February 25, 2020

Bahadur Chand Investments Private Limited: Ratings assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowing Programme	100.0	100.0	[ICRA]AA(Stable); outstanding
Non-convertible Debenture Programme (proposed)	0.0	775.0	[ICRA]AA(Stable); assigned
Non-convertible Debenture Programme	775.0	0.0	[ICRA]AA(Stable); withdrawn
Non-convertible Debenture Programme	2,325.0	2,325.0	[ICRA]AA(Stable); outstanding
Commercial Paper	2,500.0	2,500.0	[ICRA]A1+; outstanding
Total	**5,700.0**	**5,700.0**	

**Instrument details are provided in Annexure-1;*

Rationale

ICRA has taken a consolidated view on Bahadur Chand Investments Private Limited (BCIPL) and its parent, Brijmohan Lal Om Parkash (BMOP) for arriving at the credit ratings, given the common management and significant financial linkages between the entities.

The rating assignment continues to favourably factor in the status of BCIPL and BMOP as the principal holding companies of Hero MotoCorp Limited (HMCL, rated [ICRA]AAA(Stable)/[ICRA]A1+)[1], and the strong financial flexibility emanating from the market value of their investments in HMCL (Rs. 15,983.5 crore[2] as on February 14, 2020 for the combined stake of ~34%). The ratings factor in the expectation of limited incremental funding requirements in key investee companies and the management's commitment to limit the consolidated external borrowings (including corporate guarantees, letters of comfort, keep fit letters or any other form of off-balance sheet support provided) around the current levels over the medium term.

The ratings, however, are constrained by the significant revenue and investment concentration in HMCL, with the company's dividends accounting for nearly 99% of the total dividend income and nearly 72% of the combined book value of investments of BCIPL and BMOP as on March 31, 2019. Nonetheless, the ratings derive comfort from HMCL's established leadership position in the domestic two-wheeler industry and its strong credit metrics, besides healthy cash surplus. Despite the ongoing slowdown and muted outlook for the two-wheeler industry over the near term, a consistent dividend stream from HMCL, in keeping with its track record, is expected to continue.

BCIPL's leverage and coverage indicators remain modest, while it faces significant refinancing risk due to its large short-term borrowings. In FY2017, the company had raised significant short-term debt for business realignment and investment in HMCL. While the management has been raising long-term debt to correct the debt mix, the proportion of short-term borrowings in total debt has remained high (59% as on Feb 12, 2020). Notwithstanding the same, the sizeable market value buffer (excess of market value over the book value) on its investments lends high financial flexibility. ICRA notes that the company has successfully tapped the foreign portfolio investment (FPI) market for raising long-term funding during the year. It is in the process of raising further long-term funds to reduce its reliance on short-term borrowings. While this strategy will have some bearing on its interest outgo, it will reduce the refinancing risk.

[1]*For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*
[2]*100 lakh = 1 crore = 10 million*

The term loans and NCDs of approximately Rs. 800 crore raised in YTD FY2020 were utilised to partly refinance the debt maturing in Q1 FY2021 and reduce short-term commercial paper (CP) exposure. While external debt of the holding entities is expected to remain around existing levels over the medium term, the company is in the process of raising long-term funds, aggregating to Rs. 1,100 crore, over the next couple of months, which will lead to further correction in the debt structure, i.e. reduction in short-term debt exposure. Any delay or deferment in the same is a key rating monitorable. Furthermore, ICRA expects the residual short-term borrowings, post the on-going fund-raising exercise, will also be adequately backed-up by credit facilities and unencumbered cash and liquid investments with the holding entities.

Going forward, the maintenance of combined shareholding in HMCL and healthy performance by this key investee company (translating into increased dividend income and market value of investments) and the management's ability to minimise refinancing risk and maintain comfortable leverage (while funding any incremental investment requirements) remain a key sensitivity. In addition, market-related risks and adverse movements in HMCL's share price on a sustained basis and any significant investments in new businesses or potential inorganic growth plans of the Hero Group, having impact on the credit profile of the holding entities, remain a rating monitorable. Given the track record of fund infusion by strategic investors in key investee companies over the past few years, ICRA expects limited incremental funding requirements on the holding entities. However, any deviation from this plan will be a rating monitorable.

ICRA notes that an income tax demand of Rs. 2,336.71 crore (including interest) was received by HMCL in Q3 FY2019. As per the management, liability for the claim, in case it materialises, would fall on BMOP. An appeal has already been made against the tax demand to the Commissioner of Income Tax (Appeals) and based on opinion sought by the management, a favourable resolution is expected by the company. ICRA would continue to monitor the developments in this regard and take appropriate rating action, if required, in the future.

The Stable outlook on the rating reflects ICRA's belief that BCIPL will continue to benefit from the significant market value buffer on its investments in HMCL, which lends strong financial flexibility.

The rating assigned to the Rs. 775 crore NCD programme of BCIPL is withdrawn in accordance with ICRA's policy on withdrawal and suspension. The rating has been withdrawn as there is no amount outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

Strong financial flexibility as a principal holding company of HMCL providing strong financial flexibility – BCIPL and BMOP are the holding companies of HMCL. While BCIPL holds a 20% stake in HMCL, the total promoter stake, together with BMOP, in the company was ~34% as on December 31, 2019.

Strong business and financial position of HMCL, principal contributor of dividend income – HMCL is the Group's flagship entity, being a leading producer of motorcycles in the world with steady cash flows and liquidity. Despite the weak demand scenario being faced by two-wheeler industry for past 1-1.5 years, HMCL has maintained a comfortable financial and credit risk profile and a strong market position. It has a track record of regular dividend distribution over the last 20 years. In FY2019, BCIPL and BMOP earned a dividend income of Rs. 95 per share (~Rs. 645 crore), respectively, from HMCL. For FY2020, the dividend income, final and interim, for the holding entities has been Rs. 97 per share (~Rs. 658 crore). ICRA expects a consistent, albeit slightly moderated flow of dividends, over the next one to two years from HMCL.

Experienced promoters with investments in diverse industries – At present, the key investments of BCIPL and BMOP encompass industries such as automotive and auto components (HMCL, Rockman Industries Limited (rated

[ICRA]AA(Stable)/[ICRA]A1+) etc), financial services (Hero FinCorp Limited, rated [ICRA]AA+(Stable)/[ICRA]A1+), renewable energy (Hero Future Energies Private Limited), higher education and training (BML Educorp Services Limited), and electronics (Hero Electronix Private Limited).

Limited incremental investment requirements in key investee companies – The financial risk profile of the holding entities is marked by steady dividend income from HMCL and limited incremental funding requirements in the key investee companies over the near term (limited to Rs. 270-300 crore spread over FY2020 and FY2021). Any significant increase from the indicated levels of incremental investment remains a key rating monitorable. In addition, against the book value of their combined investments in HMCL worth Rs. 7,628 crore (over 72% of combined investments), the market value of the investments stood at ~Rs. 15,983.5 crore as on February 14, 2020, offering significant leverage to the parent companies to raise debt, if required. Furthermore, there exists a significant latent value in select unlisted investee companies, particularly operating in the renewable energy and financial services domains, based on the interest evinced by private equity (PE) players in the last few years.

Credit challenges

Concentration of investment in HMCL and significant dependence on dividend pay-out – HMCL contributed to nearly 99% to the holding companies' dividend income as on March 31, 2019[3]. Consequently, the holding entities are predominantly dependent on the performance of HMCL and the auto industry for the cash flows. However, the strong credit profile of HMCL, which has managed to sustain its position in the industry through various economic cycles, and its consistent track record of declaring dividends provide comfort.

Moderate coverage indicators and high refinancing risk; sizeable market value buffer on investment lends financial flexibility – BCIPL's coverage indicators remain moderate because of its sizeable debt (net external debt[4] of ~Rs. 3,237 crore as on February 12, 2020) which has been primarily deployed towards investments in key investee companies and business realignment. The company had raised approximately Rs. 2,300 crore through CP issuance in FY2017 to fund the realignment of business (including part payment for purchase of stake in HMCL from BMOP). Consequently, the debt levels remained elevated over the past three years. Of BCIPL's net external debt, CP borrowings constituted 59% as on February 12, 2020 (vis-à-vis 45% in March 2019). While it enjoys significant financial leverage, the high proportion of short-term debt requires continuous refinancing on maturity and may expose the company to short-term funding mismatches. The company is in process of raising fresh NCD of Rs. 775 crore which would be utilised for reducing short-term borrowings by March 2020. Another round of fund raising of approximately Rs. 1,100 crore is expected thereafter to further bring-down the short-term debt exposure by Rs. 300-400 crore. A sizeable market value buffer on HMCL's investment lends financial flexibility to the holding companies. ICRA takes note that despite volatility caused by regulatory changes and liquidity issues in the market, the company has been able to timely refinance its CP borrowings and raise long-term domestic and FPI funding in YTD FY2020.

Liquidity position: Adequate

BCIPL's liquidity profile is expected to remain **adequate**, backed by the healthy financial flexibility emanating from its status as a promoter of HMCL, back-up lines of credit aggregating Rs. 450 crore, along with available cash and liquid investments. While the company had high proportion of short-term debt in the past, over the past one year, it has raised long-term funds to reduce its CP exposure, which partially mitigate the refinancing risk. Further, it is in the process of raising long-term borrowings of up to Rs. 1,100 crore in Q4 FY2020 to refinance the NCD maturing in Q1 FY2020, which will result in a further reduction of CP exposure. Notwithstanding expectation of subdued two-wheeler demand over the next six to nine months, ICRA expects HMCL to continue benefiting from its leadership position and strong credit profile.

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[3] *Investments of BMOP refer to its investment in shares of various companies and exclude investment in debentures of BCIPL*

[4] *Net external debt = Total debt less inter-corporate loans less cash and liquid investments. BCIPL had a total debt of ~Rs. 7,972 crore on its books as on Feb 12, 2020, including inter-corporate borrowings (zero-coupon debentures) and NCD's of Rs. 4,535 crore from BMOP.*

This would ensure a consistent flow of dividends to its promoter companies, to be then used for debt servicing and incremental investments.

Rating sensitivities

Positive triggers – ICRA could upgrade BCIPL's rating if, *inter alia*, there is material increase in its dividend income along with diversification of its income streams and/or significant reduction in its consolidated debt, coupled with reduction in proportion of short-term borrowings leading to improvement in debt coverage metrics.

Negative triggers – Negative pressure on BCIPL's rating could arise for reasons including deterioration in credit profile of the key investee company – HMCL, higher–than-anticipated short-term debt exposure without adequate back-up leading to enhanced refinancing risk and/or Group debt significantly exceeding the expected levels because of higher investments in investee companies.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies Policy on Withdrawal and Suspension of Credit ratings
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of BCIPL and BMOP given the close business, financial and managerial linkages between the entities.

About the company

Incorporated in September 1979 as a private limited company, BCIPL was converted to a core investment company (CIC) in October 2016. Promoted by Mr. B. M. Munjal and family, it is a holding company for the Hero Group and one of the holding companies of HMCL, the largest India-based two-wheeler manufacturer in the world. BCIPL is held 99.62% by BMOP, a partnership firm and together with its parent, it holds a 33.99% stake in HMCL. Besides, BCIPL and BMOP have equity investments in numerous Group companies, with the major ones being HMCL, Hero Future Energies Private Limited, Hero FinCorp Limited, BML Educorp Services Limited and Hero InvestCorp Private Limited.

Key financial indicators (audited)

BCIPL	FY2018 Standalone	FY2019	FY2018 Consolidated	FY2019
Operating Income (Rs. crore)	343.0	386.2	587.0	658.8
PAT (Rs. crore)	-19.6	153.9	116.6	337.1
OPBDIT/ OI (%)	99.5%	99.2%	94.7%	99.0%
RoCE (%)	2.0%	4.6%	3.5%	6.1%
Total Outside Liabilities/TNW (times)	5.3	5.0	0.5	0.5
Total Debt*/ OPBDIT (times)	8.9	8.7	6.5	6.0
Interest Coverage (times)	1.4	1.4	1.9	2.0
DSCR (times)	1.4	1.4	1.8	1.9

**Total debt in BCIPL excludes inter-corporate debt from BMOP and includes accumulated interest; Line-by-line consolidation undertaken with BMOP*

Note: Reported financials for are as per Ind-AS; OI: Operating Income; 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)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on 12-Feb-20 (Rs. crore)	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					25-Feb-20	24-Jan-20/ 11-Nov-19/ 31-May-19	14-Feb-19/ 7-Dec-18/ 30-Apr-18	--	31-Mar-17^
1	NCD Programme	Long-term	2,325.0	794.0*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	--	[ICRA]AA (Stable)
2	NCD Programme (proposed)	Long-term	775.0	Nil@	[ICRA]AA (Stable)	--	--	--	--
3	NCD Programme	Long-term	775.0	Nil	Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)$	--	--
4	Long-term Debt Programme	Long-term	100.0	Nil@	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)
5	Commercial Paper Programme	Short-term	2,500.0	2,100.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+

^In FY2017- Rating of [ICRA]A1+ assigned to commercial paper programme and communicated via PR dated 2-Aug-16; rating of [ICRA]AA(Stable) reaffirmed for NCD programme and communicated via PR dated 3-May-16
*@Yet to be placed; *Two separate issuances cumulatively aggregating Rs. 1,075 crore; instrument wise details under Annexure-I*

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE087M08027	Non-convertible Debenture Programme	15-Jun-15	9.65%	17-Jun-20	725.0	[ICRA]AA(Stable)
INE087M8043	Non-convertible Debenture Programme	3-Dec-19	10.82%	2-Dec-22	350.0	[ICRA]AA(Stable)
NA	Non-convertible Debenture Programme*	NA	NA	NA	2,025.0	[ICRA]AA(Stable)
NA	Long-term Debt Programme	NA	NA	NA	100.0	[ICRA]AA(Stable)
NA	Commercial Paper Programme	NA	NA	7-365 days	2,500.0	[ICRA]A1+

*Source: BCIPL; * Yet to be placed (Rs. 775 crore fresh assignment and Rs. 1,250 crore from earlier rated amount)*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brijmohan Lal Om Parkash	100.00% (parent of the rated entity)	Full Consolidation

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Ritu Goswami
+91 124 4545826
ritu.goswami@icraindia.com

Relationship Contact

L. Shivakumar
+91 2224331046
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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

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