

February 07, 2023

Polaris India Private Limited: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]BBB (Stable)

*Instrument details are provided in Annexure-I

Rationale

The assigned rating takes into consideration the established market position of Polaris India Private Limited (PIPL) in the powersports vehicle market in India and the strong business and financial support available to it from the parent, Polaris Group. PIPL is a 100% step-down subsidiary of Polaris Inc., which is the global leader in powersports/ recreational vehicles.

PIPL was the pioneer in recreational/ off-road vehicles in India and is engaged in the business of trading ATVs, snowmobiles, off-road vehicles (ORV), side by side vehicles and motorcycles. In addition, PIPL has strong business linkages with the Group and derives 70-75% of its revenues from sale of engineering and IT services to its holding company, Polaris Sales Inc., and other Group entities globally, which provides comfort regarding revenue visibility over the medium term. PIPL also benefits from financial flexibility, emanating from being a part of the Polaris Group. The Polaris Group has been regularly extending financial support to PIPL, which has helped support the profitability indicators and maintain sufficient cash flows to meet capex and other expenses. Going forward, ICRA expects the Group to continue to provide financial support to the entity, if the need arises. Further, with no debt obligations on its balance sheet, low capex requirements and financial support available from the parent Group, PIPL is expected to remain debt free and is also expected to maintain a comfortable liquidity position over the medium term.

Even though the company is a leading player in the domestic ORV segment, the size of the overall market remains small, which constraints its scale of operations to an extent. Its revenues from the trading division remained fairly stable at ~Rs. 21-23 crore/annum during the five-year period FY2018-FY2022. Even though it reported a healthy CAGR of ~37% in services division during FY2018-FY2022, its overall scale of operations remains modest because of its niche product segment. With low scale of operations, the company was incurring operating losses till FY2020. Nevertheless, it has improved its earnings to some extent over the last two years, aided by increasing revenues from the services division and operational efficiency measures undertaken. Going forward, its revenue growth prospects over the medium term are expected to be supported by increasing demand from the defence sector, expectation of stable demand from the B2B and retail segment and assured business from the sale of services to group entities. Its operating profit margin is expected to remain comfortable over the medium term, as Polaris Group is expected to provide financial support, in case of any shortfall in the profitability.

The Stable outlook on the long-term rating takes into account the expectation that the company will be able to maintain its strong market position in the domestic powersports vehicle market and will continue to benefit from its strong parentage being a part of the Polaris Group. In addition, with minimal capex requirements and financial support available from the parent Group, the company is likely to maintain a conservative capital structure over the medium term.

Key rating drivers and their description

Credit strengths

Established presence in the powersports vehicle market in India – The company started operations in 2011 and was the pioneer in recreational/ ORVs in India. It has established its presence as the leading player in the domestic powersports vehicle market and primarily competes with some Chinese and Canadian players.

Strong business and financial support from parent/ Polaris Group – PIPL has strong business linkages with the Group and derives 70-75% of its revenues from sale of engineering and IT services to the Group companies globally. Besides ensuring revenue visibility, PIPL also benefits from financial flexibility, being a 100% step- down subsidiary of Polaris Inc. The Polaris Group has supported the company financially over the years, thereby supporting its profitability and cash flows. ICRA expects the Group to continue to provide financial support to the entity, if the need arises.

Conservative capital structure characterised by nil debt and comfortable liquidity – With minimal capex requirements, the company has not availed any debt in the last seven years. In addition, the Polaris Group has been regularly extending financial support to PIPL, which has helped maintain sufficient cash flows to meet capex and other expenses. With no debt obligations on its balance sheet, low capex requirements and financial support available from the parent Group, the company is expected to remain debt free and is also expected to maintain a comfortable liquidity position over the medium term.

Credit challenges

Modest scale of operations and earnings from presence in a niche product category – Even though PIPL's revenues have reported a healthy growth in FY2022-9M FY2023 aided by ramp up in services division, its scale of operations remains modest because of its niche product segment. With low scale of operations, the company was incurring operating losses till FY2020. Nevertheless, it has improved its earnings to some extent over the last two years, aided by increasing revenues from the services division and operational efficiency measures undertaken. Going forward, its revenues over the medium term are expected to be supported by increasing demand from the defence sector, expectation of stable demand from the B2B and retail segment and assured business from the sale of services to group entities. Its operating profit margin is expected to remain comfortable over the medium term, as Polaris Group is expected to provide financial support, in case of any shortfall in the profitability.

High working capital intensity – The company's working capital intensity has remained high over the last five years (average NWC/ OI (%) of 56.5%) because of the need to maintain high inventory levels to allow for the lead time to import goods and to maintain sufficient volumes of different models. ICRA notes the delays in payment of trade payables to parent companies and in realisation of trade receivables from parent companies as of March 31, 2022, which have been due for more than three years. While the management expects to settle these balances by next fiscal year, ICRA would continue to monitor the progress in this regard.

Liquidity position: Adequate

PIPL's liquidity position is adequate aided by cash balances of Rs. 11.7 crore as of December 2022 and financial flexibility from being a part of the Polaris Group. In the past, the parent entities have provided financial support to the company, which has supported its profitability indicators and cash flows. ICRA expects the promoters to support the company in the future as well, if required. Against the available sources of cash, the company has nil debt repayments and low capex requirements.

Rating sensitivities

Positive factors – ICRA could upgrade PIPL's rating if there is a substantial growth in earnings, while maintaining healthy credit metrics and comfortable liquidity position. Improvement in the credit profile of the parent group could also trigger an upward rating revision.

Negative factors – Negative pressure on PIPL's rating could arise in case of a downturn in demand leading to pressure on the earnings and cash flows on a sustained basis. Deterioration in working capital cycle impacting the company's liquidity position could also be a trigger for a rating downgrade. The ratings could also face a downward pressure in case of material weakening in the credit profile of its parent group or weakening of financial support and operational linkages with the parent group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group support	Ultimate Parent Company: Polaris Inc. The rating assigned to PIPL factors in the very high likelihood of its parent entity, Polaris Inc., extending financial support to it because of the close business linkages between them. There also exists a consistent track record of the parent group having extended timely financial support to PIPL in the past, whenever a need has arisen. ICRA expects the parent group to be willing to extend financial support to PIPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

About the company

Incorporated in 2011, Polaris India Private Limited was the pioneer in recreational/ ORVs in India and is engaged in the business of trading all-terrain vehicles (ATVs), snowmobiles, ORVs, side by side vehicles and motorcycles. In addition, it provides IT and engineering services to its holding company, Polaris Sales Inc., and other Group entities globally, from its Bangalore office. PIPL is a 100% step-down subsidiary of Polaris Inc., which is the global leader in powersports/ recreational vehicles.

Polaris Inc: Polaris Inc., (formerly Polaris Industries Inc.), a Minnesota corporation, was formed in 1994 and is the successor to Polaris Industries Partners LP. The Polaris Group started operations in 1954 and is a global leader in powersport vehicles. The Group designs, engineers and manufactures powersports vehicles, which include ORVs, such as ATVs and side-by-side vehicles for recreational and utility use, snowmobiles, motorcycles, global adjacent markets vehicles, including commercial, government and defense vehicles, and boats. It also designs and manufactures, or sources parts, garments and accessories related to its vehicles and aftermarket products, and services off-road as well as on-road vehicles. Its products are sold online and through dealers, distributors, and retail stores principally located in the US, Canada, Western Europe, Australia, and Mexico. Polaris Inc. is listed on NYSE.

Key financial indicators (audited)

PIPL Standalone	FY2021	FY2022
Operating income	65.0	97.4
PAT	4.1	4.6
OPBDIT/OI	8.9%	9.8%
PAT/OI	6.3%	4.7%
Total outside liabilities/Tangible net worth (times)	1.7	1.9
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	193.0	239.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company, ICRA Research; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 07, 2023	-	-	-
1 Issuer Rating	Long term	NA	NA	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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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