

February 22, 2021^{Revised}

Eicher Motors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund-based facilities	45.0	100.0	[ICRA]AAA (Stable); reaffirmed
LT/ST Non-fund Based Facilities	115.0	50.0	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
LT Unallocated	20.0	30.0	[ICRA]AAA (Stable); reaffirmed
Total	180.0	180.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of Eicher Motors Limited (EML) continues to factor in its strong business profile as evidenced by its market leadership (>95% share) in the premium middle-weight motorcycle segment (>250cc-800cc) in India, its established Royal Enfield (RE) brand, strong product portfolio and well-developed dealership and aftersales network. The ratings also factor in the company's robust financial risk profile, characterised by healthy profitability indicators, credit metrics and a strong liquidity profile.

In FY2021, the Covid-19 pandemic exacerbated the already weak two-wheeler (2W) demand environment and additionally disrupted the supply chain ecosystem. The nationwide lockdown (in April-May 2020) followed by sporadic local lockdowns created several logistic issues and led to delayed ramp-up in RE's production levels. The demand was also subdued, due to the uncertain environment, rise in ownership cost of BS-VI compliant 2Ws and general deferment of discretionary spends by the consumers. Consequently, in 9M FY2021 the company reported a 24% YoY contraction in its sales volumes vis-à-vis 19% contraction for overall motorcycle segment in India. Nonetheless, with the commencement of vaccination programmes – in India and globally – and an improving outlook for the economy, the 2W demand is expected to recover in FY2022. ICRA expects a 10-12% YoY growth in the 2W industry volumes in FY2022. Given a relatively less price sensitive customer base, it is expected that increasing premiumisation trend and aspirational needs will drive the demand for premium motorcycles over the medium term. RE is, therefore, expected to continue to benefit from its strong brand pull, regular product launches/refreshes supported by its dealer network expansion. Further, the company has been focussing on improving its brand presence in key European, American, and South-east Asian markets. However, given that these are mature 2W markets with relatively low sales volume having an established presence of Japanese and European brands in the premium segment, RE's strategy for increasing market share is likely to yield benefits over medium-to-long-term.

In line with the industry, the company is expected to report a contraction in revenues (~17% YoY decline in 9mFY21) in FY2021. With subdued volumes and commodity price headwinds, the negative operating leverage is likely to constrain the profitability indicators in the near-term. Despite some moderation, the rating continues to factor in the strong financial profile of the company, evidenced by its healthy profitability indicators and cash accruals, negative net debt position and robust liquidity profile (cash balances and liquid investments of ~Rs. 6,650 crore as on Sep 30, 2020). While the company has been investing significantly in its motorcycle business over the past five years for setting up new manufacturing facilities, capacity expansion and new product development, the same has been entirely funded through internal accruals. The near-term capex is also likely to be funded by internal accruals and available cash balances. The company, thus, is expected to maintain its conservative financial risk profile.

Despite company's strong operational and credit risk profile, its market share in the overall Indian motorcycle industry (including exports) has remained moderate at around 5% over the last few years. This is mainly because of RE's segmental concentration in the >250-800cc motorcycle sub-segment which caters to a niche and relatively small customer base. Within the sub-segment, its dependence on the Classic brand models also is high, as newer brands – Twins, Himalayan and the recently launched Meteor – are yet to garner sizeable volumes. Meanwhile, due to growing participation of global as well as Indian OEMs in the >250–500-cc sub-segment, the competition in the sub-segment has increased over the last few years. This may pose a challenge to RE's market share and pricing power and remains a key rating sensitivity. In addition, the company's efforts to increase its presence in the export markets, while already witnessing significant traction over the past two years, will need time to scale-up to meaningful volumes and reduce RE's dependence on the Indian market.

EML's commercial vehicle (CV) business under VE Commercial Vehicles Limited (or VECV, a 54.4% subsidiary of EML) has been able to improve its presence in the domestic market over the last few years, despite operating in a highly cyclical industry, prone to stiff competition. This had been on the back of continuous product launches/refreshes, expanding dealer and after-sale network and targeted marketing efforts. With lockdown-induced production shutdowns and demand moderation because of the pandemic, VECV's cash flows and earnings are expected to weaken significantly over the near term. However, VECV continues to maintain a strong liquidity position and enjoys significant financial flexibility by virtue of its parentage. ICRA expects the Government's thrust on infrastructure projects, coupled with the potential implementation of fleet modernisation and scrappage programme, will support demand over the medium term.

The Stable outlook on EML's long-term rating reflects ICRA's expectation that it will continue to maintain its leadership position in the premium motorcycle segment aided by its established brand and product portfolio, regular investments in new model launches and extensive dealership network. The same is likely to help the company successfully navigate through the uncertainties caused by the pandemic, while maintaining a comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Established and niche brand positioning; continued leadership position in mid-weight premium sub-segment - EML's Royal Enfield brand has over 95% market share in the >250cc displacement sub-segment of motorcycles and has maintained its leadership position in the recent years. The niche positioning and aspirational status of the brand has helped it garner volumes and outperform the motorcycle industry in the last few years. The company's volumes grew at a CAGR of ~15% over the last five years (FY2015-FY2020) vis-à-vis 1% for the overall domestic motorcycles segment. Notwithstanding the increasing competition from domestic and international OEMs, RE is expected to maintain its stronghold in the target sub-segment over the medium term, backed by its niche brand and value proposition, expansive dealership and after-sales service network (1,889¹ domestic touchpoints in December 2020 against 915 in FY2019).

Strong financial risk profile - The company's cash and liquid investments stood at around Rs. 6,650 crore as on Sep 30, 2020, up from around Rs. 5,450 crore as on March 31, 2020. With negligible debt, it continues to maintain a negative net debt position and its coverage indicators remain robust. Despite moderation in profitability and revenue growth in FY2020-FY2021, the average OPBDITA margin and ROCE of 28-30% and 40-42%, respectively, over FY2016-FY2020, has been robust. Overall, the company continues to maintain a strong financial risk profile. However, any sharp deterioration in profitability margins amid weak demand sentiments and increasing competition will be a key rating sensitivity.

¹ As per the investor presentation shared in November 2019, EML had 939 dealerships and 500 studio format stores by the end of October 2019.

Expanding product range and improving technical capability - Regular new launches and product variations underpin RE's technical prowess. With launch of the Himalayan (in early 2016), The Twins (in FY2019) and Meteor (in FY2021), it has demonstrated its capability to develop new models from grounds up, incorporating new engines as well as a platform. This has given the existing RE users a chance to upgrade and helped ramp up its presence in the export markets.

Credit challenges

Lack of segment diversification and rising competition in premium segment - RE's product portfolio, concentrated in the >250cc to 650cc sub-segment, caters to a niche clientele. Despite YoY improvement over the years, the >250-800cc sub-segment constituted only 6% of the total 2W market in India (in FY2020). Further, within the sub-segment also, the company relies heavily on the Classic brand/models, which accounted for over 60% of the motorcycles sold in FY2020 and YTD FY2021. While the company has launched new brands (within the same sub-segment) over the past few years, there scale-up remain to be seen. Lack of segment diversification and product concentration remains a credit sensitivity for the company. Furthermore, several domestic and international players have entered the premium sub-segment with new products in the past few years. The increasing competition could limit the pricing power of the company to some extent.

High geographical concentration although efforts to diversify continue - While RE's export volumes in FY2020 had increased by nearly 96% on a YoY basis, these accounted for only ~6% of total volumes sold during the period. Thus, the company remains exposed to geographical concentration risk, with India remaining its key market. However, over the past few years the company has expanded its distribution network in over 60 international markets. The company established one assembly facility in Argentina in August 2020. In addition, it is working towards setting up assembly operations in Thailand and certain other locations to improve its competitiveness. The 650cc Twin motorcycles, launched in FY2019 have been well received in the mature markets. The company's ability to increase exports could offer a significant scope of market expansion and could mitigate the impact of any slow-down in the domestic market.

Liquidity position: Superior

EML's liquidity is **superior** as reflected by its cash balances and liquid investments of ~Rs. 6,650 crore as on Sep 30, 2020. The company does not have any long-term loans on its balance sheet. Healthy cash flows from operations coupled with negligible debt obligations and favourable working capital cycle, have enabled EML to maintain a superior liquidity profile, despite a large capex undertaken in the last few years. In FY2021, the entire planned investments of Rs. 400-450 crore in capex is also expected to be funded through internal accruals. Despite near-term demand uncertainties, ICRA expects the company to continue to maintain a strong liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on EML's rating could arise for reasons including significant and sustained decline in its sales volumes, market share and profitability due to *inter alia* increasing competition, inability to consistently introduce new models or refresh its product portfolio and/or shrinkage in the premium motorcycle segment. Furthermore, any sizeable debt-funded inorganic or organic growth plan, which can lead to deterioration in credit metrics or any sizeable cash outflow in the form of dividends or buybacks that sharply depletes the currently robust liquidity, could be factors for a downward rating review.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Two-wheeler Manufacturers Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of the issuer. The list of entities consolidated is shared in Annexure-2.

About the company

Eicher Motors Limited (EML), incorporated in 1982, is the listed flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. On a standalone basis, EML manufactures and markets motorcycles under the iconic Royal Enfield (RE) brand, with its production facilities based in Chennai, Vallam Vadagal and Oragadam (Tamil Nadu). It also has research and development (R&D) facilities at two locations - Leicestershire, UK, and Chennai. With a portfolio of six brands and sales of 6.98 lakh units (in FY2020), EML is positioned as a market leader in the niche (250cc+) motorcycle segment in India.

Additionally, the company operates as a holding company for investments in VE Commercial Vehicles Limited (VECV). A joint venture of EML (54.4%) and AB Volvo (45.6%), VECV came into existence with effect from July 1, 2008. The JV is engaged in: (a) EML's truck and bus operations, auto components business and technical consulting services business; and (b) Volvo Group's Indian truck sales and marketing functions, as well as service and spares network operations for both Volvo trucks and buses. In 2020, VECV successfully integrated Volvo Buses India into VECV including manufacture, assembly, distribution, and sale of Volvo Buses in India

Key financial indicators (audited)

EML (Consolidated)	FY2019	FY2020	9m FY2021*
Operating Income (Rs. Crore)	9,797.1	9,153.6	5,780.0
PAT (Rs. Crore)	2,202.7	1,827.4	820.8
PAT excluding share of profit/loss from JVs (Rs. Crore)	1,961.9	1,795.7	858.6
OPBDIT/OI (%)	29.6%	23.8%	19.8%
RoCE (%)	37.7%	24.1%	--
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.0	--
Total Debt/OPBDIT (times)	0.1	0.1	--
Interest Coverage (times)	397.1	116.6	91.7
DSCR (times)	328.0	115.2	--

Source: Company results; ICRA research ; * Limited Quarterly Results

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
				Feb 22, 2021	Nov 18, 2019	Oct 31, 2018 Aug 3, 2018	May 22, 2017	
1 Fund Based Facilities	Long-term	100.0	--	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	
2 Non-fund Based Facilities	Long-term/Short-term	50.0	--	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AAA (stable)/ [ICRA]A1+	
3 Unallocated	Long-term	30.0	--	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Facilities	Feb-2021	-	-	100.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facilities	Feb-2021	-	-	50.0	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Unallocated	-	-	-	30.0	[ICRA]AAA (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Royal Enfield North America Limited (RENA)	100.0%	Full Consolidation
Royal Enfield Canada Limited (subsidiary of RENA)	100.0%	Full Consolidation
Royal Enfield Brasil Comercio de Motocicletas Ltda	99.99%	Full Consolidation
Royal Enfield (Thailand) Limited	99.99%	Full Consolidation
Royal Enfield UK Ltd	100.0%	Full Consolidation
Eicher Group Foundation	50.0%	Full Consolidation
VE Commercial Vehicles Ltd (VECV)	54.4%	Equity Method
VECV Lanka (Private) Ltd (subsidiary of VECV)	54.4%	Equity Method
VECV South Africa (PTY) Ltd.	54.4%	Equity Method
Eicher Polaris Private Limited*	50.0%	Equity Method

Source: Company annual report FY2020; * Under liquidation

Corrigendum

Document dated February 22, 2021 has been corrected with revisions as detailed below:

Section where revision has been made	Details of change (s) made
Page number 1 and 2 under the section heading – Rationale	Revision (including minor additions) in the wordings of the third and fourth paragraph of the sections.
Page 3 under section heading Credit Challenges - High geographical concentration although efforts to diversify continue	Additional detail added – regarding assembly facility at Argentina.
Page 4 under the heading – About the Company	<ul style="list-style-type: none"> - Volumes sold in FY2020 – 6.98 lakhs (from 6.9 lakhs) - Wordings in the last two lines relating to integration of Volvo Busines India business
Page 4 – Key Financial Indicators	Additional data on PAT included to show impact of share of profit/loss from JVs Marginal change in the OPBDIT/OI (%) ratio

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