.
- Further deterioration in the asset quality parameters, with the gross stage 3 (GS3) increasing above 20%, as per the reported financials, on a sustained basis.

Analytical approach

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

CARE Ratings Limited (CARE Ratings) has taken a view based on the standalone financial profile of MRHFL, along with factoring in the parentage and operational linkages with MMFSL.

Outlook: Stable

Stable outlook is assigned to MRHFL's ratings considering MMFSL's majority shareholding in MRHFL, the financial risk profile of MRHFL, and the strategic relevance to MMFSL, which provides operational, managerial, and financial support.

Detailed description of the key rating drivers**Key strengths****Strong parentage of MMFSL and access to its operational, managerial, and financial support**

MMFSL, the parent company of MRHFL, is one of India's leading vehicle financiers. MRHFL has been receiving regular capital support for its strong business growth from the parent company over the past years.

MRHFL benefits from the managerial support of MMFSL. The management of MRHFL is headed by Ramesh Iyer (Vice Chairman & Managing Director, MMFSL) as the Chairman of the Board of Directors of MRHFL. Shantanu Rege has taken over as the MD & CEO from October 01, 2022. MRHFL has access to MMFSL's pan-India branch network, as a result of which it operates from geographic areas and target segments wherein MMFSL has rich experience. In addition to the capital and management support, MRHFL also benefits from the commonly known 'Mahindra' brand, and support from the parent gives MRHFL an added advantage to expand its business rapidly in the rural and semi-urban areas, which has been successfully demonstrated in the past.

Comfortable capitalisation level

The parent (MMFSL) has been regularly infusing equity capital in MRHFL, helping it grow its business.

During FY18 and FY19, MMFSL had infused ₹130 crore and ₹150 crore, respectively, to boost the capitalisation profile of MRHFL. The company had a gearing of 4.97x as on March 31, 2023, which is in line with the gearing as on March 31, 2022. MRHFL reported a capital adequacy ratio (CAR) of 45.12% as on March 31, 2023 (Tier-I CAR: 34.95%) and as on June 30, 2023, it stood at 43.68% (Tier-I CAR: 34.71%), against the regulatory capital-to-risk (weighted) assets ratio (CRAR) of 15%, indicating sufficient capital cushion available. Going forward, CARE Ratings expects the company to maintain a strong capitalisation profile as well as comfortable gearing levels.

Comfortable liquidity and financial flexibility on account of support from MMFSL

Being part of the Mahindra group, the company enjoys strong financial flexibility and can avail inter-corporate deposits (ICDs) from MMFSL and other group companies along with bank lines, which provide comfort in case of any mismatches. However, the company had no negative cumulative mismatches as on June 30, 2023. The company also has ₹1,425 crore in the form of cash and bank balance and other liquid investments along with unutilised bank lines of ₹575 crore as on August 31, 2023. In addition, the company has raised total borrowings of about ₹1,068 crore through various debt instruments between April 01, 2023, and June 30, 2023. Moreover, the company has an unutilised contingent line of ₹975 crore from the parent company.

Diversified funding profile

As on June 30, 2023, MRHFL has a diversified funding profile with contribution from bank funding (including working capital demand loans and cash credit) at 38%, non-convertible debentures (NCDs) at 48%, subordinated debt at 7%, and commercial paper (CP) at 3%. The remaining 5% is in the form of ICDs from other group companies. Being part of the Mahindra group

enhances the resource-raising ability of the company, helping it to raise funds at competitive rates.

Key weaknesses**Weak asset quality**

MRHFL reported a gross non-performing assets (GNPA) ratio of 10.46% as on March 31, 2023 (as on June 30, 2023: 11.97%), and a net non-performing assets (NNPA) ratio of 7.80% as on March 31, 2023 (as on June 30, 2023: 8.53%) as compared with a GNPA ratio of 11.33% and a NNPA ratio of 8.47% as on March 31, 2022. The asset quality of the company is significantly weaker as compared to traditional housing finance companies (HFCs) on account of the exposure mainly to the informal sector (low ticket-size loans to agriculturalist and self-employed class). CARE Ratings expects the asset quality to improve as the company will be focusing on the affordable segment and the monthly EMI structure for all the customers, going forward.

Moderate financial risk profile

MRHFL reported a profit after tax (PAT) of ₹21.74 crore during FY23 as compared with a PAT of ₹47.73 crore in FY22. The decrease in PAT is due to the increase in employee expenses (+26% y-o-y) and the increase in other expenses for FY23. The increase in branches and number of employees led to an increase in employee cost. Furthermore, MRHFL reported a loss of ₹22.50 crore during Q1FY24 as against a profit of ₹2.44 crore during Q1FY23. During Q1, lower disbursements affected the interest income, whereas the increase in debt led to higher interest expenses. This, along with higher employee expenses, affected the profitability. The finance cost during FY23 and in Q1FY24 increased in line with the industry trend. CARE Ratings expects the credit cost to improve over the medium term due to the better customer profile.

Unseasoned portfolio in semi-urban areas and geographic concentration

The loan book of MRHFL has decreased from ₹7,602 crore as on March 31, 2022, to ₹7,199 crore as on March 31, 2023. Notably, 60% of the portfolio as on June 30, 2023, is in the rural segment, whereas 40% of the portfolio, as on June 30, 2023, comes from the affordable segment where the average ticket size is upwards of ₹15 lakh. Growth is expected to gradually pick up in the near-medium term. As on March 31, 2023, about 54% of MRHFL's loan portfolio had a ticket size below ₹2 lakh as compared with 66% as on March 31, 2022. The loan portfolio continues to be concentrated, with majority of MRHFL's loan portfolio in the state of Maharashtra (26.30%), Tamil Nadu (including Pondicherry) (24.82%) and Andhra Pradesh (12.58%) as on June 30, 2023.

Interest rate risk and high opex model

The interest rate risk is inherent in the business model of MRHFL, principally as a result of lending to customers at fixed interest rates and in amounts and for periods, which may differ from its funding sources. However, with the addition of the affordable housing segment, the fixed interest rates portfolio is lower at 60% as on FY23 as compared with 76% as on FY21. Given the current interest rate regime, the cost of borrowing for MRHFL has gone up. The incremental cost of borrowing for MRHFL from April 2023 to June 2023 is 8.14%. The net interest margins (NIMs) are susceptible to the hardening of interest rates.

MRHFL has a higher opex mainly because of employee costs, travelling and conveyance expenses, and legal and professional charges. Since the company caters to the rural and semi-urban areas, where majority collections happen through cash mode, employee costs are comparatively higher. Although, post April FY21, MRHFL is only disbursing to the borrowers who can repay its loan through the digital mode. MRHFL has increased its branches to cater to the affordable segment. The branches have been increased from 680 in FY22 to 769 in FY23. However, the higher yields leveraged by the company compensate for the higher credit costs and opex expenses incurred by it.

Liquidity: Adequate

The asset liability maturity (ALM) as on June 30, 2023, showed no negative cumulative mismatches. The company has availed ICDs from group companies (other than MMFSL) to the tune of ₹330 crore as on June 30, 2023. The company also has ₹1,425 crore in the form of cash and bank balance and other liquid investments along with unutilised bank lines of ₹575 crore as on August 31, 2023. Moreover, the company has an unutilised contingent line of ₹975 crore from the parent company.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Issuer Rating](#)

[Rating Outlook and Credit Watch](#)

[Housing Finance Companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Housing finance company

Incorporated in April 2007, MRHFL is a HFC that provides low-ticket housing loans with its presence predominantly in rural and semi-urban areas. MRHFL is a subsidiary of MMFSL, which holds 98.43% stake, with the remaining 1.57% being held by MRHFL ESOP Trust as on March 31, 2023.

Particulars*	FY21 (A)	FY22 (A)	FY23 (A)	Q1FY24
Total income	1,455	1,377	1,350	342
PAT	151	48	21.74	-22.5
Total assets	8,816	8,514	8,717.78	-
Net NPA (%)	10.20	8.88	7.80	8.53
ROTA (%)	1.77	0.55	0.25	-

A: Audited; *as per IND AS; Total assets are net of deferred tax assets, revaluation reserves and intangible assets. All ratios are as per CARE Ratings' calculations. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer rating	-	-	-	-	-	CARE AAA; Stable
Sub debt	INE950008014	29-Apr-15	9.50%	29-Apr-25	25.00	CARE AAA; Stable
Sub debt	INE950008022	13-Oct-15	9.25%	13-Oct-25	35.00	CARE AAA; Stable
Sub debt	INE950008030	29-Apr-16	9.10%	29-Apr-26	15.00	CARE AAA; Stable
Sub debt	INE950008055	06-May-16	9.10%	06-May-26	15.00	CARE AAA; Stable
Sub debt	INE950008063	18-May-16	9.10%	18-May-26	6.00	CARE AAA; Stable
Sub debt	INE950008071	20-May-16	9.10%	20-May-26	10.00	CARE AAA; Stable
Sub debt	INE950008089	30-May-16	9.10%	29-May-26	4.00	CARE AAA; Stable
Sub debt	INE950008097	25-Jul-16	8.99%	24-Jul-26	25.00	CARE AAA; Stable
Sub debt	INE950008113	17-May-17	8.40%	17-May-24	10.00	CARE AAA; Stable
Sub debt	INE950008121	19-May-17	8.50%	19-May-27	10.00	CARE AAA; Stable
Sub debt	INE950008139	30-May-17	8.50%	28-May-27	25.00	CARE AAA; Stable
Sub debt	INE950008147	15-Jun-17	8.50%	15-Jun-27	50.00	CARE AAA; Stable
Sub debt (proposed)	-	-	-	-	70.00	CARE AAA; Stable
Non-convertible debenture	INE950007123	27-Mar-17	8.30%	26-Mar-27	10.00	CARE AAA; Stable
Non-convertible debenture (proposed)	-	-	-	-	55.00	CARE AAA; Stable
Non-convertible debenture (proposed)	-	-	-	-	7,635.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Rating			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-24	Date(s) and Rating(s) assigned in 2022-23	Date(s) and Rating(s) assigned in 2021-22	Date(s) and Rating(s) assigned in 2020-21
1.	Issuer rating-Issuer ratings	Issuer Rating	0.00	CARE AAA; Stable	1) CARE AAA; Stable (11-Sept-23)	1) CARE AA+ (Is); Stable (04-Oct-22)	1) CARE AA+ (Is); Stable (06-Oct-21)	-
2.	Debt-Subordinate debt	LT	300.00	CARE AAA; Stable	1) CARE AAA; Stable (11-Sept-23)	1) CARE AA+; Stable (04-Oct-22)	1) CARE AA+; Stable	1) CARE AA+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Rating			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-24	Date(s) and Rating(s) assigned in 2022-23	Date(s) and Rating(s) assigned in 2021-22	Date(s) and Rating(s) assigned in 2020-21
							(06-Oct-21)	(18-Jun-20) 2) CARE AA+; Stable (07-Oct-20)
3.	Debentures-Non convertible debentures	LT	65.00	CARE AAA; Stable	1) CARE AAA; Stable (11-Sept-23)	1) CARE AA+; Stable (04-Oct-22)	1) CARE AA+; Stable (06-Oct-21)	1) CARE AA+; Stable (18-Jun-20) 2) CARE AA+; Stable (07-Oct-20)
4.	Debentures-Non convertible debentures	LT	7,635.00	CARE AAA; Stable		-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Complex
3	Issuer Rating-Issuer Ratings	

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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