Eicher Motors Limited

August 03, 2018

Summary of rated instruments

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

Rating action

ICRA has reaffirmed the 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.

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 more than 90% share of the addressable (over 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 the two-wheeler market during FY2013–FY2018. EML, being the market leader in the premium motorcycle segment, has witnessed volume expansion at a CAGR of 43% 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, dealer network expansion (increased to 825 dealers in FY2018 from 675 dealers in FY2017) 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 markets, which is likely to yield benefits in the long-term. Furthermore, the introduction of Continental GT 650 and Interceptor 650 in FY2019 are likely to enrich the product mix and aid in growing volumes from export markets.

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 the healthy response to new products launched under its Pro Series, ramp-up in operations of its power train facility and improving position in the buses segment.

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

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 to Rs. 5,018.0 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 ~4% over the last two-three years, on account of its segmental concentration in the premium category. Furthermore, increasing participation of global players 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. In addition, the company's efforts to increase its presence in export markets are yet to yield visible results.

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 any significant deterioration in its market position amid 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 above 250cc displacement sub-segment of motorcycles and has maintained its leadership position over the last few years. Its volume growth, at a CAGR of ~43.0%, outperformed that of the overall 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 the Indian market and after-sales 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 a premium motorcycle segment. Coupled with a widespread dealership and after-sales service network, this 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. Its growing presence in the 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. 4,863.16 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 among 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 build new models from the 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. In addition, this would give the existing Royal Enfield users a chance to upgrade, and also provide an opportunity to ramp up its export volumes.

Credit challenges

Lack of segmental diversification - Over the last five years, the company's growth has been driven solely by the over 250cc motorcycle sub-segment, with no product offering in the high-volume entry (75-110 cc) sub-segments. Even in the over 250cc sub-segment, the Classic 350 model 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 single product 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, 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 IN 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 and bus operations and auto components business; and (b) the Volvo Group's Indian truck sales and marketing functions; in addition to service and spares network operations for both Volvo trucks as well as buses.

The company also had a 50:50 strategic JV with the US-based Polaris Industries Inc., Eicher Polaris Pvt. Ltd., which was designing and manufacturing 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 venture investment in its Q4 FY2018 results.

Key financial indicators

	FY2017*	FY2018*
Operating Income (Rs. crore)	7033.4	8965.0
PAT (Rs. crore)[2]	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

[2] *PAT figures exclude the share of profit/loss from JVs. PAT including share of profit from JVs stands at Rs. 1667.1 crore for FY2017 and Rs. 1959.7 crore for FY2018.*

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
					August 2018	May 2017	July 2016	June 2015
1	Fund Based Facilities	Long-term	45.0	0.0	[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]AA+ (stable)/ [ICRA]A1+	[ICRA]AA+ (stable)/ [ICRA]A1+
3	Unallocated	Long-term	20.0	-	[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:

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