September 04, 2020

Bahadur Chand Investments Private Limited: Ratings assigned and reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term Borrowing Programme	50.0	50.0	[ICRA]AA (Stable) reaffirmed; Outlook revised to Stable from Negative
Non-convertible Debenture Programme	2,425.0	2,425.0	[ICRA]AA (Stable) reaffirmed; Outlook revised to Stable from Negative
Non-convertible Debenture Programme	725.0	-	[ICRA]AA (Stable) reaffirmed; Outlook revised to Stable from Negative and withdrawn
Non-convertible Debenture Programme	-	600.0	[ICRA]AA (Stable); Assigned
Commercial Paper	2,500.0	2,500.0	[ICRA]A1+; reaffirmed
Total	**5,700.0**	**5,575.0**	

**Instrument details are provided in Annexure-1;*

Rationale

ICRA has taken a consolidated view on Bahadur Chand Investments Private Limited (BCIPL) and its parent, Brijmohan Lal Om Parkash (BMOP) for arriving at the credit ratings, given the common management and the significant financial linkages between the entities. Hereafter, both the entities are together referred to as holding entities.

The revision in outlook to Stable factors in the significant improvement in the financial flexibility of the holding entities backed by recovery in market value (MV) of their investment in Hero Motocorp Limited (HMCL; rated [ICRA]AAA(Stable)/ [ICRA]A1+)[1], reduced refinancing risk and easing capital market uncertainties. HMCL, the key investee company, has been witnessing steady ramp-up in its operations since May 2020, following the easing lockdown conditions. This coupled with recovery in demand for two-wheelers from rural markets, expectation of shift in preference to entry and executive segment motorcycles (wherein HMCL is a market leader) and increasing preference for personal mobility as a fallout of the pandemic are likely to offset of the disruption caused by the pandemic. The improvement in MV helps address any potential refinancing risk. The change in outlook also takes into cognizance that despite a significant 18% YoY contraction in sales volumes and muted two-wheeler industry sentiments, HMCL maintained a stable dividend outflow compared to the previous year. While the consolidated debt has remained range bound, the debt mix has been improving with a higher share of long-term borrowings, which has considerably reduced the refinancing risk faced by these entities earlier.

The rating continues to favourably factor in the status of BCIPL and BMOP as the principal holding companies of HMCL (having a combined stake of ~34%) and the financial flexibility emanating from the value of its investments. The ratings also factor in the expectation of limited incremental funding requirements in key investee companies and the management's commitment to limit the consolidated external borrowings around the current levels over the medium term.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*
[2]*100 lakh = 1 crore = 10 million*

These strengths are partially offset by the significant revenue and investment concentration in HMCL, with the company's dividends accounting for nearly 95% of the total dividend income and around 70% of the combined book value of investments of BCIPL and BMOP as on March 31, 2020. Nonetheless, the ratings derive comfort from HMCL's established leadership position in the domestic two-wheeler industry and its strong credit metrics, besides the healthy cash surplus. Despite the ongoing slowdown and muted outlook for the two-wheeler industry over the near term, a stable dividend stream from HMCL is expected to continue.

The net external debt of the holding entities which stood at Rs. 3,914 crore (as on August 21, 2020) is expected to remain at similar levels in the medium term. ICRA notes that monetisation plans for key investee companies may get delayed due to current macro-economic scenario, which may defer the debt reduction plans of the holding entities. The consolidated interest coverage at 1.7 times (as on March 31, 2020) remained modest, while it faces moderate refinancing risk due to its short-term borrowings.

To reduce its reliance on short-term debt and refinance its debt maturities falling due in early FY2021, the holding entities raised nearly Rs. 1,700 crore long-term debt in FY2020. Of the same, Rs. 1,400 crore was raised from foreign portfolio investment (FPI) market. While this strategy will have a bearing on its interest outgo, it has reduced the refinancing risk emanating from high exposure to short-term borrowings. Further, the reduced net short-term debt exposure is adequately backed-up by sanctioned credit facilities.

Going forward, the maintenance of combined shareholding in HMCL and healthy performance by this key investee companies, the management's ability to minimise refinancing risk, maintain comfortable leverage despite any material investments in the investee companies remain a few key sensitivities. Given the track record of fund infusion by strategic investors in key investee companies over the past few years, ICRA expects limited incremental funding requirements on the holding entities. However, any deviation from this plan will be a rating monitorable.

ICRA notes that an income tax demand of Rs. 2,336.71 crore (including interest) was received by HMCL in Q3 FY2019. As per the management, liability for the claim, in case it materialises, would fall on BMOP. An appeal has already been made against the tax demand to the Commissioner of Income Tax (Appeals) and based on the opinion sought by the management, a favourable resolution is expected by the company. ICRA would continue to monitor the developments in this regard and take appropriate rating action, if required, in the future.

The rating outstanding on Rs. 725 crore non-convertible debenture programme stands withdrawn as are no obligations outstanding against the rated instrument. This is in line with ICRA policy on withdrawal and suspension of Credit rating.

Key rating drivers and their description

Credit strengths

Strong financial flexibility emanating from being principal holding company of HMCL– BCIPL and BMOP are the holding companies of HMCL, Hero Fincorp Limited (HFCL rated [ICRA]AA+(Stable)/[ICRA]A1+), Hero Future Energies Private Limited and Rockman Industries Limited (RIL, rated [ICRA]AA(Stable)/[ICRA]A1+). The market value of these investments has improved significantly to Rs. 28,430 crore[2] on August 28, 2020 from Rs. 18,500 crore as on March 31, 2020. The total promoter stake, cumulative with BMOP, in HMCL was 34.2% as on June 30, 2020 and its market value aggregated Rs. 20,790 crore as on August 28, 2020, witnessing a sharp improvement from the lows witnessed in March 2020. Despite the likely volatility in share price in the near term, given the subdued outlook for the macro-economic environment and the two-wheeler industry, HMCL is anticipated to benefit from its strong rural presence. Moreover, its leadership position in

[2] *Based on underlying valuations by recent Private Equity investors in case of HFCL and HFEPL and independent valuation for RIL*

the entry and executive 2W sub-segment and increasing preference for personal mobility as a result of the pandemic augurs well.

Strong business and financial position of HMCL; principal contributor of dividend income – HMCL is the Group's flagship entity, being a leading producer of motorcycles in the world with steady cash flows and liquidity. Despite the weak demand scenario faced by the two-wheeler industry for the past two years, HMCL has maintained a comfortable financial and credit risk profile along with a strong market position. It has a track record of regular dividend distribution over the last 20 years. In FY2020, the dividend income, final and interim, for the holding entities has been Rs. 97 per share (~Rs. 658 crore). Notwithstanding its weak operating performance in FY2020, HMCL has already announced dividend of Rs. 25 per share (Rs. 170 crore share for holding entities) in FY2021. ICRA expects a consistent, albeit slightly moderated flow of dividends from the company over the next one to two years.

Experienced promoters with investments in diverse industries – At present, the key investments of BCIPL and BMOP encompass industries such as automotive and auto components (HMCL, RIL), financial services (HFCL), renewable energy (HFEPL), higher education and training (BML Educorp Services Limited), and electronics (Hero Electronix Private Limited).

Limited incremental investment requirements in key investee companies – The holding entities have limited near-term incremental funding requirements in the key investee companies (around Rs. 125-130 crore in FY2021). Any significant increase from the indicated levels of incremental investment remains a key rating monitorable. While the leverage available to the holding entities to raise debt against HMCL holding has improved in the past few months, there also exists a significant latent value in select unlisted investee companies, particularly operating in the renewable energy and financial services domains. This is indicated by the interest evinced by private equity (PE) players in the last few years.

Credit challenges

Concentration of investment in HMCL and significant dependence on its dividend pay-out – HMCL contributed to nearly 95% of the holding companies' dividend income as on March 31, 2020[3]. Consequently, the holding entities are predominantly dependent on the performance of HMCL and the auto industry for the cash flows. HMCL's strong credit profile and consistent track record of declaring dividends provide comfort. However, considering the challenging operating environment for the two-wheeler companies over the near-term, the dividend income could reduce. Additionally, the financial flexibility of the entities, which is linked to HMCL's share price, may remain volatile.

Moderate coverage indicators and refinancing risk – The debt coverage indicators for the holding entities remain moderate because of its sizeable debt (net external debt[4] of ~Rs. 3,914 crore as on August 21, 2020) which has been primarily deployed towards investments in key investee companies and business realignment. The debt is expected to remain range bound around the current levels over the medium term. Nevertheless, the proportion of short-term debt has declined consistently during the past three years (to 24% in March 2020 from 58% in March 2018), which has reduced the refinancing risk. However, the higher associated borrowing cost and the possible decline in dividend income from HMCL are likely to keep the coverage indicators subdued in the near-term. However, ICRA notes that despite the volatilities caused by regulatory changes and increased risk aversion in the market, BCIPL has been able to timely refinance its commercial paper borrowings and raise long-term domestic and FPI funding over the past year.

Liquidity position: Adequate

BCIPL's liquidity profile is expected to remain **adequate**, backed by the financial flexibility emanating from its status as a promoter of HMCL, back-up lines of credit aggregating Rs. 450 crore along with available cash and liquid investments (Rs.

[3]*Investments of BMOP refer to its investment in shares of various companies and exclude investment in debentures of BCIPL*
[4]*Net external debt = Total debt less inter-corporate loans less cash and liquid investments. BCIPL has inter-corporate borrowings (zero-coupon debentures) and NCD's of Rs. 4,535 crore from BMOP.*

777 crore as on August 21, 2020). The company had high proportion of short-term debt in the past, however, over the past 18-months, it has raised long-term funds to reduce its short-term debt exposure partially mitigating the refinancing risk. However, ICRA expects a subdued macro environment and muted two-wheeler demand in FY2021 owing to Covid-19 pandemic. This may impact BCIPL's near-term cash flows arising from dividends from HMCL. Nonetheless, ICRA expects HMCL to maintain its leadership position and healthy credit profile. This is likely to ensure a consistent flow of dividends to its promoter companies, to be then used for debt servicing and incremental investments.

Rating sensitivities

Positive triggers – ICRA could upgrade BCIPL's ratings if, inter alia, there is material increase in its dividend income along with diversification of its income streams and/or significant reduction in its consolidated debt leading to an improvement in its debt coverage metrics.

Negative triggers- Negative pressure on BCIPL's rating could arise for reasons including deterioration in the credit profile of the key investee company, HMCL or; significant decline in dividend income and reduction in market value buffer. Moreover, higher-than-anticipated short-term debt exposure, without adequate back-up, leading to enhanced refinancing risk and/or Group debt significantly exceeding the expected levels could also trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of BCIPL and BMOP given the close business, financial and managerial linkages between the entities.

About the company

Incorporated in September 1979 as a private limited company, BCIPL was converted to a core investment company (CIC) in October 2016. Promoted by Mr. B. M. Munjal and family, it is a holding company for the Hero Group and one of the holding companies of HMCL, the largest India-based two-wheeler manufacturer in the world. BCIPL is held 99.62% by BMOP, a partnership firm and together with its parent, it holds a 34.02% stake in HMCL. Besides, BCIPL and BMOP have equity investments in numerous Group companies, with the major ones being HMCL, Hero Future Energies Private Limited, Hero FinCorp Limited, BML Educorp Services Limited and Hero InvestCorp Private Limited.

Key financial indicators (audited)

BCIPL	FY2019 Standalone	FY2020^	FY2019 Consolidated	FY2020^
Operating Income (Rs. crore)	390.4	411.1	662.9	703.6
PAT (Rs. crore)	153.9	113.9	337.1	323.6
OPBDIT/ OI (%)	99.2%	96.6%	99.0%	95.9%
RoCE (%)	4.6%	4.6%	6.1%	6.0%
Total Outside Liabilities/TNW (times)	5.0	4.2	0.5	0.6
Total Debt*/ OPBDIT (times)	8.7	10.8	6.0	6.9
Interest Coverage (times)	1.4	1.2	2.0	1.7
DSCR (times)	1.4	1.2	1.9	1.7

**Total debt in BCIPL excludes inter-corporate debt from BMOP and includes accumulated interest; Line-by-line consolidation undertaken with BMOP*
^Provisional results
Note: Reported financials for are as per Ind-AS; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on 21-Aug-20 (Rs. crore)	Date & Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					4-Sep-20	21-Apr-20	6-Mar-20 25-Feb-20/ 24-Jan-20/ 11-Nov-19/ 31-May-19	14-Feb-19/ 7-Dec-18/ 30-Apr-18	-
1	NCD Programme	Long-term	2,425.0	2,050.0*	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	NCD Programme	Long-term	725.0	^	[ICRA]AA (Stable); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
3	NCD Programme	Long-term	600.0	Nil@	[ICRA]AA (Stable)	--	--	--	--
4	Long-term Debt Programme	Long-term	50.0	Nil@	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
5	Commercial Paper Programme	Short-term	2,500.0	1,550.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

*@Yet to be placed; *Three separate issuances; instrument wise details under Annexure-I*
^Fully redeemed

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
INE087M08043	Non-convertible Debenture Programme	3-Dec-19	10.82%	2-Dec-22	350.0	[ICRA]AA(Stable)
INE087M08050	Non-convertible Debenture Programme	2-Mar-20	9.00%	1-Mar-24	650.0	[ICRA]AA(Stable)
INE087M08068	Non-convertible Debenture Programme	9-Mar-20	9.95%	8-Mar-24	1,050.0	[ICRA]AA(Stable)
NA	Non-convertible Debenture Programme*	NA	NA	NA	375.0	[ICRA]AA(Stable)
NA	Non-convertible Debenture Programme*	NA	NA	NA	600.0	[ICRA]AA(Stable)
NA	Long-term Debt Programme*	NA	NA	NA	50.0	[ICRA]AA(Stable)
NA	Commercial Paper Programme	NA	NA	7-365 days	2,500.0	[ICRA]A1+

*Source: BCIPL; * Yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brijmohan Lal Om Parkash	100.00% (parent of the rated entity)	Full Consolidation

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

L. Shivakumar
+91 2224331046
shivakumar@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999