March 28, 2024

Bajaj Motors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	60.83	63.04	[ICRA]A (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	41.00	50.00	[ICRA]A (Stable); reaffirmed
Short-term – Non-fund based	22.50	22.50	[ICRA]A2+; reaffirmed
Long-term/ Short-term – Unallocated	25.67	14.46	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed
Total	**150.00**	**150.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in ICRA's expectation that Bajaj Motors Limited (BML) will continue to benefit from its well-established business relationship with Hero MotoCorp Limited (HMCL; rated [ICRA]AAA/[ICRA]A1+), which is the largest player in the two-wheeler (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). In addition, acquisition of incremental business from OEMs in the 2W, passenger vehicle (PV) and commercial vehicle (CV) segments, such as Royal Enfield (RE), Honda Motorcycle and Scooter India (HMSI) and Tata Motors Limited (TML) lends comfort.

ICRA expects BML's earnings to ramp up, going forward, as it adds business from recently acquired new clients as well as new product additions across existing clientele. In 9M FY2024, BML posted flat revenues and its margins moderated owing to expenses related to new product development and weaker than expected volumes from some of its existing clients. The revenue booking and, thus, margins have revived from Q4 FY2024 and the trend is expected to continue, going forward. Debt levels are expected to be lower than earlier expectations supported by ongoing repayments and with no further major debt addition plans, BML's capital structure is expected to be at comfortable levels. In 9M FY2024, BML's gearing stood at 0.21 times and interest cover stood at 5.41 times. Reduction in repayment obligations and improved earnings are expected to lead an improvement in credit metrics, going forward.

The ratings remain constrained by the segment and customer concentration risks towards 2Ws and HMCL, respectively, though the same is expected to marginally improve as business from new clients ramp up. With rapidly increasing transition of the 2W segment towards electric vehicles (EVs), the company is exposed to medium-term business risk as the traditional 2W segment generates a sizeable share of revenues. ICRA notes that the management has been making efforts to enter the electric 2W (e-2W) parts. Moreover, as is prevalent in the sector, BML's revenues are susceptible to inherent cyclicality in the automotive industry. The rating continues to be constrained by the modest margin profile as well as a suppressed ROCE as the company had made sizeable investments towards capacity enhancement and upgradation over the last few years, which are generating returns only on a gradual basis.

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

Key rating drivers and their description

Credit strengths

Established relationship with HMCL as a key supplier of casting and forging components – The company has an established relationship with HMCL, the market leader in the Indian 2W industry and supplies more than 20 different components to HMCL. In the 2W segment, the company has added and scaled business with customers like Harley Davidson, Royal Enfield and HMSI. However, consistent orders from its clients provide adequate revenue visibility in the medium-term.

Healthy capital structure owing to high net worth – BML has built a strong net worth over the years with reinvestment of accruals in the business. As a result, the company had low gearing of 0.2 time as on December 31, 2023, as per provisional results; thus, demonstrating a healthy capital structure. Further, BML had availed sizeable debt over the last few years to enhance its capacities, against which it had high repayment obligations. With no major debt addition plans and paring of the existing debt with ongoing repayments, BML's coverage metrics are expected to improve, going forward, also supported by earnings improvement.

Credit challenges

Modest profitability metrics, expected to improve gradually – ICRA notes that the margins were impacted in 9M FY2024 by one-time expenses related to new product development, testing and quality checks. Further, volumes from some clients were lower than expected during the fiscal. However, with associated revenues coming in from the new products developed and new clients added, margins are expected to improve from Q4 FY2024 onwards. BML's return metrics have remains suppressed and are expected to improve on a gradual basis as it scales up its earnings after having incurred sizeable capex over the last few years.

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 more than 50% of its revenues through sales to HMCL. Further, more than 60% of its revenue are derived from the 2W segment leading to segment concentration risk. However, the same is mitigated largely 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 other segments like PVs would increase BML's customer diversification, going forward, though on a gradual basis. Also, the company's revenues are susceptible to cyclical demand trends or any supply disruption event impacting the automotive sector.

Transition to EVs pose medium-term challenge, although BML is making efforts to create presence in the segment – 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 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 and has made investments towards the same.

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. 2 crore. The company had ~Rs. 28 crore of unutilised sanctioned limits as on December 31, 2023. BML is expected to incur an annual capex of Rs. 35 crore in both FY2024 and FY2025, to be funded by internal accruals and fresh term loans. The company has scheduled annual debt repayments of Rs. 18 crore for FY2025.

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
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 2Ws, four-wheelers (4Ws), tractors and CVs. The company's product portfolio primarily comprises high precision and machined components for engine and chassis. The company's customer profile includes OEMs such as Hero Motocorp Limited (HMCL), HMSI, Harley Davidson (HD), Renault Nissan (RN), Ashok Leyland (ALL) and Tata Motors Limited (TML), among others. Nearly ~61-67% of the company's revenues are generated by the 2W segment, followed by PVs at ~13-16%.

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, the company 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 Haryana with forging, casting and machining capabilities; two facilities in Pantnagar (Uttarakhand) with forging and machining capabilities and one in Haridwar (Uttarakhand) with machining capabilities.

Key financial indicators (audited)

BML	FY2022	FY2023	9M FY2024*
Operating income	541.8	665.9	506.3
PAT	3.6	9.8	2.6
OPBDIT/OI	6.9%	6.9%	5.8%
PAT/OI	0.7%	1.5%	0.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.5
Total debt/OPBDIT (times)	2.8	1.8	1.9
Interest coverage (times)	4.6	6.0	5.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; Provisional Number*

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

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Apr 05, 2023	Feb 15, 2023	Apr 04, 2022	Apr 07, 2021	June 01, 2020
1	**Term loans**	Long term	63.04	53.62	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Fund-Based Cash Credit**	Long term	50.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Short-term non-fund-based limits**	Short Term	22.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
4	**Long-term/Short-term unallocated**	Long Term/ Short Term	14.46	-	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loan	Simple
Long Term – Fund Based – Cash Credit Facilities	Simple
Short Term – Non-Fund Based 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	Fund Based – Term Loan	2018-2024	7.2-9.1%	2023-2028	63.04	[ICRA]A (Stable)
NA	Fund-based cash credit facilities	NA	NA	NA	50.00	[ICRA]A (Stable)
NA	Non-fund-based limits	NA	NA	NA	22.50	[ICRA]A2+
NA	Long-term/Short-term unallocated	NA	NA	NA	14.46	[ICRA]A(Stable)/[ICRA]A2+

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545308
sheetal.sharad@icraindia.com

Susovan Mondal
+91 124 4545392
susovan.mondal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches