

June 2, 2010

CARE UPGRADES RATING ASSIGNED TO ISSUER RATING OF MAHINDRA RURAL HOUSING FINANCE LTD.

CARE has upgraded the Issuer Rating assigned to Mahindra Rural Housing Finance Ltd. (MRHFL) from '**CARE BBB- (Is)**' (**Triple B Minus (Issuer)**) to '**CARE BBB+ (Is)**' (**Triple B Plus (Issuer)**). Issuers with this rating are considered to offer moderate safety for timely servicing of debt obligations. Such issuers carry moderate credit risk.

Issuer Rating	'CARE BBB+ (Is)'
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Rating Rationale

The rating mainly draws comfort from MRHFL's strong parentage - Mahindra & Mahindra Financial Services Ltd. (MMFSL) holds 87.5% in MRHFL and MMFSL's existing financial, operational and managerial support to MRHFL. Support from the parent is assumed on the basis of majority ownership and strong operational linkages in form of the similar target segment and shared branch network. The rating also factors in MRHFL's focus on the large and relatively untapped potential of rural housing finance markets coupled with its expanding rural footprint and robust capitalisation levels of the company.

The rating is tempered by MRHFL's small size & limited track record of operations and asset quality concerns given the higher slippages in the relatively unseasoned portfolio. Going forward, its ability to grow business, maintain margins and credit quality shall be the key rating sensitivities. MRHFL's rating is driven by the expected support from the parent and could be subject to revision if this support is weakened due to events such as dilution of majority stake by the parent, weakening of parent-subsidiary linkages or lack of long-term commitment as assessed by CARE.

Company Profile

MRHFL was incorporated in April 2007 as a housing finance company with a focus on rural and semi-urban areas. It is a subsidiary of Mahindra & Mahindra Financial Services Ltd (MMFSL), one of the leading vehicle financiers. MMFSL provides financial, managerial, operational and infrastructure support to MRHFL. Currently, MMFSL holds 87.5% stake while the National Housing Bank (NHB) holds the rest. As on December 31, 2009, MRHFL had a network of 103 branches.

MRHFL achieved break-even during Q1FY10. Its loan portfolio more than doubled on y-o-y basis to Rs.8,972 lakh as on December 31, 2009. During 9MFY10, PAT stood at Rs.90 lakh (PY:Loss Rs.103 lakh). The gross and net NPAs ratio stood at 2.17% and 1.75% respectively. MRHFL's overall solvency parameters are comfortable with Interest coverage (after provisions) at 1.27x and gearing levels at a moderate 5.53x as on December 31, 2009. The Capital Adequacy Ratio (CAR) as on December 31, 2009 stood at 24.60% and consisted entirely of Tier I capital.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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