

October 27, 2023

Hero MotoCorp Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA(Stable); Reaffirmed
Non-convertible Debenture Programme	15.0	15.0	[ICRA]AAA(Stable); Reaffirmed
Fund-based and Non-fund Based Limits	960.0	960.0	[ICRA]AAA(Stable)/[ICRA]A1+; Reaffirmed
Unallocated	140.0	140.0	[ICRA]AAA(Stable); Reaffirmed
Total	1,115.0	1,115.0	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Hero MotoCorp Limited (HMCL) continues to factor in its strong business profile, as evidenced by its market leadership in the domestic two-wheeler (2W) industry (market share of ~33% and ~47% in the overall 2W and motorcycle segments, respectively), its robust product portfolio, established brands and well entrenched dealership network. The ratings also continue to favourably factor in its strong financial profile, as reflected in its robust return and credit metrics and superior liquidity position. The company's strong market position, even as its market share has moderated over the past few years, provides comfort that it would continue to generate healthy cash flows, going forward, thereby helping it maintain a robust credit profile.

The 2W industry witnessed some recovery in FY2023 after multiple years of contraction, even as the industry's total volumes continue to remain below pre-Covid-19 levels. Driven by multiple launches of new models and variants, HMCL's domestic sales volume also grew across various segments resulting in improved operating leverage for the company. However, exports remained a challenge due to inflationary pressures and forex availability in key markets. Among the company's product launches over the past years, was the Harley Davidson X-440, manufactured in collaboration with Harley Davidson Inc., which is HMCL's first foray in the greater than 250cc category (earlier HMCL had been marketing for the US-based motorcycle manufacturer). The variant received more than 25,000 bookings in the first month of its launch (July 2023). Going forward, while elevated cost of ownership and high inflation remain a challenge, the upcoming festive season and some recovery in rural demand is expected to support the 2W demand and rural cash flows. Coupled with new product launches, this is expected to augur well for HMCL's revenue growth prospects.

The rating continues to factor in the strong financial profile of the company, evidenced by its healthy profitability (OPBDITA margin and core ROCE of ~12.1% and ~56.6%, respectively, in FY2023 crore as on March 31, 2023). Supported by multiple timely price hikes and moderation in commodity prices, profitability for the company improved considerably (12.1% in FY2023 and 13.7% in Q1 FY2024 over 11.7% in FY2022). Over the years, HMCL's management has followed a prudent approach for growth. As a result, despite facing muted demand over the past few years and undertaking significant capex (for greenfield manufacturing units and investments towards a BS-VI/OBD II compliant portfolio), its dependence on external borrowings has remained negligible. It is expected to remain so in the medium term as well, even as the company is likely to step up its investments towards alternative fuel technologies and products.

HMCL continues to invest in its investee company in the financial services business, Hero FinCorp Limited (HFCL), and the electric 2W (e2W) business, Ather Energy Private Limited (Ather), evidencing the strategic importance of these entities. In FY2024, HMCL has already committed to ~Rs. 550 crore of rights issue in Ather. ICRA would continue to monitor the

performance of HMCL's investee companies—HFCL, Ather and others—and any material support from HMCL resulting in weakening of its liquidity position will be monitorable.

ICRA notes that HMCL's performance remains exposed to challenges such as increasing regulatory interventions (emission norms, safety norms) and fierce competition in the domestic 2W market. Additionally, the heavy revenue dependence on the domestic market (~97% in FY2023) and limited (albeit growing) presence in the premium motorcycles and scooter segment, exposes it to adverse demand trends in the domestic/rural markets. A structural shift in preference for e2Ws (as opposed to conventional 2Ws) also remain a medium-to-long-term challenge. However, HMCL's proven ability to adapt to the changing customer requirements and multipronged strategies to enhance presence in these segments, mitigate the above risks to some extent. In addition, its consistent investments in HFCL for supporting 2W financing indicate its focus on developing a favourable financing ecosystem, which is expected to aid in its growth plans.

ICRA also notes that there continue to be ongoing investigations against HMCL by various Government entities. The management of the company has clarified that the investigations are ongoing and their impact cannot be ascertained. Nevertheless, ICRA will continue to closely monitor the developments in this regard. The Stable outlook on the long-term rating reflects ICRA's expectation that HMCL is likely to maintain its leadership position in the Indian 2W industry, aided by its strong product portfolio, established brands, extensive dealership network and regular investments in new model launches as well as research and development (R&D) for future technologies. The same is likely to help HMCL successfully navigate the uncertainties caused by structural shifts in the industry, or any other exogenous shocks, while maintaining a strong credit profile.

Key rating drivers and their description

Credit strengths

Market leader in Indian 2W market with wide dealership network and strong rural connect – HMCL reported annual global sales of 5.3 million units in FY2023 and maintained its market leadership in the Indian 2W market with a ~33% market share (domestic). Among 2W segments, HMCL is a market leader in the domestic motorcycle segment with a ~47% share (in FY2023); it is also among the top four OEMs in the scooter segment; albeit with a low market share of ~7% in FY2023. With new product launches in motorcycles, especially in the premium and scooter segments, HMCL is likely to maintain its leadership position in the Indian 2W industry. Its strong brand equity, well-entrenched distribution network and wide product offerings will continue to aid in the same. HMCL has more than 10,000 customer touch points (globally) with a deep-rooted rural presence in India, making it one of the strongest sales networks among all 2W manufacturers.

Strong product portfolio with established brands – The company had three brands in the top 10 motorcycles and two models in top 10 scooters sold in India for FY2023, the highest among 2W OEMs. HMCL's strong brands include Splendor, HF Deluxe and Passion, which account for nearly ~80% of the total volumes of its entry level sub-segment in FY2023. The OEM's dominance in the largest 2W sub-segment, expectation of improving presence in other sub-segments and product categories (scooters, e2Ws) support healthy revenue visibility for the company.

Robust financial risk profile – HMCL's strong financial profile is evidenced by a conservative capital structure (TD/TNW of Nil and TOL/TNW of 0.4x as on March 31, 2023) and a negative net debt position at a consolidated level (zero debt on a standalone basis). The core RoCE of the business, on a consolidated level, improved to ~57% for FY2023 (over ~50% in FY2022) driven by higher asset utilisation due to recovering industry sentiments. Additionally, the company has a strong liquidity profile, with over Rs. 7,700 crore of cash and investments, as of March 31, 2023.

Credit challenges

Low share in export markets; remains susceptible to vagaries of rural demand sentiment – The company is largely dependent on the domestic market, which accounted for ~97% of total volumes dispatched in FY2023. While it increased its presence in

overseas markets and crossed the 300,000-unit export (in an annum) milestone during FY2022, the export volumes declined by ~43% in FY2023. As such, the contribution of exports to total sales and overall market share of HMCL in exports (~5% in FY2023) remained modest. Nevertheless, the company continues to expand and deepen its presence in export markets with a target of 15% export revenues by FY2025. An improved domestic–export mix could provide a cushion in case of slowdown in domestic demand. HMCL also has a high dependence on products in the entry and executive sub-segments of motorcycles, which primarily has an income-sensitive rural and semi-urban clientele. This had resulted in a steeper decline in HMCL's volumes after the pandemic and resultant weakened rural demand. While HMCL has launched several new products to enhance its premium segment presence, the impact of the same will be ascertainable over the near to medium term. The company's focus on new product launches to gain market shares in other segments would remain critical for it to reduce its susceptibility to demand downturns for the entry and executive level segments.

Increasing competition in domestic 2W market; structural transition to e2Ws over medium to long term – The Indian 2W industry is highly competitive with regular new product launches and refreshes by several OEMs to gain market share. As a market leader in conventional 2Ws, HMCL remains exposed to risk of a structural shift in customer preferences towards e2Ws over the medium to long-term. Consequently, consistent investment in R&D, network expansion and introduction of newer models/refreshes remains crucial for HMCL to maintain its leadership position in the Indian 2W market. HMCL has adopted a multi-pronged strategy to capitalise on the opportunities presented in this space—investment in Ather and the US-based Zero Motorcycles (for developing premium e2Ws), in-house R&D efforts to develop e2Ws (first product launched under brand, VIDA, in October 2022, along with its EV ecosystem), and tie-up with Bharat Petroleum Company Limited (BPCL) and Hindustan Petroleum Company Limited (HPCL) for setting up charging stations across the country. However, all these ventures are in nascent stages and their success remains to be seen over the medium term.

Environmental and Social Risks

Environmental considerations – HMCL derives a material share of demand for its 2Ws from the rural segment and, hence, any adverse climatic conditions such as droughts and floods may impact farm incomes and, consequently, the earning prospects of entities. It also remains 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, HMCL's prospects remain linked to its ability to meet these tightening emission requirements. HMCL (and the 2W industry as a whole) may need to invest materially to develop products to meet the regulatory thresholds or expected transition to alternative fuel vehicles (like e2Ws), 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 company remains low.

Social considerations – HMCL has a healthy dependence on human capital and, hence, retaining its human capital, maintaining healthy employee relations as well as supplier ecosystem remains essential for disruption free operations. Another social risk that automotive OEMs, like HMCL, 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 brand reputation and create a more long-lasting adverse impact on demand. The entities also remain 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 their product portfolio.

Liquidity position: Superior

HMCL's liquidity is superior as reflected by strong cash and liquid investments of nearly ~Rs. 3,900 crore, non-current investments in debentures/fixed maturity plans of ~Rs. 3,800 crore and unutilised working capital bank limits. Additionally, healthy accruals from the business, coupled with negligible debt obligations and favourable working capital cycle, drive the company's strong financial profile. Over the next 12-15 months, the planned investments and capex are expected to be funded through internal accruals. Despite prevailing demand uncertainties, ICRA expects the company to continue maintaining its superior liquidity position.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – A sharp and sustained contraction in profitability metrics or significant erosion in market share on a sustained basis amid increasing competition, or any sizeable debt-funded inorganic/ organic growth plans leading to material deterioration in credit metrics, or any sizeable cash outflow in the form of dividends or buy backs that sharply depletes the currently robust liquidity, could be triggers for a downward rating review.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Two-wheeler Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HMCL, excluding the financial services business under Hero Fincorp Limited (HFL). However, the analysis considers the ordinary and extraordinary funding support likely to be extended by HMCL to HFL.

About the company

Hero MotoCorp Limited is engaged in manufacturing and marketing motorcycles and scooters. It is the largest two-wheeler manufacturer in the world. In India, it commanded a market share of ~33% in FY2023. The company has eight manufacturing facilities with an annual production capacity of 9.5 million units. Of the same, six plants are in India—one each at Dharuhera and Gurgaon (both in Haryana), Haridwar (Uttaranchal), Neemrana (Rajasthan), Halol (Gujarat) and Chittoor (Andhra Pradesh)—while two are overseas at Columbia and Bangladesh. Additionally, the company has set up an R&D centre at Jaipur (India) and Germany. Backed by a large product portfolio across various price segments, HMCL is a market leader in the domestic motorcycle industry with a share of ~47% in FY2023. It is also present in the domestic scooter market; although its market share was modest at ~7% in FY2023.

HMCL commenced operations as Hero Honda, a joint venture company (both promoters holding 26% equity) between Hero Cycles Limited and Honda Motor Company (HMC), Japan, in January 1984. In January 2011, HMC agreed to transfer its entire shareholding of 26% to the Hero Group, thus bringing an end to the partnership. The company is listed on the BSE and NSE. The BM Munjal family, holds ~34% stake in HMCL.

Key financial indicators (audited)

HMCL Consolidated	FY2022	FY2023
Operating income	29,551.3	34,158.4
PAT	2,528.1	2,796.8
OPBDIT/OI	11.7%	12.1%
PAT/OI	8.6%	8.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.4
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	65.3	39.5

Source: Company Annual Reports; ICRA Research; All Ratios are as per ICRA calculations. 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

Sl. No.	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (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
					Oct 27, 2023	June 23, 2023	Oct 13, 2022	Oct 1, 2021 Jul 28, 2021	Jul 31, 2020
1	Issuer Rating	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible Debenture Programme	Long term	15.0	*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Fund-based and Non-fund Based Limits	Long term/ Short term	960.0	-	[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+
4	Unallocated Limits	Long term	140.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

*The company has not issued any NCDs

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Long Term- Non-convertible Debenture Programme *	Simple
Long Term/Short Term - Fund Based and Non-Fund Based Limits	Simple
Long-Term-Unallocated Limits	Not Applicable

* Not placed/Issued yet; subject to change once the terms are finalized

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	Issuer rating	-	-	-	-	[ICRA]AAA(Stable)
NA	Non-convertible Debenture Programme*	Yet to be issued			15.00	[ICRA]AAA(Stable)
NA	Fund-based and Non-fund Based Limits	NA	NA	NA	960.0	[ICRA]AAA(Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	140.0	[ICRA]AAA(Stable)

Source: Company; * yet to be placed

Annexure II: List of entities considered for consolidated analysis

Company Name	HMCL Ownership	Consolidation Approach
HMCL	Rated Entity	Full consolidation
HMCL Americas Inc.	100.0%	Full Consolidation
HMCL Netherlands B.V.	100.0%	Full Consolidation
Hero Tech Center Germany GmbH	100.0%	Full Consolidation
HMCL Colombia S.A.S (through HMCL Netherlands B.V)	68.0%	Full Consolidation
HMC MM Auto Limited	60.0%	Full Consolidation
HMCL Niloy Bangladesh Limited (through HMCL Netherlands B.V)	55.0%	Full Consolidation
Hero FinCorp Limited	41.2%	Equity Method
Ather Energy Private Limited	36.5%	Equity Method

Source: HMCL annual report FY2023

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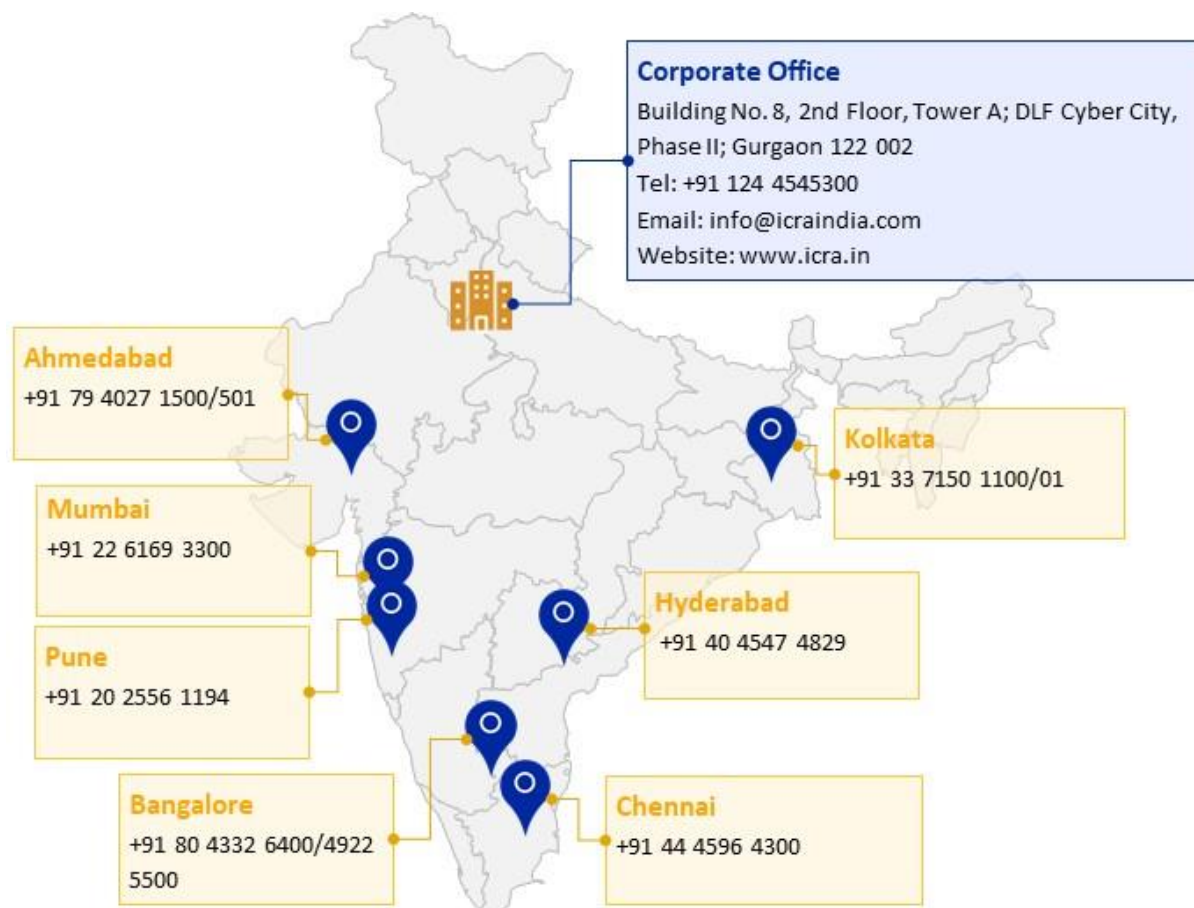


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