

Hero Ecotech Limited

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	120.00	CARE BBB+; Negative / CARE A2	Revised from CARE A-; Negative / CARE A2+
Short Term Bank Facilities	15.00	CARE A2	Revised from CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Hero Ecotech Group (herein referred to as 'Hero Ecotech Limited and Hero Exports' following a combined approach) factors in the increased exposure to the weaker group entity i.e. Hero Electric Vehicles Private Limited (HEVPL) (rated CARE D (INC)) during FY24 (refers to period from April 01, 2023 to March 31, 2024) in the form of loans and advances along with equity infusion along with withdrawal of capital from the partnership firm. Along with the increased exposure to HEVPL there was further moderation in profitability margins & deterioration in the debt coverage indicators during FY24. However, the ratings of the group continue to derive strength from experienced promoters, well established brand name along with strong market position, diversified product portfolio, locational advantage, and reputed and diversified client base. Furthermore, the group also witnessed improvement in scale of operations during the year. These strengths are partially offset by elongated collection period though improving over the period, partnership nature of business of Hero Exports and susceptibility of margins to volatile raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income at the combined level to above Rs.750 crore along with maintaining ROCE above 15% and operating cycle improving to less than 100 days on a sustained basis.
- Recovery of advances from weak group entity in a timely manner thereby leading to improved liquidity & operational cash flows.

Negative factors

- Deterioration in total debt to PBILDT beyond 2.5x on a sustained basis.
- Any further support extended to Hero Electric Vehicles Private Limited thereby impacting the overall financial risk profile
- Any significant decline in revenues by more than 20% adversely impacting profitability margins and liquidity.

Analytical approach: Combined. CARE has combined financials of two entities viz Hero Ecotech Limited and Hero Exports [collectively referred to as Hero Ecotech Group] since, the said entities are engaged in a similar line of activity, have common promoters along with having significant operational and financial linkages. The details of the entity considered in combining the financials is provided in Annexure-6.

Outlook: Negative

The 'Negative' outlook reflects CARE's expectation of increase in the exposure and prolonged recovery of funds advanced to Hero Electric Vehicles Private Limited which is currently under financial stress since it pertains to the same promoter group with demonstrated track of support to this entity in the past. The outlook may be revised to stable with turnaround in operational performance along with timely recovery of advances from the group entity, thereby strengthening the liquidity.

Detailed description of the key rating drivers:

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Established brand name and market position with diversified product portfolio

The Hero eco is a multi-entity, multi-product and multi-location group having presence across various sectors like bicycles, electric vehicles, healthcare products and exports. Hero Eco has global footprints with a strong dealer network. It has a diversified product portfolio for domestic and international markets that consists of bicycles, bicycle components, electric vehicles, healthcare, fitness equipment, auto products and bicycle exports. It caters to all sorts of customers including kids, mountain bikers, female bikers, city bikes, athletes as well as common public at large. Hero Ecotech Limited sells bicycles under its own brand namely "Kross" in domestic market and exports under different OEM brands while Hero Exports sells under the brand name - "Hero" in the international market.

Locational advantage and integrated nature of operations

Hero Ecotech Limited has its own manufacturing unit while Hero exports has a separate unit. Both the units of Hero group are located in Ludhiana, Punjab. Ludhiana is the bicycle manufacturing hub and provides easy raw material availability and other logistical advantage to Hero Group. The manufacturing unit is fully integrated, and group manufactures major components viz. frame, fork, mud-guard, rim, etc in-house. Other components are purchased from local suppliers. Apart from the manufacturing of components, activities like coating, painting, assembly, packaging etc. are also undertaken in-house. The major raw material for the two entities is steel tubes and aluminium pipes which is assembled into a bicycle and sold under various brands by the group. Majority of the raw material is easily procured locally (around 80%) as the manufacturing unit is surrounded by major steel companies in the country.

Large client base with orders from government departments

Hero Group has a large clientele which has been associated with it for several decades. The clientele includes reputed global sports brands, State Governments whereas Hero Exports is a leading supplier in African regions, UAE, Bangladesh etc. During FY24, the revenue from government department stood at ~28% of the overall sales (PY: ~30%).

Experienced Promoters

Mr. Vijay Munjal-son of late Shri Dayanand Munjal- is the chairman of Hero Eco group (refers to the entities, "Hero Ecotech Limited, Hero Exports, Hero Electric Vehicle Private, & Hero Eco Med Private Limited) having over four decades of experience in this industry. The group is being steered by the vision of Mr. Vijay Munjal and has its presence spanning from bicycles to electric vehicles. Mr. Vijay is ably supported by his sons Mr. Naveen Munjal and Mr. Gaurav Munjal. Mr Naveen has an industry experience of more than two decades.

Key weaknesses

Significant exposure to group entity

During year FY23 (refers to period from April 01, 2022 to March 31, 2023), company had given advance of Rs 42 crore to HEVPL, however, later on HEVPL returned the advance of Rs. 19 Crore in April 2023 while balance amount was expected to be recovered by FY24. However, in FY24, the group extended further Rs.12.50 crore of advances HEVPL, therefore the total outstanding as on March 31,2024 stood at Rs.35.50 crore. Also, the company infused equity of Rs.20 crore in HEVPL during FY24. Therefore, the total exposure to the group entity as on March 31, 2024 stood at Rs.55.50 crore (i.e. ~22% of the Tangible Net worth of Hero Group). The adjusted overall gearing after adjusting loans and advances and investment into group entity from net-worth stood at 0.50x as on March 31, 2024 (PY: 0.33x). Recovery of these advances from the group entity in a timely manner with no further increase in exposure is of paramount importance owing to ongoing default in the group entity HEVPL and further support to HEVPL would remain a key rating monitorable.

Weakening of debt coverage indicators

Due to the decline in profitability and increase in debt, the debt coverage indicators also moderated. The interest coverage ratio (PBILDT/Interest) and total debt to GCA moderated and stood at 3.70x and 4.48x respectively as on March 31, 2024 (PY: 5.19x and 2.98x respectively as on March 31, 2023).

Elongated operating cycle

The operations of the group are working capital intensive represented by high inventory holding period and stretched collection days. Hero Eco needs to maintain sufficient inventory of raw material to ensure uninterrupted operations and to meet the market demand. The same stood at 77 days as on March 31, 2024 (PY: 87 days). Furthermore, the collection period also remains on the higher side primarily owing to government orders, which have collections ranging between 120-180 days. Also, the export customers demand a relatively higher credit period because of the longer turnaround time involved in shipment. The same stood at 124 days as on March 31, 2024 (PY: 153 days). Although, Hero Group enjoys a credit period of around 75-90 days from its creditors, the same has been shortening because of intense competition. The operating cycle at the combined level stood at 96 days as on March 31, 2024 (PY: 133 days as on March 31, 2023). The improvement over the last year has been primarily owing to increase in scale of operations.

Risk arising from Hero Exports being a partnership entity

Hero exports is exposed to inherent risk associated with its partnership nature of constitution like withdrawal of capital which may leverage the capital structure. Partnership concerns have restricted access to external borrowing which limits their growth opportunities to some extent. Moreover, there have been instances of capital withdrawal in Hero Exports in the past. There was withdrawal of capital by the partners to the tune of Rs.14.37 crore in FY24 (PY: Rs.13.53 crore). Nevertheless, any significant withdrawal of capital by the partners thereby impacting the capital structure of Hero Exports remains critical from credit rating perspective.

Intense competition from Chinese players

Bicycle manufacturing in India is divided between two main players – SMEs primarily being the component manufacturer & larger players take care of the assembly. Currently, the domestic production is focused on mass cycles and children's bikes followed by medium to high-end cycles. Most of these cycles are produced in the state of Punjab, which holds an 80% share in the overall bicycle production of our country. Increased demand with COVID 19 led to portfolio expansion for meeting global demands. However, India is still behind the American and European markets and face intense competition from China as Chinese products are cheaper and, hence, constrain the sales of Indian manufacturers. Though, in the Union Budget 2023, government has hiked the basic customs duty (BCD) on imported bicycles from 30 per cent to 35 per cent.

Liquidity: Adequate

The liquidity position of the group is adequate marked by expected gross cash accruals of Rs 40.38 crore to meet repayment obligations of Rs.3.78 crore for FY25 with modest utilization of bank limits and a cash and bank balance of Rs.4.88 crore as on March 31, 2024. The gearing remained comfortable at 0.39x as on March 31, 2024 (PY: 0.27x as on March 31, 2023) and above unity current ratio of 1.97x as on March 31, 2024 (1.84x as on March 31, 2023). Going forward, no major capex is envisaged, routine capex of Rs 7 crore is projected to be funded from internal accruals.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Consolidation](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Cycles

The "Hero Eco" was incorporated in 1956 by Late Shri Dayanand Munjal- who started operations in a small factory in Ludhiana and gradually establishing it into being a global brand. The Hero Eco is presently under the leadership of Mr. Vijay Munjal -son of late Shri Dayanand Munjal. Over the years, the Hero Eco expanded itself enormously in varied fields like Bicycles, electric vehicles, and healthcare thereby becoming one of the most renowned and trusted brands in India as well as other parts of the world. The Hero Eco has presence across various sectors like Bicycle manufacturing and exports, electric vehicles, healthcare products etc. Currently, there are five companies operating under the Hero Eco viz. Hero Ecotech Limited, Hero Exports, Hero Electric Vehicles Private Limited, A2B, and Hero Eco Med Private Limited.

Brief Financials (Combined) (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	480.81	585.26	231.26
PBILDT	34.63	36.19	NA
PAT	16.62	15.18	NA
Overall gearing (times)	0.27	0.39	NA
Interest coverage (times)	5.19	3.70	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

About the company: Hero Ecotech Limited

Hero Ecotech Limited incorporated in 2008 is involved in manufacturing of bicycles. The company acquired the new cycle division of Hero Cycles Ltd in February 2011. As part of the Munjal family arrangement, one of the cycle divisions of Hero Cycles was hived off into Hero Ecotech Limited. Hero Ecotech Limited was set up with an intension to manufacture and export high quality bicycles. It was set up in technical collaboration with National Panasonic of Japan with an idea to export products to the advanced 4 CARE Ratings Ltd. Press Release nations like Germany, UK, France, Japan etc. Until September 2012, most of its production was sold to Hero Cycles. However, from October 2012, it launched its own brand called "Kross" for the domestic Indian market. Hero Ecotech has an installed capacity to manufacture 15 lakh bicycles per annum.

Brief Financials (Standalone) (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	395.67	485.27	208.26
PBILDT	22.52	23.24	NA
PAT	9.90	7.84	NA
Overall gearing (times)	0.22	0.32	NA
Interest coverage (times)	5.01	3.10	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing		-	-	-	20.00	CARE BBB+; Negative / CARE A2
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	100.00	CARE BBB+; Negative / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	100.00	CARE BBB+; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2+ (05-Jul-23)	1)CARE A-; Stable / CARE A2+ (06-Jul-22)	1)CARE A-; Stable / CARE A2+ (13-May-21)
2	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2	-	1)CARE A2+ (05-Jul-23)	1)CARE A2+ (06-Jul-22)	1)CARE A2+ (13-May-21)
3	Fund-based - LT/ST-Bill Discounting/ Bills Purchasing	LT/ST	20.00	CARE BBB+; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2+ (05-Jul-23)	1)CARE A-; Stable / CARE A2+ (06-Jul-22)	1)CARE A-; Stable / CARE A2+ (13-May-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Bill Discounting/ Bills Purchasing	Simple
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of all the entities combined

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Hero Exports	Full, proportionate or moderate	Group Entity

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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