February 15, 2023

Bajaj Motors Limited: Ratings downgraded to [ICRA]A /[ICRA]A2+; outlook changed to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loans	76.88	48.11	[ICRA]A (Stable); downgraded from [ICRA]A+ (Negative); outlook changed to Stable from Negative
Fund-based – Cash Credit Facilities	41.00	41.00	[ICRA]A (Stable); downgraded from [ICRA]A+ (Negative); outlook changed to Stable from Negative
Non-fund Based Short-term Facilities	22.50	22.50	[ICRA]A2+; downgraded from [ICRA]A1
Long-term/ Short-term – Unallocated	9.62	38.39	[ICRA]A (Stable)/[ICRA]A2+; downgraded from [ICRA]A+ (Negative)/[ICRA]A1; outlook changed to Stable from Negative
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade factors in the slower than expected ramp up in Bajaj Motors Limited's (BML's) returns in the current fiscal after having incurred sizeable capex. The company's operating margins have been under pressure, which along with high debt repayments are expected to result in modest debt coverage indicators. In H1 FY2023, while BML posted healthy revenue growth, its margins remained weak against its expectations of sizeable improvement post capacity expansion. This was owing to input side pressures and moderate export performance. With lower cash accruals, BML's leverage and coverage metrics are expected to be under pressure in FY2023. The ratings remain constrained by the segment and customer concentration risks towards two-wheelers (2Ws) and Hero MotoCorp Limited (HMCL; rated [ICRA]AAA/[ICRA]A1+) respectively, though expected to improve as business from new clients ramps up. With rapidly increasing transition of the 2W segment towards electric vehicles (EVs), the company is exposed to medium-term business as the traditional 2W segment contributes a sizeable portion of revenues. Moreover, as is prevalent in the sector, BML's revenues are susceptible to inherent cyclicality in the automotive industry.

Despite the above constraints, BML's ratings draw strength from its well-established business relationship and strong share of business with HMCL, which is the largest player in the 2W industry. This aids in healthy revenue visibility over the near-to-medium term with BML benefitting from consistent award of business from the original equipment manufacturer (OEM) and increasing content per vehicle (CPV). In addition to those in the 2W segment, acquisition of incremental business from OEMs in the passenger vehicle (PV) and commercial vehicle (CV) segments, such as Renault Nissan, Tata Motors Limited (TML) and Ashok Leyland (ALL), lends comfort.

The change in outlook from Negative to Stable factors in ICRA's expectation that BML will continue to maintain its position as an established supplier to its OEM clientele, benefitting from its healthy order book and available capacities across end-user automobile segments.

Key rating drivers and their description

Credit strengths

Healthy share of business with HMCL; healthy order book and incremental capacities drive revenue growth and improve diversification – The company enjoys an established relationship with HMCL, a market leader in the Indian 2W industry, with a share of business of ~70-80% in FY2022. With incremental sales to OEM customers in the PV and CV segments, such as Renault Nissan, TML and ALL, the company's revenue diversification is expected to improve in the long term. In the 2W segment, the company has added and scaled business with new customers like Harley Davidson, Royal Enfield and Musashi Auto Parts (a key supplier to Honda Motors). The company witnessed a healthy growth of 38% in H1 FY2023 to reach revenues of Rs. 345 crore, on a provisional basis, albeit on a lower base. In addition, the company has a healthy order book of ~Rs. 680 crore and ~Rs. 770 crore for FY2023 and FY2024, respectively, supported by steady recovery in automotive segments. The company's recently enhanced incremental capacities for PV and CV clientele will enable it to execute its healthy order book.

Healthy capital structure owing to high net worth – BML has a strong net worth built over the years with reinvestment of accruals in the business. As a result, the company had low gearing of 0.3 time as on September 30, 2022, as per provisional results, lending it financial flexibility to raise additional debt to support its healthy order book in the near to medium term.

Credit challenges

Modest coverage metrics expected in FY2023 owing to continued commodity cost pressures and high debt repayments – While the company has enhanced capacities in the previous fiscal, which was expected to generate improved returns with ramp up of utilisation, the company's earnings have been under pressure in the current fiscal. Elevated commodity prices, part price escalations from clients and a moderate export performance resulted in a further decline in operating margins to 6.4% in H1 FY2023 over 6.9% in FY2022 (9-11.5% range over FY2017 to FY2020). BML's return on capital employed has remained weak over the last few fiscals. ICRA notes that with easing of commodity prices, some margin improvement is expected in H2 FY2023. However, given the relatively short tenor of BML's term debt, the improvement in debt coverage indicators will be lower than expected. ICRA expects TD/OPBITDA and DSCR to remain at 2.0–2.4 times and 1.1–1.3 times owing to sizeable debt repayment of Rs. 30–32 crore and expected fresh sanction of Rs. 15 crore term loans in FY2023.

Significant client and segment concentration in 2W segment; expected to gradually improve with new customer acquisitions – BML is exposed to high customer concentration risk as it derives 55-60% of its revenues through sales to HMCL. Further, approximately 62% of its revenue are derived from the 2W segment. However, the same is mitigated to a large extent by the market leading position of HMCL and the company's stable share of business with the OEM. Also, the acquisition of new business in PV and CV segments would increase BML's customer diversification, going forward. Also, the company's revenues are susceptible to cyclical demand trends or any supply disruption event impacting the automotive sector.

Transition towards electric vehicles pose a medium-term challenge – BML generates 50-55% of its revenue from the sale of engine parts to its OEM customers, especially those in the 2W segment. The 2W segment is witnessing a rapid rate of EV adoption and, hence, the potential demand shift towards electric vehicles (EVs) over the medium-term exposes BML to technology and product obsolescence risk. ICRA, however, notes that the company is making efforts to foray into the EV space, without any considerable investments in the space as yet.

Liquidity position: Adequate

BML's liquidity is adequate, supported by available drawing power, modest average utilisation of its working capital limits, improving cash accruals and modest cash level of ~Rs. 6 crore. The company had Rs. 28 crore of unutilised sanctioned limits as on December 31, 2022. BML is expected to incur an annual capex of Rs. 20-30 crore in FY2023 and FY2024, which will be funded by internal accruals and expected sanction of a fresh term loan of Rs. 15 crore by March 2023. The company has annual debt repayments of Rs. 30-32 crore; thus its ability to ramp up internal accruals remains critical.

Rating sensitivities

Positive factors – A rating upgrade could be triggered if there is a significant improvement in profitability and liquidity with scale up in operations and, thus, debt coverage metrics. Substantial improvement in business risk profile through material customer and segment diversification will also be a positive.

Negative factors – A negative rating action could be triggered in case of any significant deterioration in profitability or if any major debt-funded capital expenditure or deterioration in the company's working capital cycle weakens its financial and/or liquidity profile. Total debt/OPBITDA of more than 2.3 times on a sustained basis could trigger a downgrade as well.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Auto Component Suppliers
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Bajaj Motors Limited is a manufacturer of forging and casting-based auto components, primarily engine and chassis parts, for 2W, four-wheelers (4Ws), tractors and CVs. The company's product portfolio primarily includes high precision and machined components for engine and chassis. The company's customer profile comprises OEMs such as HMCL, Renault Nissan, ALL and TML. Nearly 62% of the company's revenues are generated by the 2W segment, followed by CVs (~16%) and PVs (~16%).

BML was incorporated in July 1986 as a private limited company and was subsequently converted into a public limited company. The company initially started operations as a machining unit from its manufacturing facility at Gurgaon, Haryana. After establishing itself in the machining business, it backward integrated into forging operations at its Gurgaon facility in 2002. Subsequently, in 2006, the company further integrated its business and set up its first casting unit at Binola, Gurgaon. Currently, the company has six manufacturing facilities in Gurgaon with forging, casting and machining capabilities, one facility in Pantnagar (Uttarakhand) with forging and machining capabilities, and another in Haridwar (Uttarakhand) with machining capabilities.

Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023^
Operating income	501.8	541.8	344.8
PAT	0.9	3.6	3.6
OPBDIT/OI	6.8%	6.9%	6.4%
PAT/OI	0.2%	0.7%	1.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.6	0.6
Total debt/OPBDIT (times)	3.2	2.8	2.0
Interest coverage (times)	4.9	4.5	5.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2022	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					15-February-2023	4-April-2022	7-April-2021	01-June-2020	23-Jan-2020	30-Aug-2019
1	Term Loan	Long Term	48.11	48.11	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-Based Cash Credit	Long Term	41.00	-	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Short-term non-fund based limits	Short Term	22.50	-	[ICRA] A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long-term/Short-term unallocated	Long Term/ Short Term	38.39	-	[ICRA]A (Stable) / [ICRA] A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based - Term Loans	Simple
Fund Based – Cash Credit Facilities	Simple
Non-fund Based short-term facilities	Very Simple
Long-term/Short-term unallocated	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	Term Loans-I	2017-2019	7.2-9.1%	2022-2024	9.88	[ICRA]A(Stable)
NA	Term Loans-II	2018-2021	6.5-9.1%	2023-2026	38.23	[ICRA]A(Stable)
NA	Fund-based cash credit facilities	NA	NA	NA	41.00	[ICRA]A(Stable)
NA	Non-fund based limits	NA	NA	NA	22.50	[ICRA]A2+
NA	Long-term/Short-term unallocated	NA	NA	NA	38.39	[ICRA]A(Stable) / [ICRA]A2+

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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