

April 21, 2020

## Bahadur Chand Investments Private Limited: Ratings reaffirmed; outlook revised to Negative

### 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 reaffirmed; Outlook revised to Negative from Stable |
| Non-convertible Debenture Programme | 3,150.0                           | 3,150.0                          | [ICRA]AA reaffirmed; Outlook revised to Negative from Stable |
| Commercial Paper                    | 2,500.0                           | 2,500.0                          | [ICRA]A1+; reaffirmed  |
| <b>Total</b>                        | <b>5,700.0</b>                    | <b>5,700.0</b>                   |  |

\*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.

The revision in outlook to Negative takes into consideration the reduction in financial flexibility contributed by challenging economic environment, capital market volatilities and reduced market appetite for lending to holding entities. The market value of holdcos' investment in Hero Motocorp Limited (HMCL; rated [ICRA]AAA(Stable)/[ICRA]A1+)<sup>1</sup>, its key investee company, has seen close to a 30% decline in the last 6 months. This has been driven by subdued market demand for two wheelers exacerbated by price hikes emanating from transition to new emission norms of BS VI effective April 1, 2020 and subsequent nationwide lock down in the wake of COVID-19. The change in outlook reflects, likelihood of reduction in BCIPL's cash flows primarily arising from HMCL's dividend, and lesser market value buffer in meeting the covenant conditions regarding the maintenance of asset cover on material assets (primarily market value of investments in HMCL) as was there in the past. ICRA will continue to monitor the developments around the treatment of such covenants and the same would remain a key rating monitorable.

Notwithstanding the above, the rating continues to favourably factor in the status of BCIPL and BMOP as the principal holding companies of HMCL and the healthy financial flexibility emanating from the market value of their investments in HMCL (Rs. 10,849.5 crore<sup>2</sup> as on March 31, 2020 for the combined stake of ~34%). 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 (including corporate guarantees, letters of comfort, keep fit letters or any other form of off-balance sheet support provided) around the current levels over the medium term.

These strengths are partially offset by the significant revenue and investment concentration in HMCL, with the company's dividends accounting for nearly 99% of the total dividend income and nearly 72% of the combined book value of investments of BCIPL and BMOP as on March 31, 2019. 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, healthy albeit lower dividend stream from HMCL is expected to continue.

<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

The net external debt of the holding entities at Rs. 3,762 crore (as on March 29, 2020) is expected to remain high in the medium term. ICRA notes that monetisation plans for key investee companies may get deferred due to current macro-economic scenario, which may delay debt reduction plans of the holdcos. The consolidated interest coverage at 2.0 times (as at March 31, 2019) remains modest, while it faces significant refinancing risk due to its short-term borrowings and long-term borrowings with asset-cover linked triggers.

In FY2017, the company had raised significant short-term debt for business realignment and increasing shareholding in HMCL. To reduce reliance on short-term borrowings and partly refinancing its debt maturities falling due in Q1 FY2021, the management raised sizable long-term debt, of approximately Rs. 1,700 crore. The holding entities tapped the foreign portfolio investment (FPI) market for raising long-term funding of Rs. 1,400 crore. 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. ICRA notes that the residual short-term borrowings of Rs. 1,200 crore as on March 29, 2020 were adequately backed-up by credit facilities and unencumbered cash and liquid investments of Rs. 1,211 crore.

Going forward, the maintenance of combined shareholding in HMCL and healthy performance by this key investee company, and the management's ability to minimise refinancing risk and maintain comfortable leverage (while funding any incremental investment requirements) remain a few key sensitivities. In addition, market-related risks, adverse movements in HMCL's share price on a sustained basis, significant investments in new businesses or potential inorganic growth plans of the Hero Group that have impact on the credit profile of the holding entities, remain key monitorable. 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 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.

## 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+). Market value of these investments is close to Rs. 18,500 crore<sup>3</sup>. With BCIPL acquiring incremental 0.04% shareholding in HMCL on March 31, 2020, the entity's stake in HMCL increased to 20.04%. The total promoter stake, cumulative with BMOP, in HMCL stood at ~34% as on March 31, 2020. The market value of holdco investment in HMCL aggregated Rs. 10, 849.5 crore as on March 31, 2020. However, it is likely to be impacted in the near term, given the muted outlook for the two-wheeler industry.

**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 past 1.5 years, HMCL has maintained a comfortable financial and credit risk profile and 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

<sup>3</sup> Based on underlying valuations by recent Private Equity investors in case of HFCL and HFEPL and independent valuation for RIL

(~Rs. 658 crore). ICRA expects a consistent, albeit slightly moderated flow of dividends, over the next one to two years from HMCL.

**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 incremental funding requirements in the key investee companies over the near term (Under Rs. 100 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 has declined in the past few months, there 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 99% to the holding companies' dividend income as on March 31, 2019<sup>4</sup>. Consequently, the holding entities are predominantly dependent on the performance of HMCL and the auto industry for the cash flows. While the strong credit profile of HMCL and its consistent track record of declaring dividends provide comfort, given the challenging operating environment for the two-wheeler companies over the near-term, the dividend income could reduce. In addition, the financial flexibility of the entities, which is linked to HMCL share price, is also likely to be impacted.

**Moderate coverage indicators and high refinancing risk** – The debt coverage indicators for the holding entities remain moderate because of its sizeable debt (net external debt<sup>5</sup> of ~Rs. 3,762 crore as on March 29, 2020) which has been primarily deployed towards investments in key investee companies and business realignment. While the debt is expected to remain at current levels over the medium term, the proportion of short-term debt declined in FY2020. This has reduced the refinancing risk. However, the higher associated borrowing cost, coupled with possible decline in dividend income from HMCL, are likely to keep the coverage indicators subdued in the near-term. Furthermore, while the current short-term borrowings are almost completely backed by cash and liquid investments, the financial leverage available with the holding entities has declined sharply in the past few months due to a decline in share price of HMCL. Consistent decline in HMCL share price could also trigger asset-cover covenants pertaining to the company's NCDs and exacerbate the refinancing risk. Notwithstanding the above, ICRA takes note that despite volatility caused by regulatory changes and increased risk aversion in the market, BCIPL was able to timely refinance its CP borrowings and raise long-term domestic and FPI funding in FY2020.

## 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; available cash and liquid investments (Rs. 1,211 crore as at March end 2020, including liquidity at BMOP); and back-up lines of credit aggregating Rs. 450 crore. While the company had high proportion of short-term debt in the past, over the past one year it has raised long-term funds to reduce its short-term debt exposure, partially mitigating the refinancing risk. However, ICRA expects subdued macro environment and weak two-wheeler demand in FY2021 owing to the COVID-19 outbreak would impact BCIPL's cash flows arising from dividends from HMCL in the near-term. Nonetheless, ICRA expects HMCL to continue maintaining its leadership position and healthy credit profile.

<sup>4</sup>Investments of BMOP refer to its investment in shares of various companies and exclude investment in debentures of BCIPL

<sup>5</sup>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.

This is expected 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** – Given the negative outlook, an upgrade in the rating is unlikely in the near-term. However, ICRA could consider revising the outlook to Stable if, inter alia, there is significant reduction in its consolidated debt, coupled with reduction in proportion of short-term borrowings, leading to improvement in debt coverage metrics.

**Negative triggers**- Negative pressure on BCIPL's rating could arise for reasons including deterioration in credit profile of the key investee company, HMCL; significant decline in dividend income; and further reduction in market value buffer. Also, 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 because of higher investments in investee companies, could also trigger a rating revision.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Holding Companies</a>   |
| 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 33.99% 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                                 | FY2018<br>Standalone | FY2019 | FY2018<br>Consolidated | FY2019 |
|---------------------------------------|----------------------|--------|------------------------|--------|
| Operating Income (Rs. crore)          | 343.0                | 386.2  | 587.0                  | 658.8  |
| PAT (Rs. crore)                       | -19.6                | 153.9  | 116.6                  | 337.1  |
| OPBDIT/ OI (%)                        | 99.5%                | 99.2%  | 94.7%                  | 99.0%  |
| RoCE (%)                              | 2.0%                 | 4.6%   | 3.5%                   | 6.1%   |
| Total Outside Liabilities/TNW (times) | 5.3                  | 5.0    | 0.5                    | 0.5    |
| Total Debt*/ OPBDIT (times)           | 8.9                  | 8.7    | 6.5                    | 6.0    |
| Interest Coverage (times)             | 1.4                  | 1.4    | 1.9                    | 2.0    |
| DSCR (times)                          | 1.4                  | 1.4    | 1.8                    | 1.9    |

*\*Total debt in BCIPL excludes inter-corporate debt from BMOP and includes accumulated interest; Line-by-line consolidation undertaken with BMOP  
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 29-Mar-20 (Rs. crore) | Date & Rating 21-Apr-20 | Date & Rating in FY2020                           | Date & Rating in FY2019   | Date & Rating in FY2018 |                   |   |
| 1          | NCD Programme              | Long-term                | 3,150.0  | 2,494.0*                | [ICRA]AA (Negative)                               | 6-Mar-20<br>25-Feb-20/<br>24-Jan-20/<br>11-Nov-19/<br>31-May-19 | [ICRA]AA (Stable)       | [ICRA]AA (Stable) | - |
| 2          | Long-term Debt Programme   | Long-term                | 50.0   | Nil@                    | [ICRA]AA (Negative)                               | [ICRA]AA (Stable)   | [ICRA]AA (Stable)       | [ICRA]AA (Stable) | - |
| 3          | Commercial Paper Programme | Short-term               | 2,500.0  | 1,200.0                 | [ICRA]A1+   | [ICRA]A1+   | [ICRA]A1+               | [ICRA]A1+         | - |

@Yet to be placed; \*Four separate issuances; instrument wise details under Annexure-I

**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

| ISIN No      | Instrument Name                      | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------|--------------------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| INE087M08027 | Non-convertible Debenture Programme  | 15-Jun-15                   | 9.65%       | 17-Jun-20     | 725.0                    | [ICRA]AA(Negative)         |
| INE087M08043 | Non-convertible Debenture Programme  | 3-Dec-19                    | 10.82%      | 2-Dec-22      | 350.0                    | [ICRA]AA(Negative)         |
| INE087M08050 | Non-convertible Debenture Programme  | 2-Mar-20                    | 9.00%       | 1-Mar-24      | 650.0                    | [ICRA]AA(Negative)         |
| INE087M08068 | Non-convertible Debenture Programme  | 9-Mar-20                    | 9.95%       | 8-Mar-24      | 1,050.0                  | [ICRA]AA(Negative)         |
| NA           | Non-convertible Debenture Programme* | NA                          | NA          | NA            | 375.0                    | [ICRA]AA(Negative)         |
| NA           | Long-term Debt Programme*            | NA                          | NA          | NA            | 50.0                     | [ICRA]AA(Negative)         |
| 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%<br>(parent of the rated entity) | Full Consolidation     |

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