April 04, 2017

Hero MotoCorp Limited

Instrument^	Amount (in crore)	Rating Action
Issuer Rating		Ir AAA (Stable) reaffirmed
Non convertible Debenture Programme	15.00 (same as earlier)	[ICRA] AAA (Stable) reaffirmed
Fund Based Limits	177.10 (revised from 182.10)	[ICRA] AAA (Stable) reaffirmed
Fund Based and Non Fund Based Limits	690.00 (revised from 490.00)	[ICRA] AAA (Stable) / [ICRA] A1+ reaffirmed
Non Fund Based Limits	113.00 (revised from 363.00)	[ICRA] A1+ reaffirmed
Unallocated	119.90 (revised from 64.90)	[ICRA] AAA (Stable) reaffirmed

^Instrument Details captured under Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating at [ICRA]AAA (pronounced ICRA Triple A) and the short-term rating at [ICRA]A1+ (pronounced ICRA A One Plus) for the Rs. 1100.00 Crore[1] Lines of Credit of Hero MotoCorp Limited ("HMCL" or "the company")[†]. ICRA has also reaffirmed [ICRA]AAA rating for Rs. 15.0 Crore non convertible debenture programme of the company and issuer rating of IrAAA (pronounced I R triple A) for HMCL. The outlook on the long term rating is "Stable".

Rationale

The rating reaffirmation continues to factor in the company's strong position as the largest two-wheeler manufacturer globally with annual sales volumes of more than 6.6 million units, and its dominant position in the domestic motorcycle as well as overall two-wheeler market, commanding a market share of 51% and 37% respectively in 11M FY2017. HMCL benefits from having multiple products and established brands across various two-wheeler segments, including the entry (75-110cc), executive (110-125cc) and premium commuter (125-150cc) sub-segments of motorcycles as well as multiple offerings in the scooter segment, which helps it target a wider addressable segment and expand its customer base. The rating also continues to draw comfort from the company's widespread dealer network with good presence in rural as well as urban areas that has supported it in maintaining its market leadership position in the domestic two-wheeler market over the years. ICRA also notes that the company has a strong manufacturing infrastructure, having an annual production capacity of around 8.9 million units over five production facilities, which augurs well for its business scale up prospects over the medium term. The ratings also continue to draw comfort from the company's strong financial risk profile, generating healthy cash accruals from its operations, while remaining a debt-free company and maintaining sizeable cash and liquid investments.

The company derives a major proportion of its domestic motorcycle sales (85% in 11M FY2017) from the entry level sub-segment of motorcycles (75-110cc), which has a relatively higher dependence on rural and semi-urban areas for sales. Consequently, the company's domestic volume growth trend tends to

[1] *100 lakh = 1 crore = 10 million*

[†]"For complete rating definition please refer to the ICRA website www.icra.in or any of the ICRA Rating Publications"

mirror the rural demand sentiment, as can be seen from the modest growth of 0.2% in FY2016 on account of the weakness in rural demand following sub-par monsoons. In the current fiscal too, while HMCL's domestic volumes grew 10% during Apr-Oct 2016, supported by revival in the rural demand sentiment, it crashed to 16% de-growth during Nov-Feb 2017, post the currency ban which impacted the cash availability and general demand scenario in the country.

With a view to diversify its revenues, HMCL has been making efforts to increase its presence in other two-wheeler segments and also enter new geographies to expand its international presence. To this end, HMCL launched two new scooters during the previous fiscal (FY2016), namely the Hero Duet and Maestro Edge, and also showcased higher capacity motorcycles like the Xtreme 200S at the Auto Expo 2016. Although the OEM managed to improve its market share in the domestic scooter segment from 13% in H1 FY2016 to 20% in H2 FY2016 on the back of these two launches, it has not been able to sustain the same and the market share has again dropped to 14% in 11M FY2017. Similarly, the company has negligible presence in the >150-cc premium segment of motorcycles (0% market share in 11M FY2017), with its single offering of Karizma failing to have a meaningful presence in the domestic market. Given that these two segments have been leading the industry growth over the past two fiscals, it remains imperative that the company launch new products in these segments so as to enrich its product mix and benefit from their high growth trajectory.

The company's efforts to expand its presence in overseas two-wheeler markets, while commendable, are yet to gain traction, owing to country-specific challenges faced in key export markets. Owing to previous restrictions from its partnership with Honda, HMCL had been a late entrant into the export market and currently is a marginal player, accounting for only 7% of two-wheeler exports from India during 11M FY2017. While the company has been aggressively expanding its overseas presence, expanding its export market coverage from 22 countries in FY2015 to 29 countries in FY2016 and further to 35 countries in the current fiscal, most of the markets that HMCL has presence in have been facing challenges due to currency depreciation, declining crude oil prices and lack of availability of US dollars. While this has slowed down the company's export plans, the same is expected to be a temporary blip, and export volumes are expected to revive, as challenges in these key markets get addressed.

In spite of increasing competitive intensity in the Indian two-wheeler market, HMCL has been able to maintain its leadership position with a market share of 37% in 11M FY2017, although it has been gradually declining over the past few years. In spite of this, the company's strong product offerings and expansive dealer network are expected to support it in maintaining its dominant position in the Indian motorcycle market over the medium term. Nonetheless, its ability to improve its market share in the fast-growing scooter and premium motorcycle segments would remain crucial to maintaining and improving its market share in the overall two-wheeler industry going forward.

Key rating drivers

Credit Strengths

- Robust market position as the market leader in the Indian two-wheeler market and the largest two-wheeler manufacturer globally
- Extremely strong financial risk profile, with nil debt on its books and sizeable amount of cash and liquid investments, which supports its capital structure and coverage indicators
- Widespread dealer network and strong rural connectivity with more than 6500 touch points distributed across the country
- Strong manufacturing base with plants located across five locations in India and two overseas locations; adequate capacity available at these plants with combined annual capacity of 8.9 million units
- Established brand portfolio, with well known brands spread across the different two-wheeler user segments

Credit Weakness

- Limited presence in the scooters and high capacity motorcycles segment that has witnessed relatively better growth rates in recent years
- Pressures faced in key export markets due to issues of currency volatility and dollar availability putting a hamper on company's geographic diversification and export targets
- Increasing competitive intensity in the domestic two-wheeler market with multiple players vying for market share
- Susceptible to vagaries of rural demand sentiment, with significant proportion of company's sales being derived from the rural dependent entry sub-segment of motorcycles

Description of key rating drivers highlighted above:

HMCL enjoys a strong market position in the Indian two-wheeler market, with a market share of 37% in 11M FY2017, supported by its dominant position in the Indian motorcycle segment (51% market share in the aforementioned period). The company has an extensive dealer network, with pan-Indian presence and good rural penetration, with more than 6500 touch points located across the country that has helped it improve its visibility and expand its customer base. In addition to this, the company benefits from a strong product portfolio spread across product and user segments. HMCL houses several reputed brands in its stable, including three million-plus volume brands (Splendor, Passion and HF Deluxe) in addition to others like Glamour, Achiever and Duet.

The company primarily has presence in the entry-level sub-segment of motorcycles (75-110cc), which accounted for 74% of its total domestic sales in 11M FY2017. Although it also has healthy presence (40% market share in 11M FY2017) in the executive motorcycle sub-segment with its Super Splendor and Glamour offerings, its presence in the higher capacity motorcycle segments continue to be marginal (7% market share in the 125-150cc sub-segment and negligible presence in the greater than 150-cc segment of motorcycles). Additionally, it has also been losing market share and slipped to third position in the fast-growing scooter segment during 11M FY2017. In the export market also, HMCL is a relatively new entrant and currently accounts for only 7% of total exports from India. However, the company has been gradually increasing its export presence by entering into new markets continuously.

HMCL operates in India through five manufacturing facilities, located at Gurgaon (Haryana), Dharuhera (Haryana), Haridwar (Uttarakhand), Neemrana (Rajasthan) and Halol (Gujarat). Together, these facilities have an annual production capacity of 8.9 million units, while the company's annual production in FY2016 was only at 6.6 million units. Hence, the company is comfortably placed to meet the requirements of the Indian two-wheeler market as well as expand its export presence through available capacities.

The company has been maintaining a strong financial risk profile over the years. It operates on a negative working capital cycle, limiting its working capital borrowing requirements, and meets its capex requirements from its internal cash accruals. Moreover, it also maintains sizeable liquidity buffer in the form of investments in marketable securities (Rs. 3688.6 crore as on March 31, 2016). These factors have jointly kept the requirement for external funding low for the company, and it has remained a zero debt company for the past several fiscals (since FY2011).

Analytical approach: For arriving at the ratings, ICRA has primarily taken into account the operational profile and financials of the company on a standalone basis, and considered the impact of any possible investments in its subsidiaries, joint ventures or affiliate companies.

Links to applicable Criteria

- http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf
- Rating Methodology for Two Wheeler Manufacturers

About the Company:
HMCL was initially promoted as a joint venture company (both promoters holding 26% of equity) in January 1984 by Hero Cycles Limited and Honda Motor Company (HMC), Japan. In January, 2011, the Hero Group and HMC entered into a share transfer agreement wherein HMC agreed to transfer its entire shareholding of 26% to the Hero Group, thus bringing an end to the partnership. The company is engaged in the business of manufacturing and marketing of motorcycles and scooters. HMCL has five manufacturing facilities, one each at Dharuhera and Gurgaon (both in Haryana), Haridwar (Uttaranchal), Neemrana (Rajasthan) and Halol (Gujarat). It is in the process of setting up one more manufacturing unit in Andhra Pradesh, and would also be adding capacity at its recently commercialised Gujarat facility in phases. Additionally, the company has also set up an R&D centre at Jaipur. Furthermore, HMCL has also set up overseas Greenfield facilities in Colombia and is in the process of setting up one in Bangladesh, both through the JV route. The company is a market leader in the domestic motorcycle industry with a large product portfolio across various price segments. It also has presence in the domestic scooter market with three models in its portfolio.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No	Name of Instrument	Current Rating (Year T)			Chronology of Rating History for the past 3 years		
		Type (long term/ Short term)	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2015
				April 2017	Mar 2016	Feb 2015	Nov 2013
1	Issuer Rating	LT		Ir AAA (Stable)	Ir AAA (Stable)	Ir AAA (Stable)	Ir AAA (Stable)
2	Non convertible Debenture Programme	LT	15.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Fund Based Limits	LT	177.10	[ICRA AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Fund Based and Non Fund Based Limits	LT/ST	690.00	[ICRA]AAA (Stable) / [ICRA] A1+	[ICRA AAA (Stable) / [ICRA] A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA AAA (Stable) / [ICRA]A1+
5	Non Fund Based Limits	ST	113.00	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+	[ICRA]A1+
6	Unallocated	LT	119.90	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Complexity level of the rated instrument:
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

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue	Rating assigned, along with Rating Outlook
Non convertible Debenture Programme*	-	-	-	15.00	[ICRA]AAA (Stable)
Fund Based Limits	NA	NA	NA	177.10	[ICRA] AAA (Stable)
Fund Based and Non Fund Based Limits	NA	NA	NA	690.00	[ICRA] AAA (Stable) / [ICRA] A1+
Non Fund Based Limits	NA	NA	NA	113.00	[ICRA] A1+
Unallocated	NA	NA	NA	119.90	[ICRA] AAA (Stable)

Source: Hero MotoCorp Limited
*Not issued by the company yet

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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