

June 21, 2019 ^{Revised}

Hero MotoCorp Limited: Ratings reaffirmed

Summary of rating action

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	1,115.00	1,115.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in the market leadership of Hero MotoCorp Limited (HMCL) in the domestic two-wheeler industry with a commanding market share of 35.9% in FY2019, its strengthening product portfolio and robust credit profile. Though the two-wheeler industry volume growth moderated to 6.3% (including domestic and exports) in FY2019 and the competitive intensity increased with select original equipment manufacturers (OEMs) resorting to price-based competition, the company reported a 3.1% expansion in volumes over the previous year resulting in some moderation in market share. To strengthen its product portfolio, the company launched two 125cc models in the scooter segment as well as four models in the premium motorcycle segment in the last 15 months addressing the product gaps. Its product portfolio comprises established brands at various price points in the largest sub-segment of motorcycles (75-110cc) coupled with new product addition, and well-penetrated dealer network augur well for HMCL's business prospects. Despite the increased competition, ICRA expects HMCL to continue to maintain its market leadership position in the near to medium term supported by its strong brand equity, well-entrenched distribution network, and regular model launches and refreshes.

The ratings continue to draw comfort from the company's robust financial risk position, characterised by nil debt on a standalone basis (and marginal debt of Rs. 308.5 crore on a consolidated basis) and strong return metrics. HMCL continues to report strong coverage and capitalisation indicators, with negligible debt levels and net cash position. As on March 31, 2019, HMCL on a standalone basis reported cash and investments of Rs. 4,346.7 crore, including investments in fixed maturity plans (FMPs). The strong cash balances, coupled with the unutilised fund-based limits of over Rs. 850.0 crore, indicate a strong liquidity profile. The company's proposed capex of Rs. 1,500 crore in FY2020 towards new product development and new plant in Andhra Pradesh, besides various digitisation initiatives, maintenance and any incremental strategic investments (predominantly in Ather Energy Private Limited (Ather) and Hero FinCorp Limited (HFCL)) would be funded from internal accruals. Going forward, with healthy cash accruals expected, HMCL's credit profile is likely to be strong with it maintaining a strong net cash position.

HMCL continues to strengthen its in-house research and development (R&D) team with the Centre of Innovation and Technology in Jaipur (Rajasthan), and recently set up the Hero Tech Centre Germany GmbH. To address the electric mobility-related industry trends, HMCL has opted for a two-pronged electric vehicle (EV) strategy by developing electric

two-wheelers for the mass segment in house (such as Duet E) and targeting the premium segment through Ather (HMCL has a 32.31% stake).

Tightening safety norms and higher raw material prices, in the backdrop of moderating volume demand, adversely impacted the profitability of two-wheeler OEMs in FY2019. The transition to BSVI emission norms (with effect from April 2020) would further raise the acquisition price for customers, constraining profitability over the next 18 months. With HMCL's product mix skewed towards the price-sensitive entry and executive segments, the management's ability to pass on the price increases while addressing demand weakness would be critical.

In the backdrop of muted consumer sentiments, which weighed on two-wheeler volume demand over the last three quarters, HMCL's growth prospects are expected to remain in line with ICRA's expectation of 3-5% growth for the industry in FY2020. Despite muted demand in the near term, HMCL is expected to maintain a strong financial risk profile with healthy profitability indicators and robust coverage metrics.

Outlook: Stable

ICRA expects HMCL to continue to benefit from its leadership position in the Indian two-wheeler industry with healthy revenue visibility in the medium term leading to strong cash accruals, and its robust financial risk profile with negative net debt position at a consolidated level. The outlook may be revised to Negative if there is significant erosion in HMCL's market share in the backdrop of increasing competition (including demand shift to electric two-wheelers driven by policy changes), or any sizeable debt-funded capex or investment, which can lead to deterioration in credit metrics.

Key rating drivers

Credit strengths

Leader in Indian two-wheeler market; largest two-wheeler manufacturer worldwide - HMCL reported annual global sales of 7.8 million units, and leads the world's largest two-wheeler market with a 35.9% share. HMCL is also the leader in the motorcycle segment with ~50.9% market share in FY2019 and is among the top three OEMs in the scooter segment with a market share of 10.7%. The company faced intense competitive pressure in the entry-level sub-segment in FY2019 due to new model launches and aggressive pricing from competitors. Notwithstanding this, HMCL reported a broad-based growth of 9.8% YoY and maintained a commanding market share of 72.4% in this sub-segment in FY2019. Going forward, with its recent product launches in motorcycle as well as scooter segments, HMCL is likely to consolidate its leadership position in the Indian two-wheeler industry.

Strong brand portfolio; reputed brands in largest two-wheeler segment - The strong equity of HMCL's brands is reflected in its four brands featuring among the top 10 two-wheelers sold in India in FY2019 as well as the previous years. HMCL's strong brands include Splendor, HF Deluxe and Passion, which accounted for 72.4% of the total volumes in the entry-level sub-segment. Such dominance in the largest sub-segment of two-wheelers, supported by a healthy presence in other sub-segments (110-125cc) as well as product categories (scooters), ensures healthy revenue visibility for the company.

Robust financial risk profile - HMCL's strong financial risk profile is characterised by robust return indicators and a conservative capital structure (with nil debt on a standalone basis and minimal debt of Rs. 308.5 crore on a consolidated basis). Moreover, the company had sizeable cash and investments worth Rs. 4,346.7 crore as on March 31, 2019 on a standalone basis. The company's core RoCE (consolidated) stood at 74.6% in FY2019 driven by high asset utilisation. Despite its continuous investments in capacity creation and other strategic entities, HMCL's credit profile is expected to remain strong over the medium term.

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

Credit challenges

Market share contraction in scooters; limited presence in high-capacity motorcycles - HMCL's absence in the high-growth 125cc scooter sub-segment led to a market share moderation in FY2019. However, the company launched a 125cc scooter in October 2018, which has ramped up well, followed by another launch in May 2019. In FY2019, HMCL also re-entered the 150-200cc sub-segment with the launch of Xtreme 200R, followed by three more premium sub-segment motorcycles during April-May 2019. Going forward, the ramp-up of these new models will remain a key for market share gains and reducing its dependence on the entry level sub-segment.

Increasing competition in domestic two-wheeler market - The two-wheeler industry is intensely competitive with regular product launches and refreshes by the OEMs to gain market share. This was demonstrated in premium commuter and premium motorcycle sub-segments as well as scooter segment; however, HMCL's absence in the faster growing segments resulted in moderation in its market position. With HMCL's recent scooter launches and upcoming commercial launches of three motorcycles in the next few months, the product gaps have been addressed. The well-acceptability of these products would be crucial for HMCL to improve its market share.

Susceptible to vagaries of rural demand sentiment - The company has a significant dependence on entry and executive-level sub-segments of motorcycles, which have 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.

Liquidity position

The liquidity profile remains robust with cash and investments worth Rs. 4,346.7 crore as on March 31, 2019, including FMPs of Rs. 1,039.6 crore, nil debt at a standalone level and marginal debt at a consolidated level. Going forward, ICRA expects the liquidity to remain robust, supported by strong cash accruals and unutilised fund-based limits of more than Rs. 850.0 crore.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Two-wheeler Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidation

About the company

HMCL was initially promoted as a joint venture company (both promoters holding a 26% equity each) 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.

The company manufactures and markets motorcycles and scooters from its five manufacturing facilities, one each at Dharuhera and Gurgaon (both in Haryana), Haridwar (Uttarakhand), Neemrana (Rajasthan) and Halol (Gujarat). It is setting up one more manufacturing unit in Andhra Pradesh. Additionally, the company has set up R&D centres at Jaipur and Germany. Furthermore, HMCL has set up overseas greenfield facilities in Colombia and Bangladesh. The company is a market leader in the domestic motorcycle industry, with a large product portfolio across various price segments. It also has a presence in the domestic scooter market, with five models in its portfolio.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	32,458.4	33,970.8
PAT (Rs. crore)	3,672.5	3,405.6
OPBDIT/ OI (%)	16.5%	14.8%
RoCE (%)	46.6%	38.9%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.1
Interest Coverage (times)	173.4	135.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sl. No.	Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 4 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2017
					June 2019	May 2018	Apr 2017	-	Mar 2016
1	Issuer Rating	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)
2	Non-convertible Debenture Programme	Long term	15.00	0.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)
3	Fund-based Limits	Long term	177.10	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)
4	Fund-based and Non-fund Based Limits	Long term/ Short term	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	Short term	113.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
6	Unallocated	Long term	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	-	-	-	-	[ICRA]AAA(Stable)
NA	Non-convertible Debenture Programme*	-	-	-	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	119.90	[ICRA]AAA(Stable)

Source: HMCL.

* The company has not issued any NCDs.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
HMCL (NA) Inc.	100.00%	Full Consolidation
HMCL Americas Inc.	100.00%	Full Consolidation
HMCL Netherlands BV	100.00%	Full Consolidation
Hero Tech Center Germany GmbH	100.00%	Full Consolidation
HMCL Colombia SAS	68.00%	Full Consolidation
HMC MM Auto Limited	60.00%	Full Consolidation
HMCL Niloy Bangladesh Limited	55.00%	Full Consolidation
Hero FinCorp Limited	41.03%	Equity Method
Ather Energy Private Limited	32.32%	Equity Method

Corrigendum

Document dated June 21, 2019 has been corrected with revisions as detailed below:

- a) Revision on page number 1 under the section heading “Rationale”, wherein cash and investments was mentioned as Rs. 4,271.1 crore in the second paragraph fourth line was updated to Rs. 4,346.7 crore.
- b) Revision on page number 2 under the section heading “Credit Strength”, wherein cash and investments was mentioned as Rs. 4,271.1 crore in the third paragraph third line was updated to Rs. 4,346.7 crore.
- c) Revision on page number 3 under the section heading “Liquidity Position”, wherein cash and investments was mentioned as Rs. 4,271.1 crore in the first line was updated to Rs. 4,346.7 crore.

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