

August 18, 2023

## Eicher Motors Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*  | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                           |
|--|--------------------------------------|-------------------------------------|---|
| Long-term/ Short-term Fund-based Limits – Cash Credit          | 1.00                                 | 1.00                                | [ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed |
| Long-term/ Short-term Fund-based Limits – Overdraft Facilities | -                                    | 100.00                              | [ICRA]AAA(Stable)/[ICRA]A1+; assigned   |
| Long-term/ Short-term Fund/ Non-fund Based Limits              | 50.00                                | 0.0                                 | -                                       |
| Long-term/ Short-term Non-fund Based Facilities                | 129.00                               | 179.00                              | [ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed |
| Long-term/Short-term – Unallocated Limits                      | -                                    | 30.00                               | [ICRA]AAA(Stable)/[ICRA]A1+; assigned   |
| <b>Total</b>   | <b>180.00</b>                        | <b>310.00</b>                       |   |

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation of Eicher Motors Limited (EML) continues to factor in its strong business profile, as evidenced by its market leadership (more than 90% share) in the premium middle-weight motorcycle segment (250–750cc) in India, its established Royal Enfield (RE) brand, a strong product portfolio, and an expansive dealership and aftersales network. The ratings also favourably factor in the company's strong financial profile, reflected in its healthy return indicators, credit metrics and a superior liquidity position.

The Indian two-wheeler (2W) industry witnessed a recovery in domestic demand in FY2023, following a moderation in volumes over the period FY2020-FY2022. The growth of the premium motorcycle segment, wherein EML operates, outpaced the overall industry growth materially. This reflected in volumes of the greater-than-250cc motorcycle sub-segment improving by a healthy ~38% vis-à-vis ~14% for the overall domestic motorcycle segment in FY2023. The segment also benefitted from improving macroeconomic conditions, namely easing supply chain issues and semiconductor chip shortages, which had impacted the production of the greater-than-150cc 2Ws (100% of EML's addressable market) in FY2022. EML reported ~38% YoY improvement in its volumes in FY2023 vis-à-vis 14% growth posed by the overall motorcycle segment (domestic and exports; conventional 2W only). The trend continued into Q1 FY2024, when EML grew by ~21% in terms of volumes whereas the overall motorcycle segment registered a growth of ~12%.

In FY2023, the company also launched two new models, the Hunter 350 and Super Meteor, both of which received a good response across markets and aided volumes. Supported by the volume growth and timely price escalations taken to manage inflationary pressures, EML reported robust quarterly performance in Q4 FY2023 and Q1 FY2024, with operating margins touching ~26% in Q1 FY2024. Going forward, increasing financing penetration, scale-up of its newly launched models as well as increasing exports, augur well for the company's revenue growth prospects. Furthermore, ICRA expects that EML's new product launches, well established branding and continued customer engagement will support its earnings growth prospects.

The ratings continue to factor in the strong financial profile of the company, evidenced by its healthy profitability (OPBDITA and ROCE of ~24% and ~25%, respectively, in FY2023) and cash accruals, negative net debt position and robust liquidity profile (cash, and investments of ~Rs. 10,900 crore as on March 31, 2023). The company is expected to fund any capacity expansion/new product development plans from internal accruals and cash surplus in hand, thereby keeping its dependence on external borrowings negligible.

ICRA notes that EML's performance remains exposed to challenges, such as increasing regulatory interventions (emission norms, safety norms) and increasing competition in the domestic 2W market (led by growing participation of global as well as Indian OEMs in the 250 to 500cc sub-segment). While the company's efforts to increase its presence in the export markets (European, American, and Southeast Asian) have witnessed significant traction over the past three to four years, it will need time to scale-up to meaningful volumes and reduce RE's dependence on the Indian market. A structural shift in preference for electric 2Ws (e-2W) (as opposed to conventional 2Ws) also remains a medium-to-long-term challenge. In a proactive step to face this challenge, EML made a strategic investment in Spanish electric motorcycle manufacturer, Stark Future SL. The investment, which closed on January 31, 2023, totalled €50 million (~Rs. 443 crore; cash consideration) and provided EML a ~11.48% stake in Stark Future on a fully diluted basis (as of March 31, 2023).

EML's commercial vehicle (CV) business under VE Commercial Vehicles Limited (or VECV; a 54.4% JV of EML with AB Volvo; rated [ICRA]AA+(Stable)/[ICRA]A1+) has improved its presence in the domestic market (~16.7% in FY2023 in the addressable market segment) over the last few years, despite operating in a highly cyclical industry prone to stiff competition. This had been aided by continuous product launches/ refreshes, technology advancements, expanding dealer and after-sales networks, and targeted marketing efforts. The entity's earnings and return indicators improved in FY2023 (operating profit margin of ~7.3%), driven by higher volumes, mirroring the trends of the CV industry. Further, the company's credit metrics remained strong, supported by its unleveraged balance sheet (interest cover of 42.5 times and NCA/total debt of 241%). Over the medium term, ICRA expects the industry to post healthy growth, supported by steady freight demand, economic recovery, continued Government focus on infrastructure spending and e-commerce boom, which auger well for VECV's growth prospects. The company continues to maintain a strong liquidity position, which is likely to limit any funding support requirements from EML.

The Stable outlook on EML's long-term rating reflects ICRA's expectation that it will continue to maintain its leadership position in the Indian premium motorcycle sub-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 structural shifts in the industry or any other exogenous shocks, while maintaining a robust credit 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 RE brand has over 90% market share in the greater-than-250cc displacement sub-segment of motorcycles (domestic) and has maintained its leadership position for over a decade. The niche positioning and aspirational status of the brand have helped it in garnering volumes and outperform the motorcycle industry in the last few years. Despite the increasing competition from domestic and international OEMs, EML 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.

**Robust financial risk profile** – The company's cash and investments balance stood at Rs. 10,900 crore as on March 31, 2023, up from ~Rs. 8,500 crore as on March 31, 2022. With negligible debt, EML continues to maintain a negative net debt position and robust coverage indicators. The company's operating margins grew by nearly ~300 bps in FY2023 leading to improvement in ROCE to ~25% in the current fiscal. The trend continued into Q1 FY2024 with operating margins reaching ~26%. Overall, the company continues to maintain a strong financial risk profile.

**Expanding product range and improving technical capability** – Regular new launches and product variations underpin EML's technical prowess. With the launch of its 'Himalayan' (early 2016), 'the twins' (FY2019), 'Meteor' (FY2021), 'Hunter' and Super Meteor (FY2023) models, the company has demonstrated its capability to develop new models from the ground up, incorporating a new engine as well as platform. This has given existing RE users a chance to upgrade, while aiding EML's efforts to ramp up its presence in export markets.

## Credit challenges

**Lack of segment diversification and rising competition in premium segment** – The company’s product portfolio is concentrated in the 250–750cc sub-segment, which caters to a niche clientele. Despite YoY improvement over the years, the sub-segment constitutes only ~8% of the total 2W market in India. Further, within the sub-segment, the company relies heavily on the ‘Classic’ brand/models, which accounted for ~43% of motorcycles sold in FY2023. While this dependence remains high, healthy scale-up of some of the company’s newly launched brands in the same sub-segment—Hunter, Meteor and Himalayan—is a positive. However, lack of segment diversification remains a credit sensitivity for the company. Meanwhile, several domestic and international players have entered the premium sub-segment with new products in the past few years. The increase in competition could limit the pricing power of the company to some extent.

**Exports contribution to revenues remains relatively low** – RE’s export volumes increased by ~20% on a YoY basis in FY2023 and accounted for ~11% of total volumes sold during the period (PY: 12%). However, the sustenance of the export momentum remains to be seen. Even as the company has expanded its distribution network to ~70 international markets and has set-up five assembly operations outside India (Argentina, Thailand, and Columbia, Brazil and Nepal) in recent years, the company remains exposed to geographical concentration risk with ~86% of its revenues emanating from the domestic market (FY2023). The company’s ability to consistently increase exports could offer significant scope of market expansion and mitigate the impact of any slowdown in the domestic market.

## Environment and social risks

**Environmental considerations:** Two-wheeler OEMs in India, like their global counterparts, remain 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, EML’s prospects remain linked to its ability to meet tightening emission requirements. EML (and the 2W industry as a whole) may need to invest materially to develop products to cater to the regulatory thresholds or expected transition to alternative fuel vehicles (2Ws expected to be at the forefront of such a shift), 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 manufacturers remains relatively low.

**Social consideration:** EML has a healthy dependence on human capital and, hence, such retaining human capital, maintaining healthy employee relationships as well as supplier ecosystem remain essential for disruption free operations. Another social risk that automotive OEMs like EML 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 reputation and create a more long-lasting adverse impact on demand. EML also remains 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 its product portfolio.

## Liquidity position: Superior

EML’s liquidity position is expected to remain superior, aided by strong cash flows from operations, cash and liquid investments of Rs. 1,062 crore and marketable non-current investments (in FMPs, MFs, debentures, etc) of Rs. 9,872 crore as on March 31, 2023. The company has minimal long-term loans on its balance sheet (~Rs. 63 crore as of March 31, 2023). Steady cash flows from operations coupled with negligible debt obligations and favourable working capital cycle, have enabled EML to maintain a superior liquidity profile, despite large capex undertaken in the last few years. Over the next 12-15 months, the entire planned investments and capex are expected to be funded through internal accruals.

## Rating sensitivities

**Positive factors** – NA

**Negative factors** – 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. Further, 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 | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Two-Wheeler Manufactures</a>              |
| Parent/Group support            | Not Applicable  |
| Consolidation/Standalone        | The rating is based on consolidated financial statements of the issuer. The consolidated list of entities is shared in Annexure-II. |

## About the company

Eicher Motors Limited, incorporated in 1982, is the flagship company of the Eicher Group in India and a leading player in the Indian automobile industry. On a standalone basis, EML is engaged in the manufacturing and marketing of motorcycles under the ‘Royal Enfield’ brand with manufacturing facilities in Chennai, Vallam Vadagal and Oragadam (Tamil Nadu). With a portfolio of six brands and sales of ~8.24 lakh units (in FY2023 at consolidated level, including exports), EML is positioned as a market leader in the niche (more than 250cc) motorcycle segment in India.

Additionally, the company also operates as a holding company for VE Commercial Vehicles Limited. 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 EML’s truck and bus operations, auto components business and technical consulting services business; as well as in Volvo Group’s Indian truck sales and marketing functions; and service and spares network operations for both Volvo trucks as well as buses. In 2020, VECV signed definitive agreements to integrate Volvo Buses India into VECV including manufacturing, assembly, distribution, and sale of Volvo Buses in India.

## Key financial indicators (audited)

| EML, Consolidated                                    | FY2022   | FY2023   |
|--|----------|----------|
| Operating income                                     | 10,297.8 | 14,442.2 |
| PAT  | 1,616.5  | 2,599.8  |
| OPBDIT/OI  | 21.1%    | 23.9%    |
| PAT/OI   | 15.7%    | 18.0%    |
| Total outside liabilities/Tangible net worth (times) | 0.3      | 0.3      |
| Total debt/OPBDIT (times)                            | 0.0      | 0.1      |
| Interest coverage (times)                            | 116.0    | 123.0    |

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

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

| Instrument                    | Type                  | Amount Rated (Rs. crore) | Amount Outstanding as June 30, 2023 (Rs. crore) | Current Rating (FY2024)       |                               | Chronology of Rating History for the past 3 years |                               |                               |  |
|-------------------------------|-----------------------|--------------------------|---|-------------------------------|-------------------------------|---|-------------------------------|-------------------------------|--|
|                               |                       |                          |   | Date & Rating in FY2024       | Date & rating in FY2023       | Date & Rating in FY2022                           | Date & Rating in FY2021       |                               |  |
|                               |                       |                          |   | Aug 18, 2023                  | March 23, 2023                | Nov 2, 2022                                       | Sep 1, 2021                   | Feb 22, 2021                  |  |
| 1 Fund-based Limits           | Long-term/ Short-term | 1.0                      | --  | [ICRA]AAA (stable)/ [ICRA]A1+ | [ICRA]AAA (stable)/ [ICRA]A1+ | [ICRA]AAA (stable)/ [ICRA]A1+                     | [ICRA]AAA (stable)/ [ICRA]A1+ | -                             |  |
| 2 Fund-based Limits           | Long-term/ Short-term | 100.0                    | --  | [ICRA]AAA (stable)/ [ICRA]A1+ | --                            | --  | --                            | --                            |  |
| 3 Fund Based Limits           | Long-term             | --                       | --  | --                            | --                            | --  | --                            | [ICRA]AAA (stable)            |  |
| 4 Non Fund Based Facilities   | Long-term/ Short-term | 179.0                    | --  | [ICRA]AAA (stable)/ [ICRA]A1+ | [ICRA]AAA (stable)/ [ICRA]A1+ | [ICRA]AAA (stable)/ [ICRA]A1+                     | [ICRA]AAA (stable)/ [ICRA]A1+ | [ICRA]AAA (stable)/ [ICRA]A1+ |  |
| 5 Fund/ Non Fund Based Limits | Long-term/ Short-term | 0.0                      | --  | --                            | [ICRA]AAA (stable)/ [ICRA]A1+ | --  | --                            | --                            |  |
| 6 Unallocated Limits          | Long-term             | 0.0                      | --  | --                            | --                            | [ICRA]AAA (stable)                                | [ICRA]AAA (stable)            | [ICRA]AAA (stable)            |  |
| 7 Unallocated Limits          | Long-term/ Short-term | 30.0                     | --  | [ICRA]AAA (stable)/ [ICRA]A1+ | --                            | --  | --                            | --                            |  |

## Complexity level of the rated instruments

| Instrument                  | Complexity Indicator |
|-----------------------------|----------------------|
| Fund-based Limits           | Simple               |
| Non Fund Based Facilities   | Very Simple          |
| Fund/ Non Fund Based Limits | Simple               |
| Unallocated Limits          | 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 Limits – Cash Credit          | -                | -           | -        | 1.0                      | [ICRA]AAA (Stable)/ [ICRA]A1+ |
| NA   | Fund-based Limits – Overdraft Facilities | -                | -           | -        | 100.0                    | [ICRA]AAA (Stable)/ [ICRA]A1+ |
| NA   | Non-Fund Based Facilities                | -                | -           | -        | 179.0                    | [ICRA]AAA (Stable)/ [ICRA]A1+ |
| NA   | Unallocated                              | NA               | NA          | NA       | 30.0                     | [ICRA]AAA (Stable)/ [ICRA]A1+ |

Source: 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                                      | EML 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 Ltd | 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          |
| Eicher Polaris Private Limited*                   | 50.0%         | Equity Method          |

Source: Company Annual report FY2023; \* Under liquidation

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