October 30, 2024

# Hero MotoCorp Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Issuer rating** | - | - | [ICRA]AAA (Stable); reaffirmed |
| **Long-term/short-term – Fund based/Non fund based limits** | 960.00 | 910.00 | [ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed |
| **Long term – Unallocated limits** | 140.00 | 190.00 | [ICRA]AAA (Stable); reaffirmed |
| **Total** | **1,100.00** | **1,100.00** | |
| **Non convertible debentures** | 15.00 | 15.00 | [ICRA]AAA (Stable); reaffirmed |

**Instrument details are provided in Annexure-I*

## Rationale

The reaffirmation of ratings of Hero MotoCorp Limited (HMCL) continues to factor in its strong business profile, as evidenced by its market leadership in the domestic two-wheeler (2W) industry (market share of ~30% and ~43% in the overall 2W and motorcycle segments, respectively in FY2024), its robust product portfolio, established brands and well-entrenched dealership network. The ratings also continue to favourably factor in its strong financial profile, reflected in its robust return and credit metrics and superior liquidity position. The company's strong market position provides comfort that it will continue generating healthy cash flows going forward, thereby helping it maintain a robust credit profile.

The 2W industry recorded an improvement in prospects over the past few fiscals after multiple years of contraction until FY2022, even as the industry's total volumes continue to remain below pre-Covid-19 levels. HMCL's domestic sales volume also grew across various segments driven by multiple launches of new models and variants, resulting in improved operating leverage for the company. However, exports remained a challenge due to inflationary pressures and forex availability in key markets. The company's product launches over the past years include the Harley Davidson X-440, manufactured in collaboration with Harley Davidson Inc., and Mavrick 440, which is HMCL's first foray into the greater-than-250cc category (earlier HMCL had been marketing for the US-based motorcycle manufacturer).

Going forward, while elevated cost of ownership and high inflation remain a challenge, the ongoing festive season and a recovery in rural demand are expected to support the 2W demand and rural cash flows. Coupled with new product launches, this is expected to augur well for HMCL's revenue growth prospects.

The ratings continue to factor in the company's strong financial profile, evidenced by its healthy profitability (OPBDITA margin and core RoCE of ~14.1% and ~79.0%, respectively, in FY2024 crore as on March 31, 2024). Supported by multiple timely price hikes and moderation in commodity prices, profitability for the company remained healthy (14.1% in FY2024 and 14.3% in Q1 FY2025 over 12.1% in FY2023). Over the years, HMCL's management has followed a prudent approach to growth. As a result, despite facing muted demand over the past few years and undertaking significant capex (for greenfield manufacturing units and investments towards a BS-VI/OBD II compliant portfolio), its dependence on external borrowings has remained negligible. This trend is also expected to continue in the medium term, even as the company is likely to step up its investments towards alternative fuel technologies and products.

HMCL continues to invest in its investee company in the financial services business, Hero FinCorp Limited (HFCL), and the electric 2W (e2W) business, Ather Energy Private Limited (Ather), evidencing the strategic importance of these entities. HMCL further invested ~Rs. 640 crore in Ather in FY2024, and another ~Rs. 125 crore in Q1 FY2025. ICRA notes that both the company's key investee entities, Ather and Hero FinCorp have plans for an initial public offer (IPO) in the near term. ICRA would continue to monitor the performance of HMCL's investee companies—HFCL, Ather and others—and any material support from HMCL resulting in the weakening of its liquidity position will be monitorable.

ICRA notes that HMCL's performance remains exposed to challenges such as increasing regulatory interventions (emission norms, safety norms) and fierce competition in the domestic 2W market. Additionally, the heavy revenue dependence on the domestic market (~96% in FY2024) and limited (albeit growing) presence in the premium motorcycle and scooter segment expose it to adverse demand trends in the domestic/rural markets. A structural shift in preference for e2Ws (as opposed to conventional 2Ws) also remains a medium-to-long-term challenge, with HMCL's market share in the e2w segment as on date remaining low (at ~5% in H1 FY2025). However, HMCL's proven ability to adapt to the changing customer requirements and multi-pronged strategies to enhance presence in these segments mitigates the above risks to some extent. In addition, its consistent investments in HFCL for supporting 2W financing indicate its focus on developing a favourable financing ecosystem, which is expected to aid in its growth plans.

ICRA also notes the ongoing investigations against HMCL by various Government entities. The company's management has clarified that the impact of such investigations is yet to be ascertained, as these are ongoing in nature. Nevertheless, ICRA will continue to closely monitor the developments in this regard.

The Stable outlook on the long-term rating reflects ICRA's expectation that HMCL is likely to maintain its leadership position in the Indian 2W industry, aided by its strong product portfolio, established brands, extensive dealership network and regular investments in new model launches as well as R&D for future technologies. The same is likely to help HMCL successfully navigate the uncertainties caused by structural shifts in the industry or any other exogenous shocks while maintaining a strong market share.

## Key rating drivers and their description

### Credit strengths

**Market leader in Indian 2W market with a wide dealership network and strong rural connect –** HMCL reported global sales of 5.6 million units in FY2024 and maintained its market leadership position in the Indian 2W market with a ~30% market share (domestic). Among 2W segments, HMCL is a market leader in the domestic motorcycle segment with a ~43% share (in FY2024). It is also among the top four OEMs in the scooter segment, albeit with a low share of ~7% in FY2024. HMCL is likely to maintain its leadership position in the Indian 2W industry with new product launches in motorcycles, especially in the premium and scooter segments. Its strong brand equity, well-entrenched distribution network and wide product offerings will continue to provide comfort. HMCL has over 10,000 customer touch points (globally) with a deep-rooted rural presence in India, making it one of the strongest sales networks among all 2W manufacturers.

**Strong product portfolio with established brands –** The company had three brands in the top 10 motorcycles and two models in the top 10 scooters sold in India for FY2024, the highest among 2W OEMs. HMCL's strong brands include Splendor, HF Deluxe and Passion, which account for ~80% of the total volumes of its entry level sub-segment in FY2024. The OEM's dominance in the largest 2W sub-segment and the expectation of improving presence in other sub-segments as well as product categories (scooters, e2Ws) support healthy revenue visibility for the company.

**Robust financial risk profile –** HMCL's strong financial profile is evidenced by a conservative capital structure (TD/TNW of 0.0 times and TOL/TNW of 0.5 times as on March 31, 2024) and a negative net debt position at a consolidated level (zero debt on a standalone basis). The core RoCE of the business, on a consolidated level, improved to ~79.0% for FY2024 (~56.6% in FY2023), driven by higher asset utilisation due to recovering industry sentiments. Additionally, the company has a strong liquidity profile, with over Rs. 9,000 crore of cash and investments as on March 31, 2024.

### Credit challenges

**Low share in export markets; remains susceptible to vagaries of rural demand sentiment –** The company is largely dependent on the domestic market, which accounted for ~96% of total volumes dispatched in FY2024. While it increased its presence in the overseas markets in FY2024, with ~16% growth over FY2023, the contribution of exports to total sales and overall market share of HMCL in exports (~4% in FY2024) remained modest. Nevertheless, the company continues to expand and deepen its presence in export markets with a target of 12-15% export revenues over the medium term. An improved domestic–export mix could provide a cushion in case of a slowdown in domestic demand. HMCL also has a high dependence on products in the entry and executive sub-segments of motorcycles, which primarily has an income-sensitive rural and semi-urban clientele. This resulted in a steeper decline in HMCL's volumes after the pandemic and consequently, weakened the rural demand. While HMCL has launched several new products to enhance its premium segment presence, the impact of the same will be ascertainable over the near-to-medium term. The company's focus on new product launches to gain market shares in other segments would remain critical, in order to reduce its susceptibility to demand downturns for the entry and executive-level segments.

**Increasing competition in domestic 2W market; structural transition to e2Ws over medium to long term –** The Indian 2W industry is highly competitive with regular new product launches and refreshes by several OEMs to gain market share. As a market leader in conventional 2Ws, HMCL remains exposed to the risk of a structural shift in customer preferences towards e2Ws over the medium-to-long term. Consequently, consistent investment in R&D, network expansion and introduction of newer models/refreshes remain crucial for HMCL to maintain its leadership position in the Indian 2W market. HMCL has adopted a multi-pronged strategy to capitalise on the opportunities presented in this space—investment in Ather and the US-based Zero Motorcycles (for developing premium e2Ws), in-house R&D efforts to develop e2Ws (first product launched under brand, VIDA, in October 2022, along with its EV ecosystem), and tie-up with Bharat Petroleum Company Limited (BPCL) and Hindustan Petroleum Company Limited (HPCL) for setting up charging stations across the country. However, all these ventures are in nascent stages, and their success remains to be seen over the medium term.

## ESG risks

**Environmental considerations –** HMCL derives a material share of demand for its 2Ws from the rural segment and, hence, any adverse climatic conditions such as droughts and floods may impact farm incomes and, consequently, the earning prospects of entities. It also remains exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with the Government focused on reducing the adverse impact of automobile emissions. Accordingly, HMCL's prospects remain linked to its ability to meet these stringent emission requirements. HMCL (and the 2W industry as a whole) may need to invest materially to develop products to meet the regulatory thresholds or expected transition to alternative fuel vehicles (like e2Ws), which may have a moderating impact on their return and credit metrics. The exposure to litigation/ penalties arising from issues related to waste and water management for the company remains low.

**Social considerations –** HMCL has a healthy dependence on human capital and, hence, retention and maintenance of healthy employee relations as well as supplier ecosystem remain essential for disruption-free operations. Another social risk that automotive OEMs, like HMCL, face pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the brand reputation and create a more long-lasting adverse impact on demand. The entities also remain exposed to any major shift in consumer preferences/ demographics, which are a key driver for demand and, accordingly, may need to make material investments to realign their product portfolio.

## Liquidity position: Superior

HMCL's liquidity is superior as reflected by strong cash and liquid investments of ~Rs. 4,910 crore, non-current investments in debentures/fixed maturity plans of ~Rs. 4,450 crore as on March 31, 2024 and unutilised working capital bank limits. Additionally, healthy accruals from the business, coupled with negligible debt obligations and a favourable working capital cycle, drive the company's strong financial profile. Over the next 12-15 months, the planned investments and capex are expected to be funded through internal accruals, helping the company maintain a superior liquidity position.

## Rating sensitivities

**Positive factors –** Not applicable.

**Negative factors –** A sharp and sustained contraction in profitability metrics or significant erosion in market share on a sustained basis amid increasing competition, any sizeable debt-funded inorganic/ organic growth plans leading to material deterioration in credit metrics, any sizeable cash outflow in the form of dividends or buybacks that sharply depletes the robust liquidity, could be triggers for a downward rating review.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Two wheelers |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of HMCL, excluding the financial services business under Hero FinCorp Limited (HFL). However, the analysis considers the ordinary and extraordinary funding support likely to be extended by HMCL to HFL. The consolidated list of entities is shared in Annexure-II. |

## About the company

Hero MotoCorp Limited is engaged in the manufacturing and marketing of motorcycles and scooters. It is the largest two-wheeler manufacturer in the world. In India, it commanded a market share of ~30% in FY2024. The company has eight manufacturing facilities with an annual production capacity of 9.5 million units. Of the same, six plants are in India—one each at Dharuhera and Gurgaon (both in Haryana), Haridwar (Uttaranchal), Neemrana (Rajasthan), Halol (Gujarat) and Chitoor (Andhra Pradesh)—while two are overseas at Columbia and Bangladesh. Additionally, the company has set up an R&D centre in Jaipur (India) and Germany. Backed by a large product portfolio across various price segments, HMCL is a market leader in the domestic motorcycle industry with a share of ~43% in FY2024. It is also present in the domestic scooter market, although its market share was modest at ~7% in FY2024.

HMCL commenced operations as Hero Honda, a joint venture company (both promoters holding 26% equity) between Hero Cycles Limited and Honda Motor Company (HMC), Japan, in January 1984. In January 2011, HMC agreed to transfer its entire shareholding of 26% to the Hero Group, thus bringing an end to the partnership. The company is listed on the BSE and NSE. The BM Munjal family holds ~34% stake in HMCL.

### Key financial indicators (Audited)

| HMCL Consolidated | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 34,158.4 | 37,788.6 |
| **PAT** | 2,796.8 | 3,862.4 |
| **OPBDIT/OI** | 12.1% | 14.1% |
| **PAT/OI** | 8.2% | 10.2% |
| **Total outside liabilities/Tangible net worth (times)** | 0.4 | 0.5 |
| **Total debt/OPBDIT (times)** | 0.1 | 0.1 |
| **Interest coverage (times)** | 39.5 | 70.0 |

*Source: Company's annual reports, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore*

*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

| | Current (FY2025) | | | | Chronology of rating history for the past 3 years | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY2025 | | FY2024 | | | | FY2023 | | FY2022 | |
| Instrument | Type | Amount Rated (Rs. crore) | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| **Issuer Rating** | Long-term | - | **Oct 30, 2024** | **[ICRA]AAA (stable)** | Oct 27, 2023 | [ICRA]AAA (stable) | Jun 23, 2023 | [ICRA]AAA (stable) | Oct 13, 2022 | [ICRA]AAA (stable) | Oct 01, 2021 | [ICRA]AAA (stable) | Jul 28, 2021 | [ICRA]AAA (stable) |
| **NCDs** | Long-term | 15.00 | **Oct 30, 2024** | **[ICRA]AAA (stable)** | Oct 27, 2023 | [ICRA]AAA (stable) | Jun 23, 2023 | [ICRA]AAA (stable) | Oct 13, 2022 | [ICRA]AAA (stable) | Oct 01, 2021 | [ICRA]AAA (stable) | Jul 28, 2021 | [ICRA]AAA (stable) |
| **Fund-based /Non-fund Based limits** | Long-term/ Short-term | 910.00 | **Oct 30, 2024** | **[ICRA]AAA (stable)/ [ICRA]A1+** | Oct 27, 2023 | [ICRA]AAA (stable)/ [ICRA]A1+ | Jun 23, 2023 | [ICRA]AAA (stable)/ [ICRA]A1+ | Oct 13, 2022 | [ICRA]AAA (stable)/ [ICRA]A1+ | Oct 01, 2021 | [ICRA]AAA (stable)/ [ICRA]A1+ | Jul 28, 2021 | [ICRA]AAA (stable)/ [ICRA]A1+ |
| **Unallocated** | Long-term | 190.00 | **Oct 30, 2024** | **[ICRA]AAA (stable)** | Oct 27, 2023 | [ICRA]AAA (stable) | Jun 23, 2023 | [ICRA]AAA (stable) | Oct 13, 2022 | [ICRA]AAA (stable) | Oct 01, 2021 | [ICRA]AAA (stable) | Jul 28, 2021 | [ICRA]AAA (stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Issuer rating** | Not applicable |
| **Non convertible debentures*** | Simple |
| **Long-term/short-term – Fund based/Non fund based limits** | Simple |
| **Long term – Unallocated limits** | Not applicable |

* Not placed/Issued yet; subject to change once the terms are finalized

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 | - | [ICRA]AAA(Stable) |
| NA | Non-convertible debenture programme* | Not yet placed | | | 15.00 | [ICRA]AAA(Stable) |
| NA | Fund-based/Non-fund based limits | NA | NA | NA | 910.00 | [ICRA]AAA(Stable)/[ICRA]A1+ |
| NA | Unallocated limits | NA | NA | NA | 190.00 | [ICRA]AAA(Stable) |

*Source: Company, *Not placed/Issued yet; subject to change once the terms are finalised*

## Annexure II: List of entities considered for consolidated analysis

| Company Name | HMCL ownership | Consolidation approach |
|---|---|---|
| Hero MotoCorp Limited | Rated Entity | Full consolidation |
| HMCL Americas Inc. | 100.00% | Full Consolidation |
| HMCL Netherlands B.V. | 100.00% | Full Consolidation |
| Hero Tech Center Germany GmbH | 100.00% | Full Consolidation |
| HMCL Colombia S.A.S (through HMCL Netherlands B.V) | 68.00% | Full Consolidation |
| HMC MM Auto Limited | 66.32% | Full Consolidation |
| HMCL Niloy Bangladesh Limited (through HMCL Netherlands B.V) | 55.00% | Full Consolidation |
| Hero FinCorp Limited | 41.19% | Equity Method |
| Ather Energy Private Limited | 43.94% | Equity Method |

*Source: HMCL consolidated annual report FY2024*

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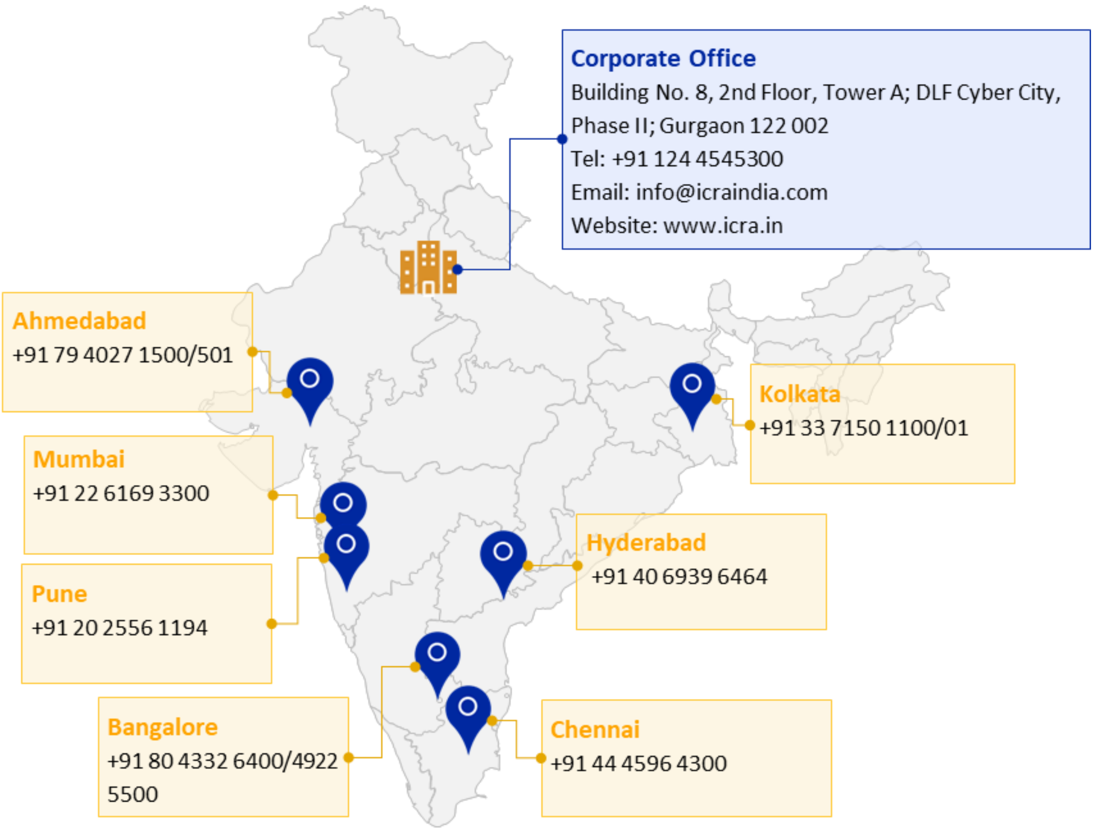




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