TVS Motor Company Limited (Revised)

March 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	300.00	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the proposed non-convertible debenture (NCD) issue of TVS Motor Company Limited (TVSM) continue to draw strength from the company's long track record of operations with an established presence in the two-wheeler industry across all the product segments, the geographically-diversified revenue stream, the experienced management team, and the comfortable leverage and debt protection metrics. The ratings also factor in the improved operating performance reported by the company in FY22 (refers to the period from April 1 to March 31), driven by robust growth in export revenue, market share, and increasing traction in the electric vehicles (EV) space.

The company has invested around ₹1,000 crore in FY22 towards electric platform development, new product development, capacity expansion, and geographical expansion by acquiring a stake in European companies – Swiss E-Mobility Group (Holding) AG, EGO Movement, and EBCO Limited through its investment arm TVS Motor (Singapore) Pte Ltd. The better-than-expected turnaround contributing significantly toward the scale and margins of the company will remain monitorable. Furthermore, the overall investment stood at around 95% of TVSM's reported net worth as on March 31, 2022; any substantial incremental investments impacting the adjusted leverage will remain a key monitorable.

The rating strengths are constrained by the relatively low-profit margins in the industry, the exposure to commodity inflation, currency risk, the highly competitive and volatile industry scenario, and the significant exposure to its subsidiaries, a few of which are loss-making.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Any significant deterioration in the performance of the subsidiaries or associates where TVSM has a significant exposure.
- Significant decline in the market share and profitability on a sustained basis.

Analytical approach: Standalone

For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has considered TVSM's standalone financials, as TVSM contributed to around 85% of the consolidated revenue from operations for FY22. However, the financial and operational performances of its major subsidiaries and the likely investment commitments to the group companies have been factored in during the analysis.

Outlook: Stable

Stable outlook reflects the company's ability to maintain its market position, which coupled with stable demand scenario shall enable it to sustain its healthy business profile over the medium term.

Key strengths

Part of the Venu Srinivasan faction of the TVS group, one of the leading groups in the Indian auto and auto components industry

TVSM is one of the leading two-wheeler manufacturers in India and is the flagship company of the Venu Srinivasan faction of the TVS group, one of the leading groups in the Indian auto and auto ancillary industry. TVSM manufactures a wide range of two-wheelers and three-wheelers from its facilities located at Hosur, Tamil Nadu; Mysuru, Karnataka; and Nalagarh, Himachal Pradesh. Sundaram Clayton Limited, a leading manufacturer of aluminium die-casting components for automotive applications, is the majority shareholder in TVSM, holding a 50.26% share as on December 31, 2022.

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

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

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 a presence in all the three categories, ie, motorcycles, scooters, and mopeds, in the domestic market. TVSM is also the only company to have a presence in the moped segment for the domestic market.

Domestic contribution (%)	Two-wheeler industry						TVSM					
	FY18	FY19	FY20	FY21	FY22	10MFY23	FY18	FY19	FY20	FY21	FY22	10MFY23
Motorcycle	62.5	64.2	64.4	66.3	66.7	65.0	31.9	32.3	31.3	29.0	34.6	34.3
Scooter	33.3	31.6	32.0	29.6	29.8	32.3	38.2	39.6	42.2	42.5	42.3	48.4
Mopeds	4.3	4.2	3.7	4.1	3.5	2.8	29.9	28.1	26.4	28.5	23.1	17.3

Source: CMIE.

The industry reported growth in the motorcycle and scooter segments, whereas de-growth in the moped segment in 10MFY23. TVSM recorded higher growth in the scooter segment as compared to that of the industry as a result of its strong presence and resultantly increasing market share in the scooter segment, being the second-largest player in the domestic scooter segment, and also due to its robust growth in the export scooter markets.

Launch of electric two-wheelers

TVSM has continuously been investing in research and development (R&D), focusing on technology and product development. TVSM launched its first electric scooter, TVS I-Qube, in January 2020 in Bengaluru, and has gradually increased its presence pan-India. During the year, TVSM upgraded TVS I-Qube with new features in three new variants and it is now available in more than 100 cities across 200 touchpoints in India that offer sales and after-sales services for TVS I-Qube.

Continued focus of three-wheeler sales on export markets

TVSM reported a three-wheeler sales volume of 1.72 lakh, recording a growth of 38.7% for FY22 as against the three-wheeler industry, which reported a growth of 24.2%. During 9MFY23, the company reported three-wheeler sales volume of 1.40 lakh, recording y-o-y growth of 7.7%. TVSM mainly exports its three-wheelers, thus having a lesser presence in the domestic market. Major export markets include Nigeria, Bangladesh, Ethiopia, Guinea, UAE, Kenya, and Congo, among others.

Geographically-diversified revenue stream with an increase in the share of exports in total revenue

TVSM's top export destinations include countries, such as Bangladesh, Nigeria, Guinea, Kenya, and Nepal, among others, where it provides a varied product portfolio consisting of motorcycles, scooters, mopeds, and three-wheelers. The exports contributed around 36% of the total revenue in FY22 (PY: 28%) and are expected to further increase going ahead. The trend in the exports for the last few years can be seen in the table below:

Period	FY17	FY18	FY19	FY20	FY21	FY22
Exports as a percentage of total income	18.3	19.9	23.7	27.7	28.5	36.0
Share of exports in two-wheeler sales volume (%)	12.8	14.6	16.5	22.0	26.1	34.7
Share of exports in three-wheeler sales volume (%)	82.7	83.3	89.3	93.1	92.7	94.9

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

Improvement in total operating income and operating margins in FY22 and 9MFY23

The company reported an increase in the total operating income (TOI) of 24% in FY22 on a y-o-y basis, mainly led by higher exports (56% y-o-y growth in exports) and improved mix. TVSM exports outpaced industry exports in FY22. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin also improved on a year-on-year basis in FY22, despite commodity cost pressures due to premiumisation, improved mix, and higher exports contributing 36% to the total revenues (PY: 28%), and focus on sustainable cost-reduction initiatives. One of TVSM's major subsidiaries, PT TVS, has turned around and made profits of ₹35 crore in FY22 and ₹22 crore in FY21 as against a loss of ₹43 crore in FY20. In 9MFY23, the TOI witnessed a marginal improvement on a y-o-y basis by 30%. The operating margin also improved to 10.23% in 9MFY23 from 9.48% in FY22. CARE Ratings expects the growth momentum to continue given the recovery in demand, however, margins may remain under pressure owing to commodity inflation.

Comfortable capital structure and debt coverage indicators

The capital structure of the company continues to remain robust, characterised by healthy debt coverage indicators. The long-term debt to equity ratio remained at 0.41x as on March 31, 2022 (PY: 0.31x), whereas the overall gearing remained at 0.50x as on March 31, 2022 (PY: 0.37x). During FY22, TVSM availed a term debt from HDFC Bank for reimbursement of the investments made. 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 weaknesses

Significant exposure in subsidiaries witnessed, further increased in FY22; however, majority of exposure is in TVS Motor (Singapore) and TVS Credit, non-banking finance company arm which are strategic in nature

As on March 31, 2022, the overall investment of TVSM in its subsidiaries and associates stood at ₹4,419 crore (PY: ₹3,141 crore). The overall investment stood at around 95% of TVSM's reported net worth as on March 31, 2022 (PY: 80%). A large part of the exposure to its subsidiaries is towards TVS Motor (Singapore), an investment holding company, and TVS Credit, a non-banking financial company (NBFC) arm with assets under management (AUM) of ₹13,911 crore (PY: ₹11,202 crore as on March 31, 2021). TVSM will be required to invest capital in TVS Motor (Singapore) due to the capex requirements in its subsidiaries. During 9MFY23, the company made investments of ₹198.88 crore and ₹300 crore in its subsidiaries, TVS Motor (Singapore) and TVS Credit, respectively. The higher-than-envisaged exposure to subsidiaries will be a key rating monitorable.

Exposure to commodity inflation

The key raw materials required for two-wheeler original equipment manufacturers (OEMs) are steel, iron, aluminium, etc. The prices of metals (especially steel) and rubber have elevated since H2FY21. Accordingly, most of the OEMs have increased their prices to mitigate the impact of higher input costs in FY21 and FY22. 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 prices of raw materials.

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

The two-wheeler business is prone to macro-economic factors, inherent cyclicality, levels of rural income, as well as competition, and hence, displays significant variation in revenues over economic cycles. After three years of consecutive decline, the two-wheelers industry is likely to see a sales volume growth of 6-6.5% in FY23, as rural and personal mobility demand grows. However, it is to be noted that since the segment is highly price-sensitive, any change in the prices of two-wheelers or an increase in the cost of petrol may have a bearing on the sales volumes.

Liquidity: Strong

TVSM has strong liquidity, with a cash and bank balance of ₹675.89 crore as on September 30, 2022, and is expected to generate gross cash accruals (GCA) of ₹2,127 crore in FY23. As against the same, the company has principal repayment obligations of ₹384.88 crore in FY23 (including lease liability). Thus, the available liquidity is adequate to meet the debt repayment obligations.

Environment, social, and governance (ESG) risks

The auto sector has an impact on the environment owing to emissions, generation of waste and consumption of water. Vehicle manufacturing process is dependent on natural resources, such as natural rubber, paint, plastic as key raw materials. Due to the nature of operations affecting local community and health hazards involved in the manufacturing process, the sector also has a social impact. TVSM has consistently focused on mitigating its environmental and social risks. CARE Ratings believes TVSM's commitment to ESG will support its credit profile.

Environmental:

The Company's policy and actions are principally aimed to reduce CO_2 emission intensity through active development of Electric vehicles with focus for increasing the share of business, development of alternate fuel compatible vehicles, reduction of weight of the products (Material conservation) and improving fuel efficiency of the products. The Company continued efforts to reduce the usage of hazardous chemicals including in its products. Under Extended Producer Responsibility (EPR), the Company has collected and recycled 318 Tons of plastic packaging material across India. The hazardous waste generated in the factory viz., paint sludge, chemical sludge generated from wastewater treatment plant, waste containing traces of oil are being co-processed in cement industry for over 15 years. The Company has tied with battery recyclers for environmentally friendly disposal of End-of-Life Batteries.

The Company has a policy that addresses combating "Climate Change" by improving energy efficiency and use of renewable energy. In-line with NDC-2, Company covers most of its electricity consumption with renewable energies and was 80.4% during 2021-22.

The recyclability rate and recoverability rate of Company's products are in the range of 85-90% and 90-95%, respectively. During 2021-22, the Company has repurposed RO rejects in domestic & industrial applications which resulted in fresh water saving of 500 Kilo Litres. The Company has advance membrane bioreactor for industrial wastewater treatment and during 2021-22 the Company has recycled and reused 162,059 Kilo Litres of treated industrial wastewater.

Social:
The company's CSR activities are directed towards empowering women, promotion of education, including special education and employment, enhancing vocation skills, eradicating poverty, promoting preventive healthcare and sanitation and making available safe drinking water, ensuring environment sustainability, ecological balance, animal welfare, agroforestry, conservation of natural resources and maintain quality of soil, air and water.

Governance:
The Company has been practicing the principles of good corporate governance over the years and lays strong emphasis on transparency, accountability and integrity.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Automobiles	2/3 Wheelers

TVSM is among the largest two-wheeler manufacturers in India. It currently manufactures a wide range of two-wheelers and three-wheelers at its manufacturing facilities located at Hosur, Tamil Nadu; Mysuru, Karnataka; and Nalagarh, Himachal Pradesh, with a total installed manufacturing capacity of 55 lakh two-wheelers and 2 lakh three-wheelers per annum as on March 31, 2022. The company also set up a wholly-owned subsidiary in Indonesia in 2007, PT TVS Motor Company Indonesia (PT TVS), for manufacturing motorcycles. TVSM has a presence in all three categories of the two-wheeler industry, ie, scooters, motorcycles, and mopeds. It is the only player in the moped segment.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-12-2022 (UA)
Total operating income	16,782.73	20,801.29	19,803.38
PBILDT	1,462.62	1,972.52	2,025.00
PAT	612.04	893.56	1,080.76
Overall gearing (times)	0.37	0.50	NA
Interest coverage (times)	10.33	15.66	19.40

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

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:
Not applicable

Disclosure of Interest of Managing Director & CEO:
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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures*	-	NA	NA	NA	300.00	CARE AA+; Stable

*Proposed

Annexure-2: Rating history of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	677.57	CARE AA+; Stable	1)CARE AA+; Stable (29-Sep-22)	1)CARE AA+; Stable (30-Sep-21)	1)CARE AA+; Stable (07-Oct-20)	1)CARE AA+; Stable (26-Dec-19)
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	200.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (29-Sep-22)	1)CARE AA+; Stable / CARE A1+ (30-Sep-21)	1)CARE AA+; Stable / CARE A1+ (07-Oct-20)	1)CARE AA+; Stable / CARE A1+ (26-Dec-19)
3	Non-fund-based - ST-BG/LC	ST	450.00	CARE A1+	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (26-Dec-19)
4	Non-fund-based-Short Term	ST	158.00	CARE A1+	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (26-Dec-19)
5	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (26-Dec-19)
6	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (29-Sep-22)	1)CARE AA+; Stable (30-Sep-21)	1)CARE AA+; Stable (07-Oct-20)	-

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
							2)CARE AA+; Stable (11-May-20)	
7	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	350.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (29-Sep-22)	1)CARE AA+ / CARE A1+ (30-Sep-21)	1)CARE A1+ (07-Oct-20)	-
8	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable				

*Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities
Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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