June 14, 2023

HMC MM Auto Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund/ Non-fund Based Limits	40.00	40.00	[ICRA]A1+; Reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of HMC MM Auto Limited (HMC MM) continues to factor in benefits accruing to the company on account of strategic importance as a supplier of Electronic Fuel Injection (EFI) systems to its parent entity, Hero MotoCorp Limited (HMCL). HMC MM is a 60:40 joint venture (JV) between HMCL (rated [ICRA]AAA(Stable)/[ICRA]A1+) and Marelli Europe S.p.A. (Marelli; erstwhile Magneti Marelli S.p.A.). The company continues to derive technical support from Marelli, a leading player in EFI systems for two-wheelers (2Ws) globally. In addition to lending significant financial flexibility to HMC MM as a parent entity, HMCL remains the company's key customer, offering visibility on business volumes as well as insights into technology adaptation suited to Indian conditions.

The company's financial risk profile continued to remain stretched in FY2023 due to slower than expected ramp up in scale of operations, driven by sluggish growth in the 2W industry. Despite a moderate growth of ~17% YoY, revenues at ~Rs. 270 crore for FY2023 were only ~60% of the peak revenues attained by the company (~Rs. 455 crore registered in FY2021 post the shift to Bharat Stage VI (BS-VI) emission norms from April 1, 2020). This was driven by slower than expected ramp up in the 2W industry in general (domestic wholesale volume was only about ~73% of the FY2019 peak despite ~16% YoY volume growth in FY2023) and on the entry segment of 2Ws in particular. HMC MM is the principal/sole supplier of HMCL for four models of HMCL, whose performance remained muted in FY2023. Nevertheless, the company started supplies for additional models of HMCL towards the end of FY2023, which has supported improvement in volumes sold (~5.5 million units sold in FY2023 over ~4.7 units in FY2022) and is expected to drive improvement in scale of operations in the near term.

The company remains strategically important to HMCL with the latter maintaining management and operational control over it. HMC MM is expected to supply nearly a third of HMCL's EFI requirement at full capacity (~3.2–3.5 million units) over the medium term. As such, aided by an expected improvement in demand prospects for 2Ws over the medium term, HMC MM's business prospects remain healthy.

The ratings also factor in HMC MM's access to financial support from both the JV partners, as evident from the periodic equity infusion into the company, which provides comfort. The last fund infusion by the JV partners (of Rs. 20 crore) was done in FY2020 (pre-pandemic), following which the company has been able to service its debt obligations through operational cash flows and unutilised credit lines. For FY2024, equity support of ~Rs. 25 crore from the parent companies is expected to aid debt service obligations and improvement in leverage metrics.

The rating, however, remains constrained by customer and product concentration risks, as HMC MM derives most of its revenues from the supply of a single product to a single customer. Additionally, HMC MM will be vulnerable to product obsolescence risk over the medium to long-term, given the increasing shift in customer preference from conventional 2Ws to electric 2Ws (e-2Ws). The customer concentration risk is primarily mitigated by HMCL's dominant position in the Indian 2W market, and the OEM's need to be compliant with BS-VI emission norms for its products. Going forward, the ratings would remain dependent upon the timely scale-up of HMC MM's volumes. ICRA would continue to monitor the timing of the equity infusion and the company's ability to scale up its operations.

Key rating drivers and their description

Credit strengths

Demonstrated operational and financial support from HMCL and Marelli – HMC MM is a 60:40 JV between HMCL and Marelli. While parentage from Marelli helps the company in aspects of technical know-how and product development (Marelli being a leading player in 2W EFI technology), HMCL's presence assures healthy revenue visibility for the company. The JV partners have supported HMC MM financially through equity infusion in the past and are expected to do so in the near to medium term until the company scales up sufficiently.

Strategic importance to HMCL to support business growth – HMC MM is a key supplier of EFIs to HMCL, with its management control with the latter. Pursuant to transition of the Indian 2W market to BS VI emission norms (from April 2020), which mandated the use of EFI systems by 2Ws, HMCL's investment in HMC MM gained strategic importance. The ramp-up for BS-VI compliant vehicles has made revenue visibility for HMC MM strong (despite the decline in scale on YoY basis due to weak demand in the industry). Going forward, while revenues are expected to be driven by the addition of new models from the parent, HMC MM continues to enjoy the right to service other OEMs as well (given the absence of any restriction on the JV to supply to other OEMs as per the JV agreement).

Credit challenges

Financial profile remains weak due to debt-funded capex, expected to be supported by equity support from parent – HMC MM has largely completed its planned capex (of ~Rs. 130.0 crore, with debt drawdown of ~Rs. 85 crore as of end March 2023) for capacity expansion and indigenisation of parts. However, the resultant large debt servicing requirements and high leverage, coupled with slow ramp up in revenues, have resulted in weaking of metrics for the JV entity. During the nascent stage of operations, periodic equity infusion from parent entities helped support HMC MM's capital structure (~Rs. 80 crore since the start of its operations) and the JV partners are likely to continue to support the entity, going forward (equity infusion of ~Rs. 25 crore expected in FY2024). Further, going forward, a scale-up in profitability and/or need-based timely support from promoters would remain key.

Significant product and customer concentration risks – Given the dependence on a single product (EFI systems for 2Ws) for revenues, any delay in design approvals for new 2W models or unanticipated changes in any emission regulations, could adversely impact ramp up of HMC MM's operations. Further, the company remains dependent on a favourable 2W industry demand as well as on HMCL for most of its revenues. While the 2W industry has witnessed a moderate improvement in FY2023 (~16%) driven by a low base, ICRA expects YoY growth to remain constrained at 6.0–9.0% in FY2024, amid multiple headwinds. The customer concentration risk is partially mitigated by HMCL being the principal JV partner and market leader in the Indian 2W industry.

Vulnerable to structural transition to electric vehicles over medium to long term – In recent years, the 2W industry has been witnessing a gradual shift from conventional, internal combustion-based technology towards battery powered mobility solutions. While EFI is a critical component for conventional 2Ws, the battery technology will render the same obsolete. Resultantly, HMC MM remains exposed to product obsolescence risk due to the ongoing structural shift in customer preferences towards EVs over the medium to long-term.

Liquidity position: Adequate

HMC MM's liquidity is expected to remain adequate, supported by improvement in operational cash flows, and available working capital limits (average buffer of Rs. 22 crore in FY2023). Against this, the company has repayment obligations of ~Rs. 27 crore during the year. Even as the ramp up of business and timely equity support remains critical for timely servicing of the same, ICRA takes comfort from the track record of timely funding support by the JV partners to meet any funding gaps. ICRA expects HMC MM's strategic importance to HMCL and financial flexibility with its lenders (because of its strong parentage) to continue supporting its refinancing options and help it maintain an adequate liquidity profile.

Rating sensitivities

Positive factors – NA

Negative factors – Negative pressure on the company's rating could arise due to any weakening in the credit profile of the parent company, HMCL, or from any adverse change in HMC MM's ownership structure, or its reduced strategic importance to HMCL. Further, a slow ramp-up in scale of operations and cash flow generation vis-à-vis debt obligations and lack of timely and adequate financial support from the promoters could also be triggers for a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Component Suppliers](#)
Parent/Group support	Parentage: HMC MM is a joint venture between HMCL (60% shareholding) and Marelli Europe S.p.A. (40%). The rating assigned to HMC MM factors in the very high likelihood of its promoter companies extending financial support to it because of its strategic importance and close business linkages. We also expect the promoters to be willing to extend financial support to HMC MM out of their high reputation sensitivity. There also exists a consistent track record of the JV partners extending timely financial support to HMC MM for plant expansion and timely servicing of debt, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Incorporated in November 2013, HMC MM Auto Limited is a 60:40 JV between Hero Motocorp Limited (60%) and Marelli Europe S.p.A (40%; erstwhile Magneti Marelli S.p.A). The company is engaged in the design, development, manufacture of electronic fuel injection systems, its sub-assemblies, and related components. The JV agreement between the two JV partners was executed on November 11, 2013, and the company commenced commercial operations from April 2016. HMC MM's product range includes EFI systems featuring Mechatronic Integrated Unit MIU Systems, and state of the art Ride-by-wire RIU systems (for more engine capacity cc) covering 2Ws across engine capacities ranging from 50-850 cc models (range as per agreement with Marelli). The company's sole plant is in Manesar, Haryana, with a manufacturing capacity of ~2.2 million units per annum (as of March 31, 2023).

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Operating income	455.0	227.8	267.7
PAT	4.8	(11.3)	(10.2)
OPBDIT/OI	4.7%	3.6%	5.3%
PAT/OI	1.0%	-4.9%	-3.8%
Total outside liabilities/Tangible net worth (times)	6.1	7.8	15.2
Total debt/OPBDIT (times)	6.0	16.9	11.2
Interest coverage (times)	2.9	1.0	1.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 14, 2023	May 05, 2022	Apr 01, 2021	Nov 20, 2020
1	Term Loans	Long term	-	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)
2	Fund-Based Limits	Long term/ Short term	-	-	-	-	-	[ICRA]AA (Stable)/ [ICRA]A1+
3	Fund/Non Fund-based Limits	Short term	40.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund/Non Fund-based Limits	Simple

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	Fund Based/Non-Fund Based Limits	-	-	-	40.00	[ICRA]A1+

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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