June 04, 2024

HMC MM Auto Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund/ Non-fund Based Limits	40.00	40.00	[ICRA]A1+; Reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of HMC MM Auto Limited (HMC MM) continues to factor in its strong parentage as the company is a 60:40 joint venture (JV) between Hero MotoCorp Limited (HMCL, rated [ICRA]AAA(Stable)/[ICRA]A1+) and Marelli Europe S.p.A. (Marelli; erstwhile Magneti Marelli S.p.A.). ICRA notes the entity's strategic importance to HMCL as a supplier of electronic fuel injection (EFI) systems. Besides lending significant financial flexibility to HMC MM as a parent entity, HMCL is the company's key customer, offering steady business volumes as well as insights into technology adaptation suited to Indian conditions. The rating also takes comfort from the technical support derived by the company from Marelli, a leading player in EFI systems for two-wheelers (2Ws) globally.

The company's financial risk profile has improved in the recent past, aided by addition of new models (in HMCL's portfolio), cost optimisation measures and improved scale of operation. HMC MM has a 100% share of business for 4-5 models of HMCL and gained partial Share of Business in supplies for some additional models in FY2024. Aided by ramp-up in supplies for these models, HMC MM sold ~8 lakh kits in FY2024 (vis-a-vis 5.5 lakh units sold in FY2023). The company remains strategically important to HMCL, with the latter maintaining management and operational control over it. HMC MM is expected to supply nearly 15-20% of HMCL's EFI requirement in the near term. An expectation of ramp-up in supplies on the back of further model gains and steady demand for the two-wheeler industry demand are likely to aid in the company's earnings growth in the medium term.

The rating also factors in HMC MM's access to financial support from both the JV partners, as evident from the periodic equity infusion into the company and provides comfort. The latest fund infusion by the JV partners (Rs. 25 crore) over FY2024-FY2025 aided the company in lowering its debt obligations (total debt (excluding lease liabilities) reduced to ~Rs.100 crore as of March 31, 2024, from ~Rs. 149 crore as of March 31, 2023.)

The rating, however, remains constrained by customer and product concentration risks as HMC MM derives most of its revenues from the supply of a single product to a single customer. Additionally, HMC MM will be vulnerable to product obsolescence risk over the medium-to-long term, given the gradual shift in customer preference from conventional 2Ws to electric 2Ws. The customer concentration risk is primarily mitigated by HMCL's dominant position in the Indian 2W market, and the OEM's need to be compliant with BS-VI emission norms with respect to its products. Going forward, the ratings would remain dependent on the timely scale-up of HMC MM's volumes. ICRA would continue to monitor the company's planned scale-up. The same would remain critical for servicing its debt obligations and meeting capex requirements for subsequent phases of localisation, without depending on the JV partners for assistance.

Key rating drivers and their description

Credit strengths

Demonstrated operational and financial support from HMCL and Marelli – HMC MM is a 60:40 JV between HMCL and Marelli. While parentage from Marelli helps the company in aspects of technical know-how and product development (Marelli being a leading player in 2W EFI technology), HMCL's presence assures healthy revenue visibility for the company. The JV partners have supported HMC MM financially through equity infusion in the past (Rs. 25 crore received in the latest round of funding support over FY2024-FY2025) and are expected to do so in the near-to-medium term until the company scales up sufficiently.

Strategic importance to HMCL to support business growth – HMC MM is a key supplier of EFIs to HMCL, with the latter having management control in the former. Pursuant to transition of the Indian 2W market to BS-VI emission norms (from April 2020), which mandates the use of EFI systems by 2W, HMCL's investment in HMC MM gained strategic importance. The ramp-up for BS-VI compliant vehicles has made revenue visibility for HMC MM strong (albeit the decline in scale on a YoY basis due to weak demand in the industry). Aided by gain of business for new models, the company's share of business in supplies of EFI to HMCL has increased to ~15% in FY2024 (from 9% in FY2023). HMC MM continues to enjoy the right to service other OEMs as well (given the absence of any restriction on the JV to supply to other OEMs as per the JV agreement)

Credit challenges

Financial profile remains constrained by debt-funded capex incurred; expected to gradually improve, going forward – The financial risk profile of the company has remained weak over the years, impacted by small scale of operations and ongoing capex plans to enhance capacity/localisation levels. During the nascent stage of operations, periodic equity infusion from parent entities helped support HMC MM's capital structure (~Rs 105 crore since the start of the company's operations) and the JV partners are likely to continue to support the entity, going forward. The company has largely completed its planned capex for capacity expansion and indigenisation of parts, and thus capex outgo over the medium term is expected to remain at a moderate level. Further, going forward, a scale-up in profitability and/or need-based timely support from promoters is likely to continue to aid an improvement in the financial risk profile.

Significant product and customer concentration risks – Given the dependence on a single product (EFI systems for 2Ws) for revenues, any delay in design approvals for new 2W models or unanticipated changes in any emission regulations could adversely impact ramp-up of HMC MM's operations. Further, the company remains dependent on favourable demand from the 2W industry as well as on HMCL for most of its revenues. The customer concentration risk is partially mitigated by the fact that HMCL is the principal JV partner and market leader in the Indian 2W industry.

Vulnerable to structural transition to electric vehicles over medium-to-long term – In the recent years, the 2W industry has been witnessing a gradual shift from conventional, internal combustion-based technology towards battery powered mobility solutions. While EFI is a critical component for conventional 2Ws, transition to electric vehicles will render the same obsolete. Resultantly, HMC MM remains exposed to product obsolescence risk due to the ongoing structural shift in customer preferences towards EVs over the medium-to-long term. The company is focused on new product developments (Flex fuel and electronic throttle body) to mitigate the risk.

Liquidity position: Adequate

HMC MM's liquidity is expected to remain adequate, supported by expectation of steady operational cash flows (Rs. 30-40 crore/annum) and buffer in sanctioned working capital limits (Rs. 65-70 crore as of March 2024). The company has no material capex plan over the near term and has a repayment obligation for term debt of ~Rs. 19.5 crore, to be paid by the end of Q3

FY2025. ICRA also takes comfort from the track record of timely funding support by the JV partners to meet any funding gap. ICRA expects HMC MM's strategic importance to HMCL and financial flexibility with its lenders (because of its strong parentage) would continue to support its refinancing options.

Rating sensitivities

Positive factors – NA

Negative factors – Pressure on the company's rating could arise due to any weakening in the credit profile of the parent company, HMCL, or any adverse change in HMC MM's ownership structure, or its reduced strategic importance to HMCL. Further, a slow ramp-up in scale of operations and cash flow generation vis-à-vis debt obligations and lack of timely and adequate financial support from the promoters could also trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	The reaffirmed rating of HMC MM factors in the very high likelihood of its promoter entity, HMCL, extending financial support to it because of its strategic importance and close business linkages. ICRA also expects the promoter entity to be willing to extend financial support to HMC MM out of its high reputation sensitivity.
Consolidation/Standalone	Standalone

About the company

Incorporated in November 2013, HMC MM Auto Limited is a 60:40 JV between Hero Motocorp Limited (60% stake) and Marelli Europe S.p.A (40% stake; erstwhile Magneti Marelli S.p.A). The company is engaged in the design, development, and manufacture of electronic fuel injection systems, its sub-assemblies, and related components. The JV agreement between the two JV partners was executed on November 11, 2013, and the company commenced commercial operations from April 2016. HMC MM's product range includes EFI systems featuring Mechatronic Integrated Unit (MIU) Systems, and state of the art Ride-by-wire (RBW) systems (for more engine capacity cc) covering 2Ws across engine capacities. The company's sole plant is in Manesar, Haryana, with a manufacturing capacity of ~2.2 million units per annum (as of March 31, 2024).

Key financial indicators (audited)

HMC-MM Standalone	FY2022	FY2023	FY2024*
Operating income	227.8	267.7	377.8
PAT	(11.3)	(10.2)	3.2
OPBDIT/OI	3.6%	5.3%	9.7%
PAT/OI	-4.9%	-3.8%	0.8%
Total outside liabilities/Tangible net worth (times)	7.8	15.2	-
Total debt/OPBDIT (times)	16.9	11.2	2.7
Interest coverage (times)	1.0	1.4	2.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs crore

**Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 4, 2024	Jun 14, 2023	May 05, 2022	Apr 01, 2021
1	Term Loans	Long term	-	19.5		-	-	[ICRA]AA (Stable); Withdrawn
2	Fund/Non Fund-based Limits	Short term	40.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund/Non-Fund-based Limits	Simple

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	Fund Based/Non-Fund Based Limits	-	-	-	40.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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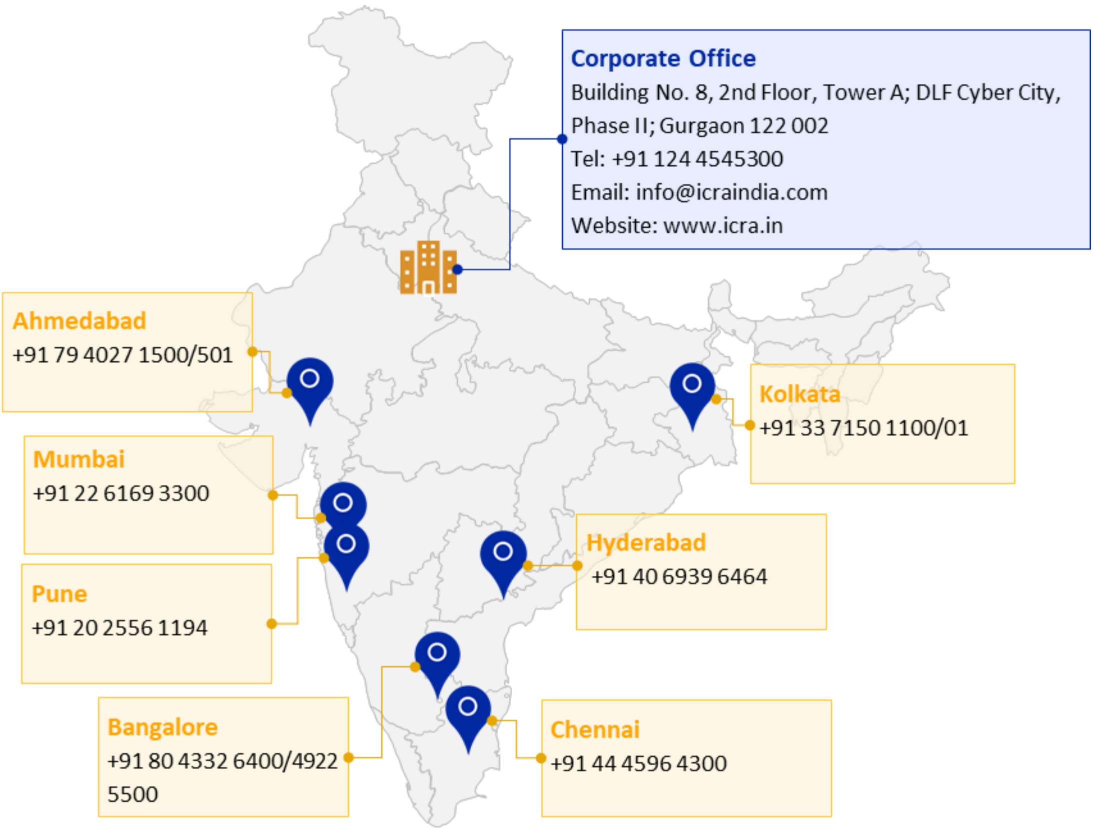

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