

TVS Motor Company Limited

September 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	222.47 (Reduced from 660.59)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	350.00 (Enhanced from 100.00)	CARE AA+ / CARE A1+ (Double A Plus / A One Plus)	Revised from CARE A1+ (A One Plus)
Long-term / Short-term Bank Facilities	200.00 (Reduced from 250.00)	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	608.00 (Enhanced from 400.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	1,380.47 (Rs. One thousand three hundred eighty crore and forty seven lakh only)		
Non-convertible Debentures	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	500.00 (Rs. Five hundred crore only)		
Commercial Paper	500.00 (Enhanced from 400.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	500.00 (Rs. Five hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of TVS Motor Company Limited (TVSM) continue to draw strength from the long track record of operations of TVSM with an established presence in the two-wheeler industry across all the product segments, geographically diversified revenue stream, experienced management team, comfortable leverage and debt protection metrics. The ratings also factor in the stable operating performance reported by the company in FY21 (refers to the period April 1 to March 31) driven by robust growth in exports revenue, albeit subdued performance in the domestic market due to COVID impact and increasing traction in the Electric Vehicles (EV) space.

The rating strengths are constrained by relatively low profit margin, exposure to commodity inflation, currency risk, highly competitive industry scenario and significant exposure to its subsidiaries.

Rating Sensitivities

Positive Factors

- Improvement in profit margins to 14% on a sustained basis supported by sizeable improvement in market share on sustained basis along with reduction in exposure to group companies

Negative Factors

- Any significant deterioration in the performance of Subsidiaries/Associates where TVSM has significant exposure.
- Significant decline in market share and profitability on sustained basis
- Deterioration in the interest cover to 8x on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Part of the TVS group, one of the leading groups in the Indian Auto & Auto components industry

TVS Motor Company Limited (TVSM) is one of the leading two-wheeler manufacturers in India and is the flagship company of the TVS group, one of the leading groups in the Indian Auto & Auto ancillary industry. TVSM manufactures wide range of two-

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

wheelers and three-wheelers from its facilities located at Hosur (Tamil Nadu), Mysore (Karnataka) and Nalagarh (Himachal Pradesh). Sundaram Clayton Limited, leading manufacturer of aluminum die-casting components for automotive applications, is the majority shareholder in TVSM (holding 52.26% share as on June 30, 2021).

Established presence in the two-wheeler industry with presence across product segments:

Over the years, TVSM has established itself as one of the leading players in the two-wheeler industry and is the only company to have presence in all the three categories, i.e., motorcycles, scooters and mopeds, in the domestic market. TVSM is the only company to have presence in moped segment for domestic market.

Domestic Contribution (%)	Two-wheeler Industry						TVSM					
	FY16	FY17	FY18	FY19	FY20	FY21	FY16	FY17	FY18	FY19	FY20	FY21
Motorcycle	65	63.1	62.5	64.2	64.4	71.0	32.2	31.1	31.9	32.4	31.3	29.0
Scooter	30.6	31.9	33.3	31.6	31.9	25.6	35.0	33.2	38.2	39.6	42.2	42.5
Mopeds	4.4	5.1	4.3	4.2	3.7	3.4	32.8	35.8	29.9	28.1	26.4	28.5

Source: CMIE

While the industry recorded decline in scooter in FY21, TVSM recorded improvement as TVS has strong presence in the scooter segment and is the second largest-player in the domestic scooter segment.

Launch of Electric two-wheelers

TVSM has continuously been investing in R&D which is focusing on technology and product development. As a result, TVSM had launched its first electric scooter TVS I-Qube in January 2020 in Bengaluru and has gradually increased its presence in PAN India. In FY20, I-Qube was present in Bengaluru and Delhi. As of June 30, 2021, it is present in six locations and the company plans to increase the presence in 20 cities by the end of FY22.

Three-wheeler sales primarily focus continues on export markets

TVSM reported 3W sales volume of 1.24 lakh, recording de-growth of 28.7% for FY21 as against 3W industry, which reported a drop of 46.51%. TVSM majorly exports the 3W produced and has lesser presence in domestic market. Major exports market include Nigeria, Ethiopia, Guinea, Kenya, Congo, etc.

Geographically diversified revenue stream with increase in share of exports in total revenue

TVSM's top export destinations include countries such as Bangladesh, Nigeria, Sri Lanka, Guinea, Kenya, Nepal, etc., where it provides a varied product portfolio consisting of motorcycles, scooters, mopeds and three-wheelers. Exports contributed around 28% of the total revenue in FY21 (PY: 28%) and is expected to further increase going ahead. Trend in exports for past few years tabled below.

Period	FY17	FY18	FY19	FY20	FY21
Exports as % of total income	18.3	19.9	23.7	27.7	28.5
Share of exports in 2W sales volume (%)	12.8	14.6	16.5	22.0	26.1
Share of exports in 3W sales volume (%)	82.7	83.3	89.3	93.1	92.7

Over the years, TVSM had a significant market presence in south India. With continuous brand building and positioning of product categories in line with the local demand, TVSM has been able to expand its presence beyond south and currently has significant presence in all the regions in terms of sales. The effort taken over the years to improve pan-India dealer network has resulted in TVSM having pan India presence across the categories with scope for improvement in the west and north regions.

Stability in operating performance in FY21; albeit some moderation in Q1FY22

The company reported marginal increase in the total operating income (TOI) in FY21 on a YoY basis mainly led by higher exports (12% YoY growth in exports) and improved mix. TVSM exports outpaced industry exports in FY21. The company has not only increased sales in the existing export destinations, but also has expanded into new geographies. The PBILDT margin also improved on a YoY basis in FY21 due to revival in sales in the second half of the year, premiumization, higher exports and focus on material cost and fixed cost reduction. One of TVSM's major subsidiaries, PT TVS has turned around and made profit of Rs.22 crore in FY21 as against loss of Rs.43 crore in FY20. In Q1FY22, the TOI reduced on a sequential basis by 26% due to COVID 2.0. The operating margin also deteriorated to 7% in Q1FY22 mainly due to lower revenue and impact of commodity inflation, although some price hikes were taken in Q1FY22.

Comfortable capital structure and debt coverage indicators

The capital structure of the company continues to remain robust characterized by healthy debt coverage indicators. Significant reduction in debt in FY21 led to improvement in the debt coverage indicators for FY21 as compared with FY20. Going forward, the capital structure of the company is expected to remain comfortable, as the capex requirements are expected to be met through internal accruals.

Key Rating Weaknesses**Significant exposure in subsidiaries witnessed, further increase in FY21; however, majority of exposure is in TVS Credit, non-banking finance company (NBFC) arm which is strategic in nature**

As on March 31, 2021, the overall investment of TVSM in subsidiaries and associates stood at Rs.3,141 crore (PY: Rs.2,484 crore). Overall investment stood at around 80% of TVSM's net-worth as on March 31, 2021 (PY: 72%). Large part of the exposure to subsidiaries is towards TVS Credit which is NBFC with an AUM of Rs.11,240 crore (PY: Rs.9,215 crore as on March 31, 2020). TVSM would be required to invest capital in the NBFC with the increase in its loan book. Higher than envisaged exposure to subsidiaries would be a key rating monitorable.

Exposed to commodity inflation

The key raw materials required for two-wheeler OEMs are steel, iron, aluminium, glass, etc. The prices of metals (especially steel) and rubber have elevated since H2FY21. Accordingly, most of the OEMs have undertaken increase in prices to mitigate the impact of higher input costs in Q4FY21 and Q1FY22. However, passing on the increase in prices entirely to the end consumer is challenging especially in the areas where there is intense competition and lower demand. Thus, the margins of the OEMs are subject to variations in the raw material prices.

Industry prone to macro-economic factors, rural incomes and competition

The two-wheeler business is prone to macro-economic factors, inherent cyclicity, levels of rural income as well as competition and hence displays significant variation in revenues over economic cycles. Furthermore, the need for personal mobility in the post pandemic era is likely to boost the sales of two wheelers. However, it is to be noted that since the segment is highly price sensitive, any change in the prices of two-wheelers or increase in the petrol cost may have a bearing on the sales volumes.

Liquidity: Adequate

Liquidity of TVSM remains adequate with cash and bank balance of Rs.858.98 crore as on March 31, 2021 and that of Rs.388.64 crore as on June 30, 2021. The company is expected to generate gross cash accruals of Rs.1,552 crore in FY22. As against the same, the company has principal repayment obligation of Rs.72.01 crore in FY21. Thus, the available liquidity is adequate to meet the debt repayment obligations.

Analytical approach: Standalone

For arriving at the ratings, CARE Ratings has considered TVSM's standalone financials as TVSM contributed to around 88% of the consolidated gross income for FY21. However, financial and operational performances of major subsidiaries and likely investment commitments to group companies have been factored in during the analysis.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

About the Company

TVS Motor Company Ltd (TVSM) is amongst the largest two-wheeler manufacturers in India. TVSM currently manufactures a wide range of two-wheelers and three-wheelers at its manufacturing facilities located at Hosur (Tamil Nadu), Mysore (Karnataka) and Nalagarh (Himachal Pradesh) with a total installed manufacturing capacity of 55.00 lakh two-wheelers and 2.0 lakh three-wheelers per annum as on March 31, 2021. The company has also set up a wholly-owned subsidiary in Indonesia, PT. TVS Motor company Indonesia (PT TVS) for the manufacture of motorcycles, in 2007. TVSM has presence in all the three categories of the two-wheeler industry, i.e., scooters, motorcycles and mopeds. It is the only player in the moped segment.

Brief Financials (Rs. crore)-Standalone	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	16,423.34	16,750.54	3,935.95
PBILDT	1,345.86	1,430.43	275.37
PAT	592.25	612.04	53.15
Overall gearing (times)	0.63	0.37	*
Interest coverage (times)	13.17	10.10	9.19

A: Audited; UA: Unaudited; * details not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2023	222.47	CARE AA+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	200.00	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	450.00	CARE A1+
Non-fund-based-Short Term		-	-	-	158.00	CARE A1+
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	350.00	CARE AA+ / CARE A1+
Debentures-Non Convertible Debentures	INE494B08010	May 15, 2020	7.5%	May 15, 2023	500.00	CARE AA+; Stable
Commercial Paper- Commercial Paper (Standalone)		-	-	7-364 days	500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	222.47	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Oct-20)	1)CARE AA+; Stable (26-Dec-19)	1)CARE AA+; Stable (05-Oct-18)
2	Fund-based - LT/ST-Cash Credit	LT/ST*	200.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (07-Oct-20)	1)CARE AA+; Stable / CARE A1+ (26-Dec-19)	1)CARE AA+; Stable / CARE A1+ (05-Oct-18)
3	Non-fund-based - ST-BG/LC	ST	450.00	CARE A1+	-	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)
4	Non-fund-based-Short Term	ST	158.00	CARE A1+	-	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)
5	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)2)CARE A1+ (29-Jun-18)
6	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Oct-20)2)CARE AA+; Stable (11-May-20)	-	-
7	Fund-based - LT/ST-Packing Credit in Foreign Currency	LT/ST*	350.00	CARE AA+ / CARE A1+	-	1)CARE A1+ (07-Oct-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available
Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
5	Non-fund-based - ST-BG/LC	Simple
6	Non-fund-based-Short Term	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: 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@careratings.com for any clarifications.

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