Eicher Motors Limited

October 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
LT Fund-based facilities	45.00	45.00	[ICRA]AAA (Stable)
LT/ST Non-fund Based Facilities	115.00	115.00	[ICRA]AAA(Stable)/[ICRA]A1+
LT Unallocated	20.00	20.00	[ICRA]AAA (Stable)
Total Bank Facilities Rated	**180.00**	**180.00**	

*Instrument details are provided in Annexure-1

Rating outstanding

ICRA has a long-term rating of [ICRA]AAA (pronounced ICRA triple A) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 180.00-crore bank lines of Eicher Motors Limited (EML or the company)[1]. The outlook on the long-term rating is Stable.

Update

ICRA takes note of the ongoing strike at the Oragaddam (Tamil Nadu) facility of Eicher Motors Limited (EML/ the company) by part of its workforce. As per our discussion with the management, the company is trying to resolve the situation at the earliest. Notwithstanding the strike that has continued beyond one month by faction of work force, the above facility (with manufacturing capacity of 600,000 units per annum) continues to operate over 50% of its installed capacity while the Vallam Vadgal facility (manufacturing capacity of 300,000 units per annum) is operating at full capacity. ICRA would continue to monitor the situation and would take necessary action, if the situation deteriorates further.

ICRA currently has outstanding ratings of [ICRA]AAA (Stable)/ [ICRA]A1+ for the company's bank lines. The rating continues to take into account the robust operational performance and continued leadership position of EML in FY2018 as well as Q1FY2019, characterised by strong growth in volumes for its Royal Enfield brand and >90% share of the addressable (>250 cc sub-segment) market. The ratings also continue to draw comfort from the robust financial risk profile of the company characterised by a negative net debt position and cash and liquid investments of Rs. 5018.0 crore as on March 31, 2018. The detailed rating rationale is given below.

Rationale

The rating reaffirmation takes into account the robust operational performance and continued leadership position of EML in FY2018, characterised by strong growth in volumes for its Royal Enfield brand and >90% share of the addressable (>250 cc sub-segment) market. The premium motorcycle segment has significantly grown in scale over the past few years while remaining immune to any demand moderation in two-wheeler market during FY2013-FY2018. EML, being the market leader in the premium motorcycle segment has witnessed volume expansion at a CAGR of 46% during this period. ICRA expects that the increasing premiumisation trend and aspirational needs will continue to drive the demand for premium motorcycles over the medium term. EML, in turn, will continue to benefit from its strong brand recognition,

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

dealer network expansion (increased from 675 dealers in FY2017 to 825 dealers in FY2018) and regular product launches/refreshes. The favourable demand outlook for premium motorcycle segment, coupled with its continued capacity and dealership network expansion plans auger well for EML's medium-term revenue prospects. Although the company continues to have a limited presence in the exports market for its motorcycles business, it has been improving its brand presence in South East Asian and Latin American countries, which is likely to yield benefits in the long-term. Furthermore, introduction of Continental GT 650 and Interceptor 650 in FY2019 are likely to enrich the product mix and aid in growing volumes from developed markets (like Europe and USA).

While EML's motorcycle business continues to record robust growth, its commercial vehicle business (under VE Commercial Vehicles Limited - VECV, which is EML's 54.4% subsidiary) has been able to improve its market position in the commercial vehicle industry on the back of continuous product launches/refreshes, expanding dealer network and targeted marketing efforts over the past few years. VECV is expected to report healthy revenue and earnings growth over the medium term, benefitting from healthy response to new products launched under the Pro Series, ramp-up in operations of power train facility and improving position in the buses segment.

The ratings assigned continue to factor in the consistently strong financial risk profile of EML, characterised by negligible debt and large cash balances and liquid investments, aggregating Rs. 5018.0 crore as on March 31, 2018. Over the past five years, EML's motorcycle business has consistently reported above average profitability and strong cash accruals which impart high financial flexibility. While the company has invested significantly in its motorcycle business over the past five years - for setting up new manufacturing facilities, capacity expansion and new product developments – and continues to have significant planned investment outlay, these are expected to be funded from internal accruals and available cash balances. The company, thus, is expected to maintain its conservative risk profile.

Notwithstanding EML's strong operational and credit risk profile, EML's market share in the overall domestic two-wheeler industry has remained moderate at ~15% over the last few years, on account of its segmental concentration in the premium category. Furthermore, increasing participation of global players for developing motorcycles in the 250-500cc displacement range, as evident from recent launches as well as their partnerships with their Indian counterparts, may pose a challenge to EML's market share in the long run, and remain a key rating sensitivity. Also, company's efforts to increase presence in export markets are yet to yield visible results. On consolidated level, VECV's ability to improve its market presence amid highly competitive CV industry (which is inherently cyclical in nature), while sustaining profitability and return indicators, also remain a key rating monitorable.

Outlook: Stable

ICRA believes EML will continue to report industry leading volume growth in the medium term, driven by the premiumisation trend and aspirational image of its signature brand - Royal Enfield, thus ensuring healthy revenues and strong cash accruals. The outlook may be revised to Negative, if there is significant deterioration in its market position in the backdrop of rising competitive intensity or any change in customer preferences that may translate into lower accruals or any large debt-funded investment that can result in moderation in its credit metrics.

Credit strengths

Established brand and continued market leadership in premium sub-segment - EML's Royal Enfield brand has more than 90% market share in the >250cc displacement sub-segment of motorcycles and has maintained the leadership position over the last few years. Its volume growth, at CAGR of ~46.0%, outperformed that of motorcycle industry consistently over the last five years buoyed by the niche positioning and aspirational status of its signature brand. Notwithstanding 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, established record in Indian market and after sale service network.

Track record of strong growth and healthy revenue visibility - EML's revenue has grown from Rs. 1,702.5 crore in CY2013 to Rs. 8,957.5 crore in FY2018 (on a standalone basis) driven by strong demand for Royal Enfield motorcycles. Emergence of an aspirational generation with growing disposable income has led to the expansion of premium motorcycle segment. This, coupled with a widespread dealerership and after sale service network, has enabled the company to report robust revenue growth over the past five years, As the demand growth outpaced supply, EML has been augmenting its manufacturing capacities during this period. Going forward, healthy demand (as evidenced from consistent advance orders of 4-6 weeks), expansion in product range as well as focussed dealer network expansion is expected to drive domestic market growth. Growing presence in export market also provides healthy revenue visibility over the medium term.

Strong financial risk profile- With negligible debt, EML had a negative net debt position (net cash at Rs. 5018.0 crore as of March 31, 2018). The company's coverage indicators have also remained healthy with interest coverage ratio of 526.0 times and debt service coverage ratio (DSCR) of 413.9 times for FY2018. At 46.8%, EML's return on capital employed (RoCE) in FY2018 is one the highest amongst the domestic two-wheeler OEMs. Overall, the company continues to maintain a strong financial risk profile.

Expanding product range and improving technical capability- Regular new launches and product variations underpins EML's technical prowess. The company has been enriching its technical capabilities since the launch of Unit Construction Engine (UCE) in 2008 followed by various UCE based models. With recent launch of the Himalayan (in early 2016) and upcoming launch of Continental GT 650 and Interceptor 650 (twins), it has demonstrated its capability to built new model from ground-up, incorporating new engine as well as body structure. With the upcoming launch of the twins, EML will be able to cater to consumers looking for a premium offering with higher power at an affordable price. Also, this would give the existing Royal Enfield users a chance to upgrade, in addition to providing an opportunity to ramp up its export volumes to developed markets like Europe and the US (wherein these would provide an entry level/mid level option/offering).

Credit challenges

High brand concentration and lack of segmental diversification - Over the last five years the company's growth has been driven solely by the >250cc motorcycle sub-segment, with no product offering in the high-volume entry (75-110 cc) sub-segments. Even in the >250cc sub-segment Classic 350 accounted for ~70% of total volumes in FY2018. While EML remains exposed to single product concentration risk, the expanding product profile and expected new launches in FY2019 are likely to aid in moderation of brand concentration risk in the long term.

Increasing competition in the primary sub-segment- The competition in the premium sub-segment (>250cc) has witnessed an increase in the recent past from both local and global OEMs. Global OEMs have been forging partnerships with local players to develop mid-size motorcycles (250-500cc) with select OEMs having already launched a few of these locally developed models. While the domestic trend towards premiumisation offer significant scope of market expansion and remains an industry positive, increase in competition and change in customer preferences towards alternative offerings remain a key risk.

Geographical concentration in Indian market; efforts for diversification yet to yield results - With export volumes accounting for ~2.3% of total volumes in FY2018, the company's revenues are exposed to geographical concentration risk. However, increased efforts to build a brand presence in South Asian and Latin American markets is likely to help the company expand its geographical footprint and diversify its revenue concentration risk in the medium to long-term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Two-wheeler Manufacturers

About the company

Eicher Motors Limited (EML), 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 based at Chennai (Tamil Nadu), Vallam Vadagal (Tamil Nadu) and Oragadam (Tamil Nadu). Additionally, the company also operates as a holding company for investments in VE Commercial Vehicles Limited (VECV). A joint venture (JV) 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 & bus operations, auto components business and technical consulting services business; and (b) Volvo Group's Indian truck sales & marketing functions; and service and spares network operations for both Volvo trucks as well as buses.

The company also had a 50:50 strategic joint venture with US based Polaris Industries Inc. - Eicher Polaris Pvt Ltd., which was into designing and manufacturing of a full new range of personal vehicles and launched a personal utility vehicle, Multix, in 2015. However, the company dissolved this JV in March 2018 and wrote down the investments, aggregating Rs. 311 crores, in venture in its Q4FY2018 results.

Key financial indicators

	FY2017*	FY2018*
Operating Income (Rs. crore)	7033.4	8965.0
PAT (Rs. crore)	1523.6	1923.2
OPBDIT/OI (%)	31.1	31.3
RoCE (%)	51.2	46.8
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	614.1	526.0

**Consolidated financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Oct 2018	Aug 2018	May 2017	July 2016	June 2015
1	Fund Based Facilities	Long-term	45.0	0.0	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
2	Non-fund Based Facilities	Long-term/ Short-term	115.0	-	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AA+ (stable)/ [ICRA]A1+	[ICRA]AA+ (stable)/ [ICRA]A1+
3	Unallocated	Long-term	20.0	-	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (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 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	Fund Based Facilities	-	-	-	45.0	[ICRA]AAA (stable)
NA	Non-fund Based Facilities	-	-	-	115.0	[ICRA]AAA (stable)/ [ICRA]A1+
NA	Unallocated	-	-	-	20.0	[ICRA]AAA (stable)

Source: EML

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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.

For more information, visit www.icra.in

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