September 01, 2021

Eicher Motors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-based facilities	100.0	0.0	-
Long Term/ Short term Fund-Based facilities	0.0	100.0	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-Term/Short Term Non-Fund Based facilities	50.0	50.0	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term Unallocated limits	30.0	30.0	[ICRA]AAA (Stable); reaffirmed
Total	**180.0**	**180.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings of Eicher Motors Limited (EML) continues to factor in its strong business profile, as evidenced by its market leadership (>90% 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 favourably factor in its strong financial profile, reflected in its healthy return indicators, credit metrices and a superior liquidity position.

In FY2021, the Covid-19 pandemic exacerbated the already weak two-wheeler (2W) demand environment, and additionally disrupted the supply chain ecosystem. Consequently, EML reported a 13% YoY contraction in its consolidated sales volumes in FY2021 vis-à-vis 9% contraction for the overall motorcycle segment (domestic + exports). Sequential recovery picked up in H2 FY2021, however resurgence of Covid cases in Q1 FY2022 led to extended localised lockdowns and hindered the domestic demand recovery momentum for the industry. Nonetheless, improving pace of the vaccination programme, coupled with an increasing premiumisation trend, is expected to augur well for EML. Its strong brand pull, regular product launches/ refreshes supported by expansion of its overseas presence is likely to support its growth strategy.

The ratings continue to factor in the strong financial profile of the company, evidenced by its healthy profitability (average OPBDITA and ROCE of ~27% and over ~35%, respectively, over the past five years) and cash accruals, negative net debt position and robust liquidity profile (cash, cash equivalent and investments of ~Rs. 7, 790 crore as on March 31, 2021). While commodity price headwinds and semiconductor chip shortages may constrain profitability in the near-term, ICRA expects EML's cost rationalisation initiatives, better product mix and increasing exports to support its profitability. The company is expected to fund its capacity expansion/ new product development plans from internal accruals/ cash balances, 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 fierce competition in the domestic 2W market (led by growing participation of global as well as Indian OEMs in the >250–500-cc 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 two years, it will need time to scale-up to meaningful volumes and help 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 improved 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 aided by continuous product launches/ refreshes, technology advancements, expanding dealer and after-sales networks, and targeted marketing efforts. However, its earnings and return indicators weakened sharply over the past two years, as the domestic CV industry underwent a period of sharp volume contraction. Though the recovery had started in H2 FY2021, the second wave of the pandemic, which picked up pace over Q1 FY2022, disrupted the momentum to some extent. Despite the same, ICRA expects the Government's thrust on construction and infrastructure projects, coupled with the potential implementation of a fleet modernisation and scrappage programme, to support demand for VECV over the medium term. 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 pandemic and maintain 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 Royal Enfield brand has over 90% market share in the >250cc displacement sub-segment of motorcycles in India and has maintained its leadership position in 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 ~10% over FY2015-FY2021 vis-à-vis marginal decline for the overall domestic motorcycles segment. Despite 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 (2,071[1] domestic touchpoints in June 2021 against 527 in FY2016).

Strong financial risk profile - The company's cash and cash equivalents and investments (mainly Mutual Fund's or MFs) stood at around Rs. 7,790 crore as on March 31, 2021, (PY: Rs. 6,790 crore). 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 and FY2021, the average OPBDITA margin and ROCE of ~27% and ~35%, respectively, over FY2017-FY2021, has been robust. 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 RE's technical prowess. With launch of the Himalayan (early 2016), The Twins (FY2019) and Meteor (FY2021), it has demonstrated its capability to develop new models from the ground 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 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 FY2021). Further, within the sub-segment also, the company relies heavily on the Classic brand/models, which accounts for over 60% of the motorcycles sold. 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

[1] *As per the investor presentation Q1 FY2022*

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, even as efforts to diversify continue - While RE's export volumes in FY2021 had increased at a CAGR of 33% in FY2015-2021 on a YoY basis, these accounted for only ~6% of total volumes sold during FY2021. 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 and its Columbia facility became operational in August 2021. In addition, it is working towards setting up assembly operations in Thailand, Brazil, and certain other locations to improve its competitiveness. The 650cc Twin motorcycles and newly launched Meteor 350 have been well received in the mature markets. The company's ability to increase exports could offer a significant scope of market expansion and, thereby, help mitigate the impact of any slowdown in the domestic market.

Liquidity position: Superior

EML's liquidity is **superior** as reflected by its cash, cash equivalents and investments (MF's) of ~Rs. 7,790 crore as on March 31, 2021. 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 line with its track record, the entire capex for FY2022 (estimated at around Rs. 500-600 crore) 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 could 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 Rating Approach – Consolidation
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 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 6.09 lakh units (FY2021), 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; rated [ICRA] AA+(Stable)/A1+). 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 the manufacture, assembly, distribution, and sale of Volvo Buses in India.

Key financial indicators (audited)

EML (Consolidated)	FY2020	FY2021	Q1 FY2022*
Operating Income (OI) (Rs. crore)	9,153.6	8,720.4	1,974.3
PAT (Rs. Crore)	1795.7	1315.8	276.5
PAT including share of profit/loss from JVs (Rs. crore)	1827.4	1346.9	237.1
OPBDIT/OI (%)	23.8%	20.4%	18.4%
PAT/OI (%)	19.6%	15.1%	14.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3	--
Total Debt/OPBDIT (times)	0.1	0.1	--
Interest Coverage (times)	116.6	108.9	56.4

*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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 1, 2021	Feb 22, 2021	Nov 18, 2019	Oct 31, 2018 Aug 3, 2018
1	Fund Based Facilities	Long-term	--	--	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)
2	Overdraft	Long-term/ Short-term	100.0	--	[ICRA]AAA (stable)/ [ICRA]A1+	-	-	-
3	Letter of Credit	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+
4	Unallocated	Long-term	30.0	--	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Overdraft Limit	Simple
Letter of Credit	Very 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, is available on ICRA's 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
NA	Overdraft Limits	Feb-2021	-	-	100.0	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Letter of Credit	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 FY2021; * Under liquidation*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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