July 11, 2022

VE Commercial Vehicles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	410.00	405.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Non Fund-Based Facilities	6.00	11.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Fund/Non Fund-based Limits	590.00	590.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Term Loans	120.00	120.00	[ICRA]AA+(Stable); reaffirmed
Total BLR facilities	**1,126.00**	**1,126.00**	
Commercial Paper Programme	**100.00**	**100.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for VE Commercial Vehicles Limited (VECV) continues to factor in its stable market position as a leading commercial vehicle (CV) manufacturer in India, its strong parentage, robust balance sheet and strong liquidity profile. Although its operating profitability has moderated over the past couple of years due to the slowdown in the domestic CV industry and commodity hardening, ICRA believes that VECV, aided by its comprehensive product portfolio, backed by two strong joint venture (JV) partners and robust balance sheet, remains well positioned to benefit from a likely uptick in demand, going forward.

VECV is one of the leading players in the domestic CV industry, with a market share of 17% in FY2022 in its addressable market segment. It has presence across both the goods carrier and passenger carrier segments, along with a comprehensive and expanding product portfolio spanning the 5–49T range. Although the CV industry is highly cyclical and subject to high competition, the company has maintained and improved its market presence over the years by steadily bridging portfolio gaps, expanding its dealer network, and improving after-sales offerings.

The ratings continue to favourably factor in VECV's strong parentage being a JV between Eicher Motors Limited (EML, rated [ICRA]AAA/ Stable/[ICRA]A1+) and AB Volvo (rated A2, Stable, P1 by Moody's Investors Services). VECV continues to benefit from the strong product engineering technology support from AB Volvo, which enables timely modernisation and strengthening of the product portfolio, while EML's understanding of the Indian market supports cost-competitive manufacturing and developing a sales network.

The ratings also take comfort from the fact that VECV continues to follow a conservative financial policy, with large investments and capacity expansion projects over the years funded by cash flows from operations, and minimal dependence on external borrowings. Although it availed some external borrowings in FY2021 to enhance its liquidity position, the company pre-paid part of the loans and continues to maintain a significant net-debt negative position. Accordingly, the company's balance sheet remains largely unleveraged (with TD/TNW and TD/OPBDIT of 0.1 times and 0.3 times, respectively, in FY2022, even after accounting for the impact of Ind AS 116). In FY2022, although the operating profit margin weakened to 5.6% from 6.9% in FY2021 because of commodity hardening, the credit metrics remained strong with interest cover of 19.9 times and NCA/total debt of 266%, supported by its unleveraged balance sheet. Going forward, ICRA expects the company to maintain a negative net-debt position, and strong credit metrics aided by the expectation of healthy cash accruals.

ICRA notes that the company's revenues and earnings remain susceptible to the inherent cyclicality of the domestic CV industry, with earnings and return indicators moderating during periods of downturns and improving thereafter as the industry volumes revive. Accordingly, VECV's earnings and return indicators moderated sharply over FY2020 and FY2021 as the domestic CV industry underwent a period of sharp volume contraction. Nevertheless, even as FY2022 started on a weak note owing to the second wave of the pandemic and related uncertainties, VECV reported optically high growth of ~38% in sales volume and ~47% in revenues in FY2022 on the back of improvement in economic activity and a low base of the previous year. Overall, ICRA expects VECV to mirror the recovery trend in the industry, and report healthy growth in the current fiscal.

The Stable outlook on the long-term rating reflects ICRA's opinion that VECV will continue to benefit from its established business position. Although the market slowdown and inflation exerted pressure on VECV's return indicators to some extent, they are expected to subsequently improve with the demand revival. Additionally, the company's credit metrics are expected to continue to be strong aided by healthy cash accruals, moderate capex plans and limited debt repayments.

Key rating drivers and their description

Credit strengths

Strong parentage as JV between EML and AB Volvo provides it access to technical and operational support – VECV is a 54.4:45.6 JV between Eicher Motors Limited (EML), India, and AB Volvo, Sweden. While EML's understanding of the Indian market has helped VECV develop a cost-competitive manufacturing base and strengthen its distribution network over the years, AB Volvo's presence has aided in technology absorption and strengthening product development capabilities, therefore, helping VECV foray into the heavy-duty CV segment. The foreign parentage of AB Volvo also helped the company to transition smoothly to BS-VI emission norms, with design, development and technology support. Overall, VECV has established a healthy presence in the domestic CV industry, benefitting from the complementing strengths of its JV partners.

Comprehensive product portfolio across goods carrier and passenger carrier segments; strong brand equity in the medium-duty truck segment – VECV has a comprehensive product portfolio, with a strong presence across the goods and passenger carrier segments. Over the past few years, the company has launched new trucks under its 'Pro Series' to address gaps in its product portfolio. As a result, VECV has catered to an enhanced customer profile, thereby helping it maintain a strong presence in the domestic CV industry. It enjoys a strong presence in the medium duty (MD) truck segment (i.e., 7-16T category), where it is the second-largest player with a 31% market share at present. Despite increasing competition in the segment, including aggressive discounting practices and new product offerings across tonnage categories, VECV has managed to retain its stronghold in the segment, especially in the 7-12T category. In the light duty (LD) truck segment too, VECV has a strong market share of 26% (in FY2022) and is the second-largest player after Tata Motors Limited in its addressable market segment[1]. In the heavy duty (HD) truck segment (>16T), however, at present, it is a marginal player with only 7-8% market share, although this has improved over the past two years from 3-4%, supported by the introduction of new products to plug portfolio gaps.

Robust financial risk profile characterised by conservative capital structure, strong debt coverage indicators and strong liquidity – The company's capital structure continues to be healthy, characterised by negative net-debt position, healthy debt coverage indicators and significant cash and bank balances (Rs. 1,386 crore as of March 31, 2022). This has been supported by healthy cash flow generation from operations, which has been in surplus compared to investment or capital expenditure requirements. While the company availed some long-term debt in FY2021, the same was primarily to enhance its liquidity position, and net debt levels remain significantly negative. Even though the company has incurred significant investments over the recent years towards the new emission norms and its greenfield facility in Bhopal, the same has been funded by internal accruals and available cash balances, which has helped it maintain a strong credit profile.

Credit challenges

Significant cyclicality and high competition in domestic CV market; earnings susceptible to headwinds such as rising commodity and diesel prices, semiconductor shortage – The CV industry remains inherently cyclical in nature, with the industry volumes strongly correlated to the level of economic activity. Additionally, the high competition in the industry has

[1] *Excluding the <3.5T goods carrier segment, where VECV is not present.*

led to a prevalence of aggressive discounting practices, which constrain the profitability of players. The domestic CV industry underwent one of the sharpest downcycles during FY2020- FY2021, with the total industry volumes contracting by a sharp 29% in FY2020 and a further 21% in FY2021, due to multiple headwinds including the pandemic. Accordingly, VECV's volumes, revenues and earnings also contracted sharply during FY2020-FY2021. The two consecutive years of earnings contraction impacted the return indicators, despite measures undertaken to prune costs. Nevertheless, even as FY2022 started on a weak note owing to the second wave of the pandemic and related uncertainties, VECV reported an optically robust growth of ~38% in sales volume and ~47% in revenues in FY2022 on the back of improvement in economic activity and a low base of the previous year.

Low market share in HD trucks and buses at present; ability to improve segment market share remains critical given its high growth potential and superior profitability – VECV's market share in the HD truck segment, despite some improvement over the past couple of years, has remained low at 7-8% owing to the stiff competition from established players like Tata Motors Limited and Ashok Leyland Limited, who together account for approximately 80% of M&HCV (truck) sales in India. To address this, over the years, VECV has launched new products under its 'Pro Series' range of HD trucks. In addition to rolling out specific products, the company had also increased its dealership presence in the identified markets. The company has also been focusing on offering an enhanced experience to its customers via introduction of 100% connected vehicles. The company's ability to further improve its market share in the segment remains critical, given the high growth potential of the segment and the superior profitability involved.

Liquidity position: Strong

VECV's liquidity position is **strong,** aided by expected cash flow generation from operations of ~Rs. 600-700 crore/ annum and sizeable cash balances of ~Rs. 1,512 crore as on March 31, 2022. Further, the company's working capital credit facilities remain largely unutilised. Against these sources of liquidity, the immediate cash outflow requirements remain restricted to capex outgo of Rs. 500-600 crore p.a., while debt servicing obligations remain much lower (~Rs. 35 crore in FY2023). Additionally, VECV's financial flexibility and its access to financial markets with the backing of two strong promoter groups offers comfort.

Rating sensitivities

Positive factors – ICRA could upgrade VECV's ratings if there is a significant scale-up in operations and strengthening of business profile with sustainable and meaningful gain in the market share, especially in the high-margin HD truck segment in India. The company's maintenance of robust credit metrics and profitability indicators, such as RoCE above 25%, on a sustained basis will also be considered favourably for a rating upgrade.

Negative factors – ICRA could downgrade VECV's ratings if a prolonged weak demand environment for CVs leads to sustained deterioration in the financial risk profile with increased reliance on external borrowings, which weakens its credit metrics. A specific credit metric for a downgrade is the net debt/OPBITA above 1.0 times, on a sustained basis. Additionally, any weakening in the parent companies' credit profile or business linkages could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Commercial Vehicle Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VECV. As on March 31, 2022, the company had two subsidiaries, which are enlisted in Annexure-2.

About the company

VE Commercial Vehicles Limited, a joint venture between Eicher Motors Limited (EML, 54.4%) and AB Volvo, Sweden (45.6%), was incorporated with effect from July 1, 2008. VECV is jointly managed by EML and AB Volvo. The company is a CV OEM with a product portfolio spanning 5–49T trucks and buses. The company manufactures its entire range of vehicles under the 'VE Series' brand. Apart from vehicle manufacturing, the company is also involved in the manufacture of auto components, Euro VI emission compliant engines for the export markets, along with sales and marketing of Volvo branded premium range of trucks in India. In 2020, Volvo Buses India was integrated into VECV including manufacture, assembly, distribution, and sale of Volvo Buses in India. While the company has been strengthening its position in the HD segment aided by the technology support from AB Volvo, it is particularly strong in the MD truck segment, commanding a market share of 31% in FY2022.

The company's manufacturing facilities for CVs are at Pithampur and Bhopal (both in Madhya Pradesh) and have a combined production capacity of 1,30,000 units p.a. Its manufacturing facilities for auto components are at Dewas, Special Economic Zone Indore and Thane (Maharashtra).

Key financial indicators (audited)

VECV Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	8,676.4	12,724.5
PAT (Rs. crore)	57.2	110.6
OPBDIT/OI (%)	6.9%	5.6%
PAT/OI (%)	0.7%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5
Total Debt/OPBDIT (times)	1.0	0.3
Interest Coverage (times)	15.4	19.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jul 11, 2022	May 25, 2022	Jun 28, 2021	Aug 20, 2020 Jun 25, 2020	Jul 03, 2019	May 03, 2019
1	Fund Based Limits	Long-term/ Short-term	405.00	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+
2	Non Fund-Based Facilities	Long-term/	11.00	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+	[ICRA]AA+ (Stable) /[ICRA]A1+

		Short-term								
3	Fund/Non Fund-based Limits	Long-term/ Short-term	590.00	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable) /[ICRA]A1+**	**[ICRA]AA+ (Stable) /[ICRA]A1+**
4	Term Loans	Long-term	120.00	112.50	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable**	**[ICRA]AA+ (Stable**	-	-
5	Commercial Paper Programme	Short-term	100.00	0.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+; withdrawn**
6	Unallocated	Long-term/ Short-term	-	-	-	-	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable) /[ICRA]A1+**	**[ICRA]AA+ (Stable) /[ICRA]A1+**
7	NCD Programme	Long-term	-	-	-	-	**[ICRA]AA+ (Stable); Withdrawn**	**[ICRA]AA+ (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Non Fund-Based Facilities	Simple
Fund/Non Fund-based Limits	Simple
Term Loans	Simple
Commercial Paper Programme*	Very Simple

** Complexity categorisation is as per the latest understanding of ICRA and is subject to change once the issuance terms are finalised*

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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	405.00	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Non Fund-Based Facilities	NA	NA	NA	11.00	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Fund/Non Fund-based Limits	NA	NA	NA	590.00	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Term Loans	FY2021	NA	FY2026	120.00	[ICRA]AA+(Stable)
NA	Commercial Paper Programme*	NA	NA	NA	100.00	[ICRA]A1+

Source: *Company; *Not placed by the company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	VECV Ownership	Consolidation Approach
VECV Lanka (Private) Limited	100%	Full Consolidation
VECV South Africa (Pty) Limited	100%	Full Consolidation

Source: *VECV financial results of FY2022*

Note: *ICRA has taken a consolidated view of the parent (VECV) and its subsidiaries while assigning the ratings.*

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