

July 20, 2023

VE Commercial Vehicles Limited: Ratings reaffirmed; rated amount enhanced for bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	-	480.00	[ICRA]AA+(Stable)/[ICRA]A1+; assigned
Fund Based Limits- Cash Credit	575.00	-	-
Non Fund-Based Facilities	11.00	5.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Fund/Non Fund-based Limits	540.00	755.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed; assigned to enhanced amount
Total BLR Facilities	1,126.00	1,240.00	
Commercial Paper Programme	100.00	50.00	[ICRA]A1+; reaffirmed

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for VE Commercial Vehicles Limited (VECV) continues to factor in its stable market position as a leading commercial vehicle (CV) manufacturer in India, its strong parentage, robust balance sheet and strong liquidity profile. The rating action considers ICRA's expectation that its credit profile will remain supported by its strong business profile.

VECV is one of the leading players in the domestic CV industry, with a market share of 17.7% in FY2023 in its addressable market segment. It is present across both the goods carrier and passenger carrier segments, along with a comprehensive and expanding product portfolio spanning the 5–49T range. Although the CV industry is highly cyclical and subject to high competition, the company has maintained and improved its market presence over the years by steadily bridging portfolio gaps, expanding its dealer network, and improving after-sales offerings. Its improving market position and financial prudence provides comfort that VECV would continue to generate healthy cash flows, going forward, thereby helping it maintain a strong credit profile.

The ratings continue to favourably factor in VECV's strong parentage being a JV between Eicher Motors Limited (EML; rated [ICRA]AAA/ Stable/[ICRA]A1+) and AB Volvo (rated A2, Stable, P1 by Moody's Investors Services). VECV continues to benefit from the strong product engineering technology support from AB Volvo, which enables timely modernisation and strengthening of product portfolio, while EML's understanding of the Indian market supports cost-competitive manufacturing and developing a sales network.

The ratings also take comfort from the fact that VECV continues to follow a conservative financial policy, with large investments and capacity expansion projects over the years funded by cash flows from operations, and minimal dependence on external borrowings. The company pre-paid its long-term loans of Rs. 112.5 crore and continues to maintain a significant net-debt negative position. Accordingly, the company's balance sheet remains largely unleveraged (with TD/TNW and TD/OPBDIT of 0.1 time and 0.4 time, respectively, in FY2023). In FY2023, the operating profit margin improved to 7.3% from 5.6% in FY2022 aided by benefits of operating leverage and cost control measures and the credit metrics remained strong with interest cover of 42.5 times and NCA/total debt of 241%. Going forward, ICRA expects the company to maintain a negative net-debt position, and strong credit metrics aided by the expectation of healthy cash accruals.

ICRA notes that the company's revenues and earnings remain susceptible to the inherent cyclicity of the domestic CV industry, with earnings and return indicators moderating during periods of downturns and improving thereafter as the industry volumes revive. Accordingly, VECV's earnings and return indicators moderated sharply over FY2020 and FY2021 as the domestic CV industry underwent a period of sharp volume contraction. Nevertheless, even as FY2022 started on a weak note owing to the second wave of the pandemic and related uncertainties, VECV reported optically high growth of ~38% in sales volume and ~47% in revenues in FY2022 on the back of improvement in economic activity and a low base of the previous year. In line with the healthy growth in total industry volumes (TIV) in FY2023, supported by the Government's continued push on infrastructure spending, demand from mining and construction activities, e-commerce and last mile transportation requirements and replacement demand, VECV's volumes (including exports) and revenues grew by 39% and 49%, respectively, in FY2023. Overall, ICRA expects VECV to mirror the demand trends in the CV industry, and report healthy growth in the current fiscal.

The Stable outlook on the long-term rating reflects ICRA's opinion that VECV, aided by its comprehensive product portfolio, established business position and backed by two strong joint venture (JV) partners, remains well positioned to benefit from the expected healthy demand in the CV industry over the medium term. Additionally, the company's credit metrics are expected to continue to be strong aided by healthy cash accruals, moderate capex plans and no debt repayment obligations.

Key rating drivers and their description

Credit strengths

Strong parentage as JV between EML and AB Volvo provides access to technical and operational support – VECV is a JV between EML, India, and AB Volvo, Sweden. While EML's understanding of the Indian market has helped VECV develop a cost-competitive manufacturing base and strengthen its distribution network over the years, AB Volvo's presence has aided in technology absorption and strengthening product development capabilities, therefore, helping VECV foray into the heavy-duty CV segment. The parentage of AB Volvo also helped the company to transition smoothly to BS-VI emission norms, with design, development and technology support. Overall, VECV has established a healthy presence in the domestic CV industry, benefitting from the complementing strengths of its JV partners.

Comprehensive product portfolio across goods and passenger carrier segments; strong brand equity in the medium-duty truck segment – VECV has a comprehensive product portfolio, with a strong presence across the goods and passenger carrier segments. Over the past few years, the company has launched new trucks under its 'Pro Series' to address gaps in its product portfolio. As a result, VECV has catered to an enhanced customer profile, thereby helping it maintain a strong presence in the domestic CV industry. It enjoys a strong presence in the medium duty (MD) truck segment (i.e., 7-16T category), where it is the second-largest player with a 34% market share in FY2023. Despite increasing competition in the segment, including aggressive discounting practices and new product offerings across tonnage categories, VECV has managed to retain its stronghold in the segment, especially in the 7-12T category. In the light duty (LD) truck segment too, VECV has a strong market share of 27.7% (in FY2023) and is the second-largest player after Tata Motors Limited in its addressable market segment¹. In the heavy duty (HD) truck segment (>16T), however, at present, it is a marginal player with only 8-9% market share; although this has improved over the past few years from 3-4%, supported by the introduction of new products to plug portfolio gaps.

Robust financial risk profile characterised by conservative capital structure, strong debt coverage indicators and strong liquidity – The company's capital structure continues to be healthy, characterised by negative net-debt position, healthy debt coverage indicators and significant cash and bank balances (Rs. 3,252 crore as of March 31, 2023). This has been supported by healthy cash flow generation from operations, which has been in surplus over its investment or capital expenditure requirements. Even though the company has incurred significant investments in recent years towards the new emission norms

¹ Excluding the <3.5T goods carrier segment, where VECV is not present.

and its greenfield facility in Bhopal, the same has been funded by internal accruals and available cash balances, which has helped it maintain a strong credit profile.

Credit challenges

Significant cyclicity and high competition in domestic CV market; earnings susceptible to rise in commodity and diesel prices, semiconductor shortage – The domestic CV industry remains inherently cyclical in nature, with the industry volumes strongly correlated to the level of economic activity. Additionally, the high competition in the industry has led to a prevalence of aggressive discounting practices, which constrains the profitability of players. The domestic CV industry underwent one of the sharpest downcycles during FY2020–FY2021, due to multiple headwinds including the pandemic. Accordingly, VECV's volumes, earnings and return indicators were also impacted, despite measures undertaken to prune costs. Nevertheless, even as FY2022 started on a weak note owing to the second wave of the pandemic and related uncertainties, VECV reported an optically robust growth of ~38% in sales volume and ~47% in revenues in FY2022 on the back of improvement in economic activity and a low base of the previous year. Further, the TIV witnessed a healthy YoY growth of 34% in FY2023 supported by the Government's continued push on infrastructure spending, demand from mining and construction activities, e-commerce and last mile transportation requirements and replacement demand. In line with the healthy growth in TIV, VECV's volumes (including exports) and revenues grew by 39% and 49%, respectively, in FY2023.

Low market share in HD trucks at present; ability to improve segment market share remains critical given its high growth potential and superior profitability – VECV's market share in the HD truck segment, despite some improvement over the past couple of years, remains relatively low at 8-9% owing to the stiff competition from established players like Tata Motors Limited and Ashok Leyland Limited, who together account for approximately 90% of HD truck sales in India. To address this, over the years, VECV has launched new products under its 'Pro Series' range of HD trucks. In addition to rolling out specific products, the company had also increased its dealership presence in the identified markets. The company has also been focusing on offering an enhanced experience to its customers via introduction of 100% connected vehicles. The company's ability to further improve its market share in the segment remains critical, given the high growth potential of the segment and the superior profitability involved.

Liquidity position: Strong

VECV's liquidity position is **strong**, aided by expectation of healthy cash flow generation from operations, sizeable cash balances of ~Rs. 3,252 crore as on March 31, 2023 and average undrawn working capital limits of ~Rs. 900 crore against the sanctioned limits of Rs. 1,215 crore in the 12- month period ending in May 2023. In relation to these sources of cash, VECV has nil debt repayments and capex requirements of ~Rs. 500-600 crore p.a. Overall, ICRA expects VECV to meet its near-term commitments through internal accruals, available cash balances and available lines of credit and yet be left with healthy cash surpluses. Additionally, VECV's financial flexibility and its access to financial markets with the backing of two strong promoter groups provide comfort.

Rating sensitivities

Positive factors – ICRA could upgrade VECV's ratings if there is a significant scale-up in operations and strengthening of business profile with sustainable and meaningful gain in market share, especially in the high-margin HD truck segment in India. The company's maintenance of robust credit metrics and profitability indicators, such as RoCE above 25%, on a sustained basis will also be considered favourably for a rating upgrade.

Negative factors – ICRA could downgrade VECV's ratings if a prolonged weak demand environment for CVs leads to sustained deterioration in the financial risk profile with increased reliance on external borrowings, which weakens its credit metrics. A specific credit metric for a downgrade could be the net debt/OPBDITA going above 1.0 time, on a sustained basis. Additionally, any weakening in the parent companies' credit profile or business linkages could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Commercial Vehicle Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VECV. As on March 31, 2023, the company had three subsidiaries, which are enlisted in Annexure-II.

About the company

VE Commercial Vehicles Limited, a joint venture between Eicher Motors Limited (54.4%) and AB Volvo, Sweden (45.6%), was incorporated with effect from July 1, 2008. VECV is jointly managed by EML and AB Volvo. The company is a CV OEM with a product portfolio spanning 5–49T trucks and buses. The company manufactures its entire range of vehicles under the ‘VE Series’ brand. Apart from vehicle manufacturing, the company is also involved in manufacturing auto components, Euro VI emission compliant engines for the export markets, along with sales and marketing of Volvo branded premium range of trucks in India. In 2020, Volvo Buses India was integrated into VECV including manufacture, assembly, distribution, and sale of Volvo Buses in India. While the company has been strengthening its position in the HD segment aided by the technology support from AB Volvo, it is particularly strong in the MD truck segment, commanding a market share of 34% in FY2023.

The company’s manufacturing facilities for CVs are at Pithampur and Bhopal (both in Madhya Pradesh) and have a combined production capacity of 1,30,000 units p.a. Its manufacturing facilities for auto components and powertrain are at Dewas (Madhya Pradesh) and Pithampur, respectively.

Key financial indicators (audited)

VECV Consolidated	FY2022	FY2023*
Operating income	12,724.5	18,952.3
PAT	110.6	579.4
OPBDIT/OI	5.6%	7.3%
PAT/OI	0.9%	3.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.8
Total debt/OPBDIT (times)	0.3	0.4
Interest coverage (times)	19.9	42.5

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

Source: Company, ICRA Research; *Provisional numbers; 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 (FY2024)		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding as of Mar 30, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
				Jul 20, 2023	Mar 31, 2023	Jul 11, 2022	May 25, 2022	Jun 28, 2021	Aug 20, 2020 Jun 25, 2020
1 Fund Based Limits	Long-term/Short-term	480.00	-	[ICRA]AA+ (Stable)/[ICRA]A1+	-	-	-	-	-
2 Fund Based Limits- Cash Credit	Long-term/Short-term	-	-	-	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+
3 Non Fund-Based Facilities	Long-term/Short-term	5.00	-	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+
4 Fund/Non Fund-based Limits	Long-term/Short-term	755.00	-	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+
5 Term Loans	Long-term	-	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6 Commercial Paper Programme	Short-term	50.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7 Unallocated	Long-term/Short-term	-	-	-	-	-	-	-	[ICRA]AA+ (Stable)/[ICRA]A1+
8 NCD Programme	Long-term	-	-	-	-	-	-	[ICRA]AA+ (Stable); Withdrawn	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Non Fund-Based Facilities	Simple
Fund/Non Fund-based Limits	Simple
Commercial Paper Programme*	Very Simple

* Complexity categorisation is as per the latest understanding of ICRA and is subject to change once the issuance terms are finalised

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 Limits	NA	NA	NA	480.00	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Non-fund Based Facilities	NA	NA	NA	5.00	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Fund/Non-fund-Based Limits	NA	NA	NA	755.00	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Commercial Paper Programme*	NA	NA	NA	50.00	[ICRA]A1+

Source: Company; *CP not placed by the company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	VECV Ownership	Consolidation Approach
VE Commercial Vehicles Limited	100.00% (rated entity)	Full Consolidation
VECV Lanka (Private) Limited	100.00%	Full Consolidation
VECV South Africa (Pty) Limited	100.00%	Full Consolidation
VE Electro Mobility Limited	100.00%	Full consolidation

Source: VECV provisional financial results for FY2023

Note: ICRA has considered the consolidated financials of the parent (VECV) and its subsidiaries while assigning the ratings.

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Branches



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