

June 01, 2020

Bajaj Motors Limited: Update

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	73.00	73.00	[ICRA]A+(Stable); Outstanding
Fund Based – Cash Credit Facilities	45.00	45.00	[ICRA]A+(Stable); Outstanding
Non-fund Based short-term facilities	28.00	28.00	[ICRA]A1+; Outstanding
Long-term/Short-term unallocated	4.00	4.00	[ICRA]A+(Stable)/[ICRA]A1+; Outstanding
Total	150.00	150.00	

*Instrument details are provided in Annexure-1

Rationale

The rating update follows the impact of the novel coronavirus (Covid-19) pandemic on the Indian auto component industry. The automotive supply chain disruption—largely limited to China during January and February 2020—has now snowballed into a demand shock, owing to the rapid spread of the pandemic and its adverse impact on the macro-economic environment. To contain the proliferation of the disease, the Government of India had imposed a nationwide lockdown, which is being now lifted in a graded manner. While the large-scale lockdown has disrupted production of automobile OEMs and their supply chain from March 2020 onwards, the adverse impact of the pandemic is expected to impact automobile demand in the near-term.

In ICRA's view, even after the lockdown restrictions are eased further, the demand environment is likely to remain subdued since automobile purchase is a discretionary spend. Accordingly, auto component companies, including Bajaj Motors Limited (BML), are likely to witness weak demand and consequently sharp contraction in earnings in the near-term.

Given the environment, the liquidity cushion between cash balances and available lines of credit, and debt servicing requirements remain key. ICRA believes that BML is adequately positioned from a liquidity standpoint with cash and liquid investments of around Rs. 20.3 crore, sufficient undrawn credit facilities (buffer of around 90-95% on drawing power,

~Rs. 37-39 crore) and availability of Rs. 8.0 crore under its sanctioned term loan facilities as on April 30, 2020. Against these sources of liquidity, the company has limited debt repayments of Rs. 7.9 crore (including interest obligations) in Q1 FY2021, in addition to supporting its fixed expenses. The company met its debt obligations in March 2020 in a timely manner, and decided to not avail moratorium on interest and debt repayments for April and May 2020 (under the 'Covid-19 – Regulatory Package' announced by the Reserve Bank of India), given its comfortable liquidity profile.

Even as the company's liquidity remains adequate to tide over the current lockdown, the company's financial performance continues to remain exposed to any prolonged weakness in automobile demand, especially two-wheelers, which drives almost 70-72% of its revenues. Nonetheless, the company continues to draw comfort from its well-established business relationship and strong share of business with Hero MotoCorp Limited (HMCL), which is the largest player in the two-wheeler industry. This aids in healthy revenue visibility over the medium term with BML benefitting

from consistent award of business from the original equipment manufacturer (OEM) and increasing content per vehicle (CPV).

A higher than expected downturn in automobile demand, and a resulting inability to achieve adequate capacity utilisation (in view of ongoing capex plans to enhance capacity for recently acquired clients), could lead to a moderation in the company's return and leverage/debt coverage indicators, and would remain a rating sensitivity. ICRA will continue to monitor the developments and take suitable rating action if the lockdown is prolonged and the supply chain remains impacted, leading to pressure on the liquidity position/credit profile of the company.

Key rating drivers and their description

Credit strengths

Established business relationship and healthy share of business with HMCL - BML enjoys a majority share of business with HMCL for products such as fork gear shift, camshaft and rocker arm. The company enjoys an established relationship with HMCL, a market leader in the Indian two-wheeler industry, with a ~60% share of its business. The established client relationship, coupled with the OEM's market leadership status, provides healthy revenue visibility.

Healthy financial risk profile characterised by low gearing and comfortable debt coverage indicators - BML's financial risk profile continues to remain healthy as it maintains a conservative capital structure with an estimated gearing of 0.3 time as on March 31, 2020. Debt coverage indicators also remain healthy with an estimated total Debt/OPBDITA of 1.7 times and interest coverage of 6.8 times in FY2020, albeit adversely impacted by low profitability. The ongoing weakness in demand in the automotive industry, coupled with the evolving Covid-19 situation, is likely to lead to a moderation in the financial risk profile over the short-term. The company's financial risk profile is, however, likely to improve over the medium term, led by a ramp up in scale of operations benefitting from its recent gain of business with new clients.

Credit challenges

Significant client and segment concentration risks - BML is exposed to high customer concentration risk as it has historically derived 60-65% of its revenues through sales to HMCL. Further, approximately 70-72% of its revenues are generated by the two-wheeler segment, resulting in significant segment concentration risk. The risk is mitigated to an extent by the market leading position of HMCL and the company's stable share of business with the OEM. While an expectation of a ramp up in supplies for businesses gained from Royal Enfield and Harley Davidson over the next two fiscals is likely to help moderate the client concentration risk to an extent, BML's growth prospects would remain dependent on the demand trends in the two-wheeler industry.

Revenues susceptible to demand slowdown in the automotive industry, further aggravated by Covid-19 pandemic; transition to electric vehicles poses a long-term challenge - The ongoing demand slowdown in the automotive industry, which has been further aggravated by the Covid-19 pandemic, has led to major OEMs (including HMCL) scaling back their production volumes, exerting pressure on the company's earnings. Further, the long-term business visibility of the company remains susceptible to the enhanced technological challenges led by the trending shift towards electric vehicles, with ~60% of the company's revenues emanating from supply of engine components. BML's ability to mitigate the risk of this transition towards electric mobility would remain a key rating sensitivity.

Liquidity position: Adequate

The liquidity position of BML remains adequate, supported by sizeable cash and bank balances (Rs. 20.3 crore as on April 30, 2020) and low utilisation of Rs. 41.0 crore fund-based working capital facilities (average utilisation of 15-20% over past 12 months). Even as the ongoing lockdown in response to the global coronavirus pandemic is expected to impact cash flows over the short-term, the liquidity is likely to remain adequate to fund its anticipated capex of ~Rs. 45-50 crore (capex plans remain flexible and may be revised lower in line with demand) and debt repayments of Rs. 25.9 crore in FY2021. Further, availability of ~Rs. 8.0 crore under its sanctioned term loan facilities provide comfort.

Rating sensitivities

Positive triggers – Given the ongoing weakness in the macro environment and automotive demand, a rating upgrade in the near-term remains unlikely. A rating upgrade could be triggered over the medium term, if there is a substantial improvement in the company’s scale of operations, aided by material customer and segment diversification while maintaining healthy profitability metrics.

Negative triggers – A rating downgrade could be triggered if the weakness in demand in the automotive industry, specifically two-wheelers, because of the ongoing pandemic is prolonged further than currently expected, consequently impacting the company’s return and debt coverage indicators. A negative rating action could be triggered by a major debt-funded capex, or if any deterioration in the company’s working capital cycle weakens its financial and/or liquidity profile. Total debt/OPBITDA of more than 2.0x on a sustained basis could trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	NA
Consolidation/Standalone	Analysis is based on standalone financial statements of the rated entity.

About the company

Bajaj Motors Limited is a manufacturer of forging and casting-based auto components, primarily engine and chassis parts, for two-wheelers, four-wheelers, tractors and commercial vehicles. The company’s product portfolio primarily comprises high precision and machined components for engine and chassis. The company’s customer profile is made up of OEMs such as Hero Motocorp, Renault Nissan and Tata Motors Limited. Nearly 70-72% of the company’s revenues are generated by the two-wheeler segment, followed by passenger vehicles (PVs) at ~15%. Promoted by the Bajaj family, 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 Gurgaon with forging, casting and machining capabilities, one facility at Pantnagar (Uttarakhand) with forging and machining capabilities, and another facility at Haridwar (Uttarakhand) with machining capabilities. Further, the company is setting up a new manufacturing unit in Oragadam (Tamil Nadu) with forging and machining facilities.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	721.8	744.4
PAT (Rs. crore)	34.7	32.8
OPBDIT/OI (%)	11.4%	10.6%
RoCE (%)	18.3%	16.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.9
Total Debt/OPBDIT (times)	0.9	1.3
Interest Coverage (times)	11.5	10.0
DSCR	5.8	3.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					01-Jun-2020	23-Jan-2020	30-Aug-2019	29-Nov-2018	03-Oct-2017
1	Term Loan	Long Term	73.00	56.4*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Fund-Based Cash Credit	Long Term	45.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
3	Short-term non-fund based limits	Short Term	28.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Long-term/Short-term unallocated	Long Term/Short Term	4.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+

Amount in Rs. crore; *As on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan - I	March, 2016	8.36-10.25%	March, 2023	57.25	[ICRA]A+(Stable)
NA	Term Loan - II	March, 2018	8.93%	March, 2023	15.75	[ICRA]A+(Stable)
NA	Fund-based cash credit facilities	NA	NA	NA	45.00	[ICRA]A+(Stable)
NA	Non-fund based limits	NA	NA	NA	28.00	[ICRA]A1+
NA	Long-term/Short-term unallocated	NA	NA	NA	4.00	[ICRA]A+(Stable)/ [ICRA]A1+

Source: Bajaj Motors Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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