November 18, 2019 Revised

Eicher Motors Limited: Rating reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation of Eicher Motors Limited (EML) continues to factor in its robust business profile, backed by its established 'Royal Enfield' (RE) brand, strong product portfolio, long operational track record and vast experience of its promoters and management team. As a result of which, ICRA notes EML's sustained market leadership position in the addressable segment (more than 95% market share in the over 250-cc sub-segment as on September 30, 2019) of the Indian two-wheeler industry. The ratings also favourably factor in company's strong financial risk profile, characterized by superior profitability indicators (i.e. average OPBDIT margins and RoCE of~30% and ~45%, respectively, over the past four years), strong liquidity position (cash and liquid investments of Rs. 3,421.8 crore as on March 31, 2019[1]) and robust credit metrics. 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, the same were entirely funded through internal accruals. It continues to have significant planned investment outlay for FY2020, which is also expected to be funded by internal accruals and available cash balances. The company, thus, is expected to maintain its conservative risk profile.

Tightening safety norms and higher raw material prices amid moderating volume demand adversely impacted the profitability of two-wheeler (2W) OEMs in FY2019. The transition to BS-VI emission norms (with effect from April 2020) will further raise the acquisition price for customers. While EML's products are not targeted at a price-sensitive clientele, deferment of discretionary spending leading to muted off-take (as being witnessed since H2 FY2019) may constrain profitability over the next 6-12 months. Nonetheless, ICRA expects the increasing premiumisation trend and aspirational needs to continue to drive the demand for premium motorcycles over the medium term. EML is expected to continue benefiting from the strong brand pull for RE supported by its dealer network expansion (increased to 915[2] in FY2019 from 825 dealers in FY2018, in addition to smaller 'studio stores') and regular product launches/refreshes. Although the company has had limited presence in the export market for its motorcycles business, the latest addition of 650cc 'Twins' to its portfolio (launched in H2 FY2019) has received a favourable response and has already started aiding in growing the export volumes as reflected in the 150% YoY growth in 7M FY2020, albeit on a low base. The company has been investing in improving its brand presence in European, South East Asian and Latin American markets, which is likely to yield benefits in the long-term.

[1] *As per the financial results for Q2 FY2020 announced on November 8, 2019, cash and liquid investments were Rs. 3,434.8 crore as on September 30, 2019.*

[2] *As per the investor presentation shared in November 2019, EML had 939 dealerships and 500 studio format stores by the end of October 2019.*

Despite EML's strong operational and credit risk profile, EML's market share in the overall domestic 2W industry has remained moderate at ~4% over the last two to three years, declining to 3.4% in 6M FY2020 because of its segmental concentration in the premium category. Furthermore, increasing participation of global as well as Indian OEMs in the 250–500-cc motorcycle segment, as evident from recent launches as well as their partnerships with their Indian counterparts, may increasingly pose a challenge to EML's market share over the medium term, and remains a key rating sensitivity. In addition, the company's efforts to increase its presence in export markets, while already witnessing significant traction in FY2020, will need time to yield meaningful returns and reduce the company's concentration in the Indian market.

In line with EML's motorcycle business, its commercial vehicle business (under VE Commercial Vehicles Limited, or VECV, a 54.4% subsidiary of EML) has been able to largely maintain its market position in the commercial vehicle (CV) industry amid industry headwinds. This had been on the back of continuous product launches/refreshes, expanding dealer network and targeted marketing efforts over the past few years. Although the domestic CV industry has been facing demand headwinds, ICRA expects that over the medium term the Government's thrust on infrastructure projects, coupled with the potential implementation of fleet modernisation or scrappage programme, will support demand.

The Stable outlook on the long-term rating of EML reflects ICRA's belief that despite weak consumer sentiments and industry related headwinds, EML's credit profile will continue to benefit from its strong financial profile and leadership position in the premium motorcycle segment.

Key rating drivers and their description

Credit strengths

Established and niche brand positioning; continued leadership position in premium sub-segment – EML's RE reported annual global sales of 8.23 lakh motorcycles in FY2019 (against 8.20 lakh in FY2018) and maintained its leadership position with more than 95% market share in the over 250-cc displacement sub-segment of motorcycles in India. The niche positioning along with aspirational and iconic status of the brand has helped it in garnering volumes and outperform the motorcycle industry over the past many years As a result, the company's volumes grew at a CAGR of ~26% between FY2015 to FY2019; albeit on a low base. 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 strong brand and value proposition, established track record in the Indian market and after-sales service network. Furthermore, increasing export volumes, although marginal at present, are expected to increasingly support overall volume growth.

Strong financial risk profile - EML's strong financial risk profile is characterised by robust return indicators and a conservative capital structure (with minimal debt of Rs. 188.1 crore on a consolidated basis as of March 31, 2019[3]). Moreover, the company has sizeable cash and liquid investments vis-à-vis capex and working capital requirements. The company's core RoCE (consolidated) stood at 349.7% in FY2019 driven by industry-leading operating margins and low capital employed relative to asset utilisation. Despite its continuous investments in capacity creation, product development, technology transitions and other strategic initiatives, EML's credit profile is expected to remain strong over the medium term. All its funding requirements have been met through internal accruals and are expected to be similarly funded, going forward. However, maintaining profitability and ROCE amid weak demand sentiments and increasing competition will be a key rating sensitivity.

Expanding product range and improving technical capability - Regular new launches and product variations underpins EML's technical prowess. With Himalayan (launched in 2016) and recent launches Continental GT 650 as well as Interceptor 650 (the 'twins' in FY2019), it has demonstrated its capability to build new models from the ground up, incorporating new

[3] *Rs. 163.5 crore as at September 30, 2019 as per Q2 FY2020 results announced on November 8, 2019.*

engine as well as body structure. This has given the existing RE users a chance to upgrade and has resulted in an opportunity to ramp up its export volumes.

Credit challenges

Lack of segment diversification and rising competition in the premium segment - Over the last five years the company's growth has been driven by the over 250-cc motorcycle sub-segment with no presence in the high-volume (75-110 cc) sub-segments. Even in the over 250-cc sub-segment, its Classic 350 model accounted for ~70% of total volumes in FY2019 and 6M FY2020. This remains a credit sensitivity for the company. However, this has also helped EML to position itself as a niche brand and command a price premium. With recent launches of the 'Himalayan' and 'Twins' models, the product concentration is expected to moderate gradually. Also, the competition in the premium sub-segment (over 250cc) has recently witnessed an increase 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 offers significant scope of market expansion and remains an industry positive, rising competition and change in customer preferences towards alternative offerings remain a key risk.

Geographical concentration; efforts for diversification yet to yield meaningful returns - While export volumes in FY2020 increased by nearly 150% on a YoY basis in the April–October 2019 period, they accounted for ~6.5% of total volumes dispatched during the period. Thus, the company remains exposed to geographical concentration risk. However, increased efforts to build a brand presence in South Asian and Latin American markets are likely to help in expanding its geographical footprint and diversifying its revenue concentration risk in the medium to long-term.

Liquidity position: Superior

EML's liquidity is **superior** as reflected by a net cash surplus of nearly Rs. 3,234 crore as on March 31, 2019, up from approximately Rs. 1,683 crore as on March 31, 2018. In addition, the company had non-current investments in mutual funds of Rs. 2,510 crore as on March 31, 2019 over Rs. 3,183 crore as on March 31, 2018, which provides additional financial flexibility. Healthy accruals from the business coupled with negligible debt obligations and a favourable working capital cycle, have led to a strong liquidity profile, despite large capex undertaken in the last few years. For FY2020, the entire planned investments of Rs. 700 crore in capex are also expected to be funded by internal accruals.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on EML's rating could arise for reasons including significant and sustained decline in volumes 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 can lead to deterioration in credit metrics may also result in a possible rating downgrade.

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	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, 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.

Additionally, the company operates as a holding company for investments in 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: (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.

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	8,965.0	9,797.1
PAT (Rs. crore)	1923.2	1961.9
OPBDIT/OI (%)	31.3%	29.7%
RoCE (%)	46.8%	37.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	526.0	397.1
DSCR (times)	413.9	328.0

Source: Company; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2019	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				(Rs. crore)	18-Nov-19	3-Aug-18/ 31-Oct-18^	22-May-17	22-Jul-16
1	Fund Based Facilities	Long-term	45.0	--	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (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+
3	Unallocated	Long-term	20.0	--	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (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 click here

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	3-Aug-16	-	-	45.0	[ICRA]AAA (Stable)
NA	Non-fund Based Facilities	27-July-16/ 24-Jun-16	-	-	115.0	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Unallocated	-	-	-	20.0	[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 Brasil Comercio de Motocicletas Ltda	99.99%	Full Consolidation
Royal Enfield (Thailand) Limited	99.99%	Full Consolidation
Royal Enfield Canada Limited (subsidiary of RENA)	100.0%	Full Consolidation
VE Commercial Vehicles Limited	54.4%	Equity Method (JV)
Eicher Polaris Private Limited	50.0%	Equity Method (JV)

Source: Company annual report FY2019

Corrigendum

Document dated November 18, 2019 has been corrected with revisions as detailed below:

- Revisions made on page number 2 under the section heading – Credit Strength and sub-heading 'Established and niche brand positioning; continued leadership position in premium sub-segment'.
- The volume sales mentioned in the first line has been corrected - 8.23 lakhs and 8.20 lakhs as against 8.23/8.20 million mentioned earlier.

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

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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
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Hyderabad	+ (91 40) 2373 5061/7251
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