October 29, 2024

Eicher Motors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Fund based-CC/OD	1.00	1.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term/short-term – Fund based-OD	100.00	100.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term/short-term – Non-fund based	179.00	179.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated	30.00	30.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Total	**310.00**	**310.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Eicher Motors Limited (EML) continues to factor in its strong business profile, evident from its market leadership (~90% share) in the premium middle-weight motorcycle segment (250–750cc) in India, its established Royal Enfield (RE) brand, a strong product portfolio, and an expansive dealership and aftersales network. The ratings also favourably factor in the company's strong financial profile, reflected in its healthy return indicators, credit metrices and a superior liquidity position.

The Indian two-wheeler (2W) industry has witnessed a recovery in domestic demand over the past few fiscals, following a moderation in volumes over FY2020-FY2022. The growth of the premium motorcycle segment, where EML operates, has outpaced the overall industry growth materially. This was reflected in volumes of the greater-than-250cc motorcycle sub-segment improving by a healthy ~19% vis-à-vis ~14% for the overall domestic motorcycle segment in FY2024 as well. EML reported ~11% YoY improvement in its volumes in FY2024 vis-à-vis 14% growth posed by the overall motorcycle segment (domestic and exports). However, even as the domestic volumes grew by a healthy ~14% (YoY basis), the export volumes declined by ~13% (YoY basis) on account of weakness in demand in markets catered.

In FY2024, the company launched Guerilla 450, which received a good response across markets and aided volumes. Supported by the volume growth and timely price interventions, EML reported robust performance, with operating margins touching ~26% and 26.5% in FY2024 and Q1 FY2025, respectively (increasing from ~24% in FY2023). Going forward, increasing financing penetration, scale-up of its newly launched models as well as increasing exports, augur well for the company's revenue growth prospects. Further, ICRA expects that EML's new product launches, well-established branding and continued customer engagement will support its earnings growth prospects.

The ratings continue to factor in the robust financial profile of the company, evidenced by its healthy profitability (OPBDITA and ROCE of ~26% and ~28%, respectively, in FY2024) and cash accruals, negative net-debt position and superior liquidity profile (cash, and investments of ~Rs. 14,015 crore as of March 31, 2024). The company is expected to fund any capacity expansion/new product development plans from internal accruals and cash surplus in hand, thereby keeping its dependence on external borrowings negligible. ICRA notes that EML's performance remains exposed to challenges, such as increasing regulatory interventions (emission norms, safety norms) and increasing competition in the domestic 2W market (led by growing participation of global as well as Indian OEMs in the 250 to 500cc sub-segment). While the company's efforts to increase its presence in the export markets (European, American, and Southeast Asian) have witnessed significant traction over the past three to four years, it will need time to scale-up to meaningful volumes and reduce RE's dependence on the

Indian market. A structural shift in preference for electric 2Ws (e-2W) (as opposed to conventional 2Ws) also remains a medium-to-long-term challenge.

EML's commercial vehicle (CV) business under VE Commercial Vehicles Limited (or VECV; a 54.4% JV of EML with AB Volvo; rated [ICRA]AA+(Stable)/[ICRA]A1+) has improved its presence in the domestic market (17.8% in FY2024 in the addressable market segment) over the last few years, despite operating in a highly cyclical industry prone to stiff competition. This had been aided by continuous product launches/refreshes, technology advancements, expanding dealer and after-sales networks, and targeted marketing efforts. The entity's earnings and return indicators improved in FY2024 (operating profit margin of 7.8%), driven by higher volumes, mirroring the trends of the CV industry. Further, the company's credit metrics remained strong, supported by its unleveraged balance sheet (interest cover of 38.2 times and NCA/total debt of 330%). Over the medium term, ICRA expects the industry to post healthy growth, supported by steady freight demand, economic recovery, continued Government focus on infrastructure spending and e-commerce boom, which auger well for VECV's growth prospects. The company continues to maintain a strong liquidity position, which is likely to limit any funding support requirements from EML.

The Stable outlook on EML's long-term rating reflects ICRA's expectations that it will continue to maintain its leadership position in the Indian premium motorcycle sub-segment, aided by its established brand and product portfolio, regular investments in new model launches and extensive dealership network. The same is likely to help the company successfully navigate through the uncertainties caused by the structural shifts in the industry or any other exogenous shocks, while maintaining a robust credit profile.

Key rating drivers and their description

Credit strengths

Established and niche brand positioning; continued leadership position in mid-weight premium sub-segment – EML's RE brand has ~90% market share in the greater-than-250cc displacement sub-segment of motorcycles (domestic) and has maintained its leadership position for over a decade. The niche positioning and aspirational status of the brand have helped it in garnering volumes and outperform the broader motorcycle industry in the last few years. 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 niche brand and value proposition, expansive dealership, and after-sales service network.

Robust financial risk profile – The company's cash and investments balance stood at ~Rs. 14,015 crore as of March 31, 2024, up from ~Rs. 10,900 crore as of March 31, 2023. With negligible debt, EML continues to maintain a negative net-debt position and robust coverage indicators. The company's operating margins grew by ~230 bps in FY2024 leading to improvement in ROCE to ~28% in FY2024. The trend continued into Q1 FY2025, with operating margins reaching 26.5%. Overall, the company continues to maintain a robust financial risk profile.

Expanding product range and improving technical capability – Regular new launches and product variations underpin EML's technical prowess. With the launch of its Himalayan (early 2016), The Twins (FY2019), Meteor (FY2021), Hunter and Super Meteor (FY2023), Shotgun 650 (FY2024), Guerrilla 450 (FY2025) models, the company has demonstrated its capability to develop new models from the ground up, incorporating a new engine as well as platform. This has given existing RE users a chance to upgrade, while aiding EML's efforts to ramp-up its presence in the export markets.

Credit challenges

Lack of segment diversification and rising competition in premium segment – The company's product portfolio is concentrated in the 250–750cc sub-segment, which caters to a niche clientele. Despite YoY improvement over the years, the sub-segment constitutes only ~8% of the total 2W market in India. Further, within the sub-segment, the company relies to an extent on the 'Classic' brand/models, which is a market leader in the above-250-cc motorcycle segment in India. While this dependence remains high, healthy scale-up of some of the company's newly launched brands in the same sub-segment—

Hunter, Himalayan, Guerrilla and Shotgun — is a positive. However, lack of segment diversification remains a credit sensitivity for the company. Meanwhile, several domestic and international players have entered the premium sub-segment with new products in the past few years; the increase in competition could limit the revenue growth and pricing power of the company to an extent.

Exports contribution to revenues remains relatively low – RE's export moderated by ~11% on a YoY basis in FY2024, led by a weakness in demand in markets catered, and accounted for ~8% of total volumes sold during the period (FY2023: 11%). Even as the company has expanded its distribution network to ~70 international markets and has set up five assembly operations outside India (Argentina, Thailand, and Columbia, Brazil and Nepal) in recent years, it remains exposed to geographical concentration risk with ~89% of its revenues emanating from the domestic market (FY2024). The company has seen positive trend in exports in H1 FY2025 and expects healthy growth in volumes for full FY2025. The company's ability to consistently increase exports, thereby helping mitigate the impact of any slowdown in the domestic market, remains to be seen.

ESG risks

Environmental considerations: Two-wheeler OEMs in India, like their global counterparts, remain exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with the Government focused on reducing the adverse impact of automobile emissions. Accordingly, EML's prospects remain linked to its ability to meet tightening emission requirements. EML (and the 2W industry as a whole) may need to invest materially to develop products to cater to the regulatory thresholds or expected transition to alternative fuel vehicles (2Ws expected to be at the forefront of such a shift), which may have a moderating impact on their return and credit metrics. The exposure to litigation/penalties arising from issues related to waste and water management for the manufacturers remains relatively low.

Social consideration: EML has a healthy dependence on human capital and, hence, retaining human capital, maintaining healthy employee relationships as well as supplier ecosystem remain essential for disruption-free operations. Another social risk that automotive OEMs like EML faces pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact on demand. EML also remains exposed to any major shift in consumer preferences/demographics, which are a key driver for demand, and accordingly may need to make material investments to realign its product portfolio.

Liquidity position: Superior

EML's liquidity position is expected to remain superior, aided by strong cash flows from operations, cash and liquid investments of ~Rs. 3,250 crore, and marketable non-current investments (in FMPs, MFs, debentures, etc.) of Rs. 10,768 crore as of March 31, 2024. The company has minimal long-term loans on its balance sheet (Rs. 163.5 crore as of March 31, 2024). Steady cash flows from operations, coupled with negligible debt obligations and favourable working capital cycle, have enabled EML to maintain a superior liquidity profile, despite large capex undertaken in the last few years. Over the next 12-15 months, the entire planned investments and capex are expected to be funded through internal accruals.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Pressure on EML's ratings could arise for reasons including significant and sustained decline in its sales volumes, market share and profitability 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. Further, any sizeable debt-funded inorganic or organic growth plan, which can lead to deterioration in credit metrics or any sizeable cash outflow in the form of dividends or buybacks that sharply depletes the currently robust liquidity, could be factors for a downward rating review.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Two wheelers
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer. The consolidated list of entities is shared in Annexure-II.

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 in Chennai, Vallam Vadagal and Oragadam (Tamil Nadu). With a portfolio of six brands and sales of 9.12 lakh units (in FY2024 at consolidated level, including exports), EML is positioned as a market leader in the niche (more than 250cc) motorcycle segment in India.

The company also operates as a holding company for 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 EML's truck and bus operations, auto components business and technical consulting services business; as well as in the Volvo Group's Indian truck sales and marketing functions; and service and spares network operations for both Volvo trucks as well as buses. In 2020, VECV signed definitive agreements to integrate Volvo Buses India into VECV including manufacturing, assembly, distribution, and sale of Volvo buses in India.

Key financial indicators

EML Consolidated	FY2023	FY2024
Operating income	14,442.2	16,535.8
PAT	2,598.8	3,553.3
PAT (including share of profit from JV's/associates)	2,913.9	4,001.0
OPBDIT/OI	23.9%	26.2%
PAT/OI	18.0%	21.5%
PAT (including share of profit from JV's/associates)/OI	20.2%	24.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	123.0	85.1

Source: Company's annual reports, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs Crore)	Current (FY2025)		Chronology of rating history for the past 3 years							
			FY2025		FY2024		FY2023				FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based limits	Long-term/ Short-term	1.0	**Oct 29, 2024**	**[ICRA]AAA (stable)/ [ICRA]A1+**	Aug 18, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	Mar 23, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	Nov 02, 2022	[ICRA]AAA (stable)/ [ICRA]A1+	Sep 01, 2021	[ICRA]AAA (Stable)/ [ICRA]A1+
Fund-based limits	Long-term/ Short-term	100.0	**Oct 29, 2024**	**[ICRA]AAA (stable)/ [ICRA]A1+**	Aug 18, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	-	-	-	-	-	-
Non fund based facilities	Long-term/ Short-term	179.0	**Oct 29, 2024**	**[ICRA]AAA (stable)/ [ICRA]A1+**	Aug 18, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	Mar 23, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	Nov 02, 2022	[ICRA]AAA (stable)/ [ICRA]A1+	Sep 01, 2021	[ICRA]AAA (stable)/ [ICRA]A1+
Unallocated limits	Long-term/ Short-term	30.0	**Oct 29, 2024**	**[ICRA]AAA (stable)/ [ICRA]A1+**	Aug 18, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	-	-	-	-	-	-
Fund/ Non fund based limits	Long-term/ Short-term	-	-	-	-	-	Mar 23, 2023	[ICRA]AAA (stable)/ [ICRA]A1+	-	-	-	-
Unallocated limits	Long-term	-	-	-	-	-	-	-	Nov 02, 2022	[ICRA]AAA (stable)	Sep 01, 2021	[ICRA]AAA (stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/short-term – Fund based-CC/OD	Simple
Long-term/short-term – Fund based-OD	Simple
Long-term/short-term – Non-fund based	Very Simple
Long-term/short-term – Unallocated	Not Applicable

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 Limits – CC/OD**	NA	NA	NA	1.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	**Fund-based Limits – Overdraft**	NA	NA	NA	100.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	**Non-fund based facilities**	NA	NA	NA	179.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	**Unallocated**	NA	NA	NA	30.00	[ICRA]AAA(Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	EML ownership	Consolidation approach
Eicher Motors Limited	100.00% (rated entity)	Full Consolidation
Royal Enfield North America Limited (RENA)	100.00%	Full Consolidation
Royal Enfield Canada Limited (subsidiary of RENA)	100.00%	Full Consolidation
Royal Enfield Brasil Comercio de Motocicletas Ltd	99.99%	Full Consolidation
Royal Enfield (Thailand) Limited	99.99%	Full Consolidation
Royal Enfield (UK) Ltd (REUK)	100.00%	Full Consolidation
Eicher Group Foundation	50.00%	Full Consolidation
Royal Enfield (UK) Europe B.V.	100.00%	Full Consolidation
VE Commercial Vehicles Ltd (VECV)	54.40%	Equity Method
Eicher Polaris Private Limited*	50.00%	Equity Method

*Source: EML consolidated annual report FY2024; Under liquidation**

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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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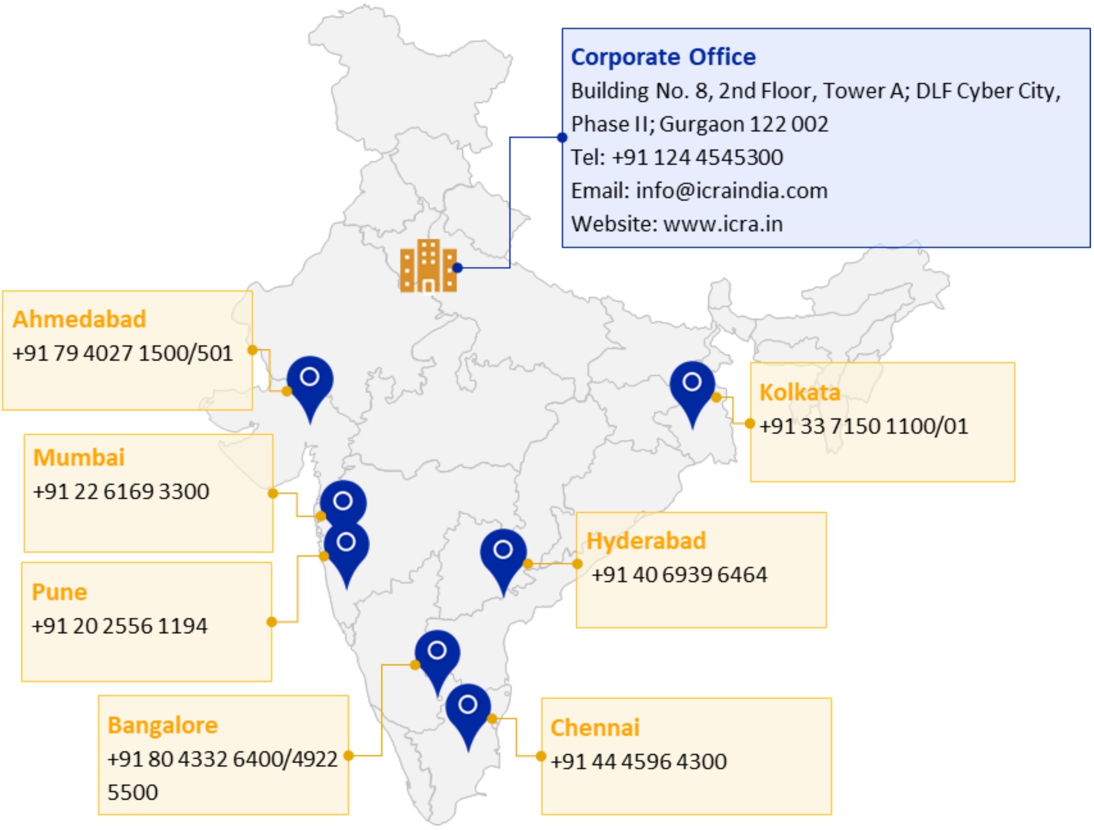

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