

May 22, 2017

## Eicher Motors Limited

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund based facilities	45.0 (enhanced from 20.0)	Rating upgraded to [ICRA]AAA (stable) from [ICRA]AA+(Stable)
Non-fund based facilities	115.0 (enhanced from 15.0)	Rating upgraded to [ICRA]AAA (stable) from [ICRA]AA+(Stable); [ICRA]A1+ reaffirmed
Fund based/Non Fund Based facilities	0.0 (reduced from 54.5)	-
Unallocated	20.0 (enhanced from 10.5)	Rating upgraded to [ICRA]AAA (stable) from [ICRA]AA+(Stable)
<b>Total</b>	<b>180.0</b> <b>(enhanced from 100.0)</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has upgraded the long term rating assigned to the bank facilities of Eicher Motors Limited (EML) from [ICRA]AA+ (pronounced ICRA double A plus)<sup>1</sup> to [ICRA]AAA (pronounced ICRA triple A). The long term rating has a “stable” outlook. ICRA has also reaffirmed a short term rating of [ICRA]A1+ (pronounced ICRA A One plus) for the bank facilities of the company†. The total rated amount has been enhanced from Rs. 100.0 crore to Rs. 180.0 Crore<sup>2</sup>.

### Rationale

The rating upgrade takes into account the continued strong operational performance of EML demonstrated by robust growth in volumes for its ‘Royal Enfield’ brand of motorcycles over the past five years, riding on a sustained demand growth for premium motorcycles. The premium motorcycle segment has significantly grown in scale over the past few years, and has remained immune to any weakness in two-wheeler market; EML being the market leader in the premium motorcycle segment has benefitted from this trend resulting in substantial increase its scale of operations. The company has benefitted from its strong brand recognition, an expanding dealer network and regular product launches/refreshes over the past few years, thereby widening its customer base; even after recording a healthy growth in volumes over the past five years, EML continues to have a waiting period of about three months for select products, thereby providing revenue visibility. An expectation of continuation of stellar performance with robust demand for premium motorcycles, aided by further expansion in capacity and augmentation of distribution network is likely to help the company increase penetration in the domestic market and support revenue growth over the near to medium term. Although EML continues to have a limited presence in the exports market for its motorcycles business, it has strengthened its management team and overseas distribution network over the past three years indicating its strong focus on expanding global reach.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

While EML's motorcycle business continues to record robust growth, the company's commercial vehicle business (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, aided by steady medium term growth prospects for the commercial vehicle industry.

The ratings assigned continue to factor in the strong financial risk profile of EML characterised by negligible debt and large cash balances and liquid investments. Over the past five years, EML's motorcycle business has consistently reported above average profitability and strong cash accruals which impart high financial flexibility. The company has invested significantly over the past five years in both motorcycles and commercial vehicle business towards setting up new manufacturing facilities, capacity expansion and new product developments. Although EML continues to have significant investments planned towards further capacity expansion and new product developments going forward, these would be funded from available liquid investments and cash balances as well as expected strong accruals with the company expected to maintain its conservative risk profile.

Notwithstanding the strengthening position in premium motorcycle segment in the last five years, EML's overall positioning in the domestic two-wheeler industry remains moderate. Its ability to sustain healthy volume growth in the domestic market in the backdrop of expected increase in competitive intensity in the premium motorcycle segment, coupled with success achieved in the export markets would remain a key rating sensitivity. Additionally, besides EML's own risk profile on a standalone basis, VECV's ability to improve its market presence amid high competitive intensity in the CV industry (which also inherently remains cyclical in nature), while sustaining profitability and return indicators, would also remain critical.

### **Key rating drivers**

#### **Credit strengths**

- Strong brand recognition; market leadership position in the niche segment of leisure bikes with robust volume growth over the past five years by virtue of niche positioning and limited competition in addressable segment
- Healthy waiting period for the company's motorcycles continues, even post the ramp up in volumes over the past few years; provides revenue visibility over the medium term
- Status as a holding company of VECV (rated [ICRA]AA+, Stable, [ICRA]A1+), which has an established presence in the domestic light and medium commercial vehicle (CV) segment, provides diversification benefits
- Strong financial risk profile characterised by negligible debt, and large cash balances and liquid investments

**Credit weaknesses**

- Lack of diversification within the two-wheeler segment, with presence only in the premium segment
- VECV remains exposed to demand cyclicalities in the CV industry; additionally, competitive intensity in the industry remains high, leading to prevalence of discounts, thereby constraining profitability
- Maintaining financial risk profile and managing the return indicators in the context of significant investments planned over the medium term in both EML and VECV; however, the same are likely to be funded majorly through available liquid surplus and accruals

**Description of key rating drivers:**

EML, engaged in the manufacture of cruiser bikes across different (>250 cc) engine capacities, has a historical lineage and loyal acceptance of its products; the company's strong brand recognition coupled with its niche positioning in the luxury/ premium motorcycle segment has helped it outperform the two-wheeler industry over the past few years. The company had not faced any major competition in the segment in the past as the relatively small segment size in India attracted limited competition; EML has regularly launched new models over the past few years, which has helped the company increasingly attract the youth, helping the company record a healthy growth in volumes. Along with launching new models at regular intervals, the company has also been ramping up its dealership network that has allowed improved penetration, especially in tier II and tier III markets.

The company's first plant in Tiruvottivur (Tamil Nadu) had a limited capacity, which had resulted in long waiting periods for the company's models. The increased capacity at its second plant at Oragadam (Tamil Nadu) reduced the waiting period for some models, thereby aiding a steady growth in volumes. Even post the ramp up in volumes, the company continues to have a healthy waiting period for its motorcycles, thereby providing revenue visibility.

EML's stake in commercial vehicle OEM VE Commercial Vehicles Limited provides diversification benefits. Although VECV's prospects remain vulnerable to the inherent cyclicalities in the CV business, it 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. Despite significant investments incurred over the past few years towards new product developments and enhancing capacity, EML continues to maintain a strong financial risk profile, characterized by negligible debt and large cash balances and liquid investments.

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

**Links to applicable criteria:**

**[Corporate Credit Ratings: A Note on Methodology](#)**

**[Rating Methodology for Two Wheeler Manufacturers](#)**

**[Rating Methodology for Commercial Vehicle Manufacturers](#)**

**About the company:**

Eicher Motors Limited (EML) 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) and Oragadam (Tamil Nadu). Additionally, the company operates as a holding company for investments in VE Commercial Vehicles Limited (VECV), a leading commercial vehicle manufacturer. The company also has a 50:50 strategic joint venture with US based Polaris Industries Inc. - Eicher Polaris Pvt Ltd., which is into designing and manufacturing of a full new range of personal vehicles.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				May 2017	July 2016	June 2015	October 2014	April 2014
1	Fund based facilities	Long Term	45.0	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA (stable)
2	Non-fund based facilities	Long Term/Short Term	115.0	[ICRA]AAA (stable)/ [ICRA]A1+	[ICRA]AA+ (stable)/ [ICRA]A1+	[ICRA]AA+ (stable)/ [ICRA]A1+	[ICRA]AA+ (stable)/ [ICRA]A1+	[ICRA]AA (stable)/ [ICRA]A1+
3	Unallocated	Long Term	20.0	[ICRA]AAA (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Fund based facilities	-	-	-	45.0	[ICRA]AAA (stable)
Non-fund based facilities	-	-	-	115.0	[ICRA]AAA (stable)/ [ICRA]A1+
Unallocated	-	-	-	20.0	[ICRA]AAA (stable)

Source: Eicher Motors Limited

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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.

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