Hero Motocorp Limited (erstwhile Hero Honda Motors Ltd.)

May 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA(Stable) reaffirmed
Non-convertible Debenture Programme	15.00	15.00	[ICRA]AAA(Stable) reaffirmed
Fund Based Limits	177.10	177.10	[ICRA]AAA(Stable) reaffirmed
Fund Based and Non-Fund Based Limits	690.00	690.00	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Non-Fund Based Limits	113.00	113.00	[ICRA]A1+ reaffirmed
Unallocated	119.90	119.90	[ICRA]AAA(Stable) reaffirmed
Total	**1115.00**	**1115.00**	

*Instrument details are provided in 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] line of credit of Hero Motocorp Limited (erstwhile Hero Honda Motors Ltd.) ("HMCL" or "the company")[2]. ICRA has also reaffirmed [ICRA]AAA rating for Rs. 15.0-crore non-convertible debenture programme of the company and the issuer rating of [ICRA]AAA for HMCL. The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation takes into account the continued strong operational performance of HMCL with annual sales volumes of 7.5 million units globally, and its dominant position in the domestic motorcycle as well as overall two-wheeler market, commanding a market share of 51.5% and 36.6% respectively during FY2018. HMCL benefits from having multiple products and established brands across larger sub segments of two-wheeler market which helps it target a wider addressable and expand its customer base. A strong product portfolio coupled with widespread dealer network with well entrenched network in rural as well as urban areas that has supported the company in maintaining its market leadership position in the domestic two-wheeler market over the years. ICRA expects HMCL to report healthy revenue growth in the medium term, driven by positive demand sentiments in the two-wheeler industry.

The ratings also continue to draw comfort from the company's strong financial risk profile characterised by strong profitability metrics, robust cash accruals from its operations, while remaining a debt-free company and maintaining sizeable cash and liquid investments of Rs. 5,732.5 crore as of March 31, 2018. The company's proposed capex of Rs.2,500 crore over FY2018- 19 towards new product development, new plant in Andhra Pradesh, besides various digitisation initiatives as well as maintenance would be funded from internal accruals. Going forward, with healthy

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

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

revenue and earnings visibility in the medium term, the credit profile is likely to be strong with the company maintaining a strong net cash position.

The company derives a major proportion of its domestic motorcycle sales (~85% in volumes during FY2018) 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 mirror the rural demand sentiment that has displayed signs of improvement during FY2018, following two years of near normal monsoon. As a consequence, HMCL's volumes have also witnessed a 13.9% growth in FY2018, which also comes on a low base of FY2017, where the volumes had contracted sharply, post demonetisation.

Notwithstanding limited presence in the fast-growing scooters segment as well as the absence in the premium motorcycles segment, HMCL has been able to maintain its leadership position with a market share of 36.6% in FY2018 in the domestic two-wheeler market even as it has ceded market share in the past five years with growing competitive intensity. The company continues to strengthen its R&D capabilities as demonstrated by increased pace of new product launches/ refreshes in the recent years. HMCL's expansive product offerings with initiatives to address the product gaps in premium motorcycles as well as wider product range in scooters, coupled with strong dealer network, would help in maintaining a dominant position in the Indian motorcycle market over the medium term.

The two-wheeler industry has been witnessing challenges with growing safety and emission requirements, which coupled with rising commodity prices have constrained improvement in profitability of leading players. While the transition to Bharat Stage IV norms since April 1, 2017 resulted in cost increases that were partially passed on to the customers, the upcoming regulatory requirements like Anti-Lock Braking System (ABS)/ Combined Braking System (CBS) for all models from April 2019 and Bharat Stage VI (BS VI) emission norms from April 2020 would resulted in relatively sharper cost increases for the original equipment manufacturers (OEMs). In this backdrop, the ability to adapt to these regulatory changes with minimal price impact for customers would be critical for HMCL, given that the majority of its sales come from the entry level and executive sub-segments both being price sensitive segments.

Outlook: Stable

ICRA believes HMCL will continue to benefit from its leadership position in the Indian two-wheeler industry with good revenue visibility in the medium term leading to strong cash accruals and a robust financial risk profile with zero debt. The outlook may be revised to a Negative if there is significant downturn in the two-wheeler industry due to negative macroeconomic factors or shift of demand to electric two-wheelers driven by policy changes.

Key rating drivers

Credit strengths

The market leader in the Indian two-wheeler market and the largest two-wheeler manufacturer in the world- HMCL reported annual global sales of 7.5 million units and leads the world's largest two-wheeler market with 36.6% market share. HMCL is the market leader in the motorcycle segment with 51.5% market share in FY2018 and has a market share of 13.1% (among the top three OEMs) in the scooter segment during the same period. Further, the expected commercial launch of one premium motorcycle and two 125cc scooters augurs well for HMCL.

Strong brand portfolio, with well-known brands spread across the largest two-wheeler segments - The company has four brands in the top ten two-wheelers sold in India for FY2018, the highest among any other two-wheeler OEM. The strong brands of HMCL include *Splendor, HF Deluxe* and *Passion (*accounting for 74.5% of total volumes of the entry level sub-segment) and *Glamour (*market share of 40.0% in the executive sub-segment of the motorcycle industry). As these two sub-segments accounted for 76.4% of the total domestic motorcycle volumes during FY2018, HMCL's strong market position in these segments, supported by expectations of healthy demand growth, ensures steady revenue visibility in the medium to long term.

Extremely strong financial risk profile - HMCL's strong financial risk profile is characterised by robust return indicators and a conservative capital structure characterised by zero debt. The core RoCE of the business stood over 100% during FY2017, driven by high asset utilisation with the company expected to maintain the same over the medium term. Moreover, the company has sizeable amount of cash and liquid investments worth Rs. 5,790.9 crore as of September 30, 2017.

Widespread dealer network and strong rural connectivity - HMCL has more than 6,500 customer touchpoints with deep rooted rural presence, making it one of the strongest sales networks among all two-wheeler manufacturers in the country.

Credit challenges

Limited presence in the scooters and high capacity motorcycles segment - Despite having three models in the scooter segment, the company's market position remains moderate with a market share of 13.1% in the fast-growing scooters market (CAGR of 18.1% between FY2013-2018). Further, the company has no presence in the premium motorcycle(>150cc) sub-segment which has also witnessed industry leading growth over the last five years (CAGR of 30.7% between FY2013-2018). However, HMCL had displayed two 125cc scooters and a premium motorcycle during 2018. The acceptability of these products by the customer segment would be critical for strengthening presence in these faster growing segments of the two-wheeler market.

Increasing competitive intensity in the domestic two-wheeler market with multiple players vying for market share - The two-wheeler industry is highly competitive with regular new product launches and refreshes by the OEMs to gain market share. This was demonstrated in the premium commuter and premium sub-segments as well as the scooter segment where HMCL lost out market share in the absence of new product launches and discontinuation of its single product in the premium segment. However, with the upcoming commercial launch of three new models in the next few months would be crucial for HMCL to maintain and improve its market share.

Susceptible to vagaries of rural demand sentiment - The company has significant dependence on the entry and executive sub-segments of motorcycles which have a direct correlation with rural demand sentiments. However, HMCL has developed new products to address these limitations and the success of these products would be critical for the company to improve its market position.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

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 involved 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 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.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	28442.7	28474.9
PAT (Rs. crore)	3160.2	3384.1
OPBDIT/ OI (%)	15.8	16.3
RoCE (%)	64.5	51.9
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	916.4	767.9
NWC/ OI (%)	0.0	1.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2018	Date & Rating in FY2017 Apr 2017	Date & Rating in FY2016 Mar 2016	Date & Rating in FY2015 Feb 2015
1	Issuer rating	LT	-	-	[ICRA]AAA (Stable)	Ir AAA (Stable)	Ir AAA (Stable)	Ir AAA (Stable)
2	Non-convertible Debenture Programme	LT	15.00	Not issued	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	NA	[ICRA]AAA (Stable)
NA	Non-convertible Debenture Programme	Not issued	NA	Not issued	15.00	[ICRA]AAA (Stable)
NA	Fund Based Limits	NA	NA	NA	177.10	[ICRA]AAA (Stable)
NA	Fund Based and Non-Fund Based Limits	NA	NA	NA	690.00	[ICRA]AAA (Stable) / [ICRA] A1+
NA	Non-Fund Based Limits	NA	NA	NA	113.00	[ICRA] A1+
NA	Unallocated	NA	NA	NA	119.9	[ICRA]AAA (Stable)

Source: Hero Motocorp Limited (erstwhile Hero Honda Motors Ltd.)

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Bishwarup Pakrasi
+91 124 4545 346
bishwarup.pakrasi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents