TVS Motor Company Limited

September 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,700.00 (Enhanced from 677.57)	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	350.00	CARE AA+; Stable / CARE A1+	Reaffirmed
Long-term / Short-term bank facilities	200.00	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	608.00	CARE A1+	Reaffirmed
Non-convertible debentures	300.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and 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 company's long track record of operations with an established presence in the two-wheeler industry across all the product segments. The ratings also derive strength from 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 FY23 (refers to the period from April 1 to March 31), driven by robust growth in the scooter segment, improvement in overall market share, and increasing traction in the electric vehicles (EV) space.

The company has invested around ₹1,200 crore in FY22 and FY23 in various companies through its investment arm, TVS Motor (Singapore) Pte Ltd. Furthermore, the overall investment stood at around 87% of TVSM's reported net worth as on March 31, 2023. CARE Ratings will continue to monitor any substantial incremental investments impacting the adjusted leverage.

The rating strengths are constrained by the relatively low-profit margins in the industry though improving gradually, as well as the exposure to commodity inflation. The ratings are also constrained by the 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

- Substantial improvement in the profit margins on a sustained basis, supported by a sizeable improvement in the market share above 25% on a sustained basis, along with a reduction in exposure to group companies.

Negative factors

- Any significant deterioration in the performance of subsidiaries/associates where TVSM has significant exposure, leading to weakening of liquidity.
- Any significant decline in the market share and operating profitability on a sustained basis.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has considered the consolidated financials of TVS Motor Company Limited (TVSM), excluding the non-banking finance company (NBFC)-subsidiary – TVS Credit Services Limited (TVS Credit). However, the analysis considers the ongoing and future funding support likely to be extended by TVSM to TVS Credit. The list of subsidiaries consolidated is presented in Annexure-6.

Outlook: Stable

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

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.

Detailed description of the key rating drivers:

Key strengths

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 a presence in all the three categories, i.e., motorcycles, scooters, and mopeds, catering to both domestic and international markets. TVSM is also the only company to have a presence in the moped segment for the domestic market.

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. TVS Holdings Limited (formerly Sundaram Clayton Limited), holding company for investments in TVSM, is the majority shareholder in TVSM, holding a 50.26% share as on June 30, 2023.

While the domestic motorcycle industry volumes increased by 13.87% and 5.67% in FY23 and 5MFY24, respectively, TVSM recorded volume growth of 28.66% and 55.77%. TVSM recorded higher volume growth of 43.74% and 7.66%, while the domestic scooter industry grew by 26.20% and 3.88%, respectively, during the same periods. Domestic volumes for TVSM and the industry in the moped segment declined by 6.68% and 1.13% in FY23 and 5MFY24, respectively. TVSM recorded higher growth in the motorcycle and scooter segments in FY23 and 5MFY24 as compared to that of the industry as a result of its strong presence, new product launches and resultantly increasing market share, being the fourth and second-largest player in the respective domestic segments.

Improving market share and penetration of EV

TVSM has continuously been investing in research and development (R&D), focusing on technology and product development. TVSM launched its first electric scooter, TVS iQube, in January 2020 in Bengaluru, and has gradually increased its presence PAN India. During the current year, TVSM has become the second-largest player in high-speed electric two-wheeler segment with its market share improving from 4% in FY22 to 11% in FY23. TVSM started exporting iQube to Nepal and plans to expand to other markets in FY24. The company also plans to launch a diversified EV portfolio by introducing new EVs in the 5-25kW segment in FY24-FY25. The company is also expected to launch electric three-wheeler during FY24.

Decline in three-wheeler sales on account of political and economic uncertainties in key export markets

TVSM reported a three-wheeler sales volume of 1.69 lakh, recording a marginal de-growth of 1.6% for FY23 as against the three-wheeler industry, which reported a growth of 12.2%. During 5MFY24, the company reported three-wheeler sales volume of 0.62 lakh, recording y-o-y de-growth of 21.5%. 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

TVSM's top export destinations include countries, such as Nigeria, Bangladesh, Congo, Guinea and Indonesia among others, where it provides a varied product portfolio consisting of motorcycles, scooters, mopeds, and three-wheelers. CARE Ratings observes that the exports contributed around 28% of the total revenue in FY23 (PY: 36%) and expects to further increase going ahead. The trend in the exports for the last few years can be seen in the table below:

Period	FY19	FY20	FY21	FY22	FY23	5MFY24
Exports as a percentage of total income	24.1	28.3	28.5	36.0	27.5	NA
Share of exports in two-wheeler sales volume (%)	16.6	22.0	26.1	34.7	26.0	22.4
Share of exports in three-wheeler sales volume (%)	89.3	93.1	93.3	94.9	90.5	87.8

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 FY23 and Q1FY24

On a standalone basis, TVSM has reported an increase in the total operating income (TOI) of 27% in FY23 on a y-o-y basis, mainly led by higher volumes in scooter segment (44% y-o-y growth) and improved mix. TVSM scooter volumes outpaced industry in FY23. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin also improved to 10.14% (PY: 9.44%) on a y-o-y basis in FY23, despite commodity cost pressures, increasing mix of E2W's, weak exports, etc.; however, supported by price hikes, premiumisation, improved mix and continued focus on sustainable cost-reduction initiatives. In Q1FY24, the TOI improved by 21% on a y-o-y basis. The operating margin also improved to 11.29% in Q1FY24 from 10.31% in Q1FY23. CARE Ratings expects the growth momentum to continue due to expected strong sales momentum in the upcoming festive season, however, margins may remain under pressure owing to commodity inflation.

On a consolidated basis (excluding TVS credit), TOI improved by 29% in FY23 on a y-o-y basis while operating margin remained stable at 8.54% (PY: 8.56%). The profitability margins improved to 3.31% (PY: 2.82%) as the scale of operations of auto business improved.

Comfortable capital structure and debt coverage indicators

The capital structure of the company continues to remain robust, characterised by healthy debt coverage indicators. On a standalone basis, long-term debt to equity ratio remained at 0.39x as on March 31, 2023 (PY: 0.41x), whereas the overall gearing remained at 0.49x as on March 31, 2023 (PY: 0.50x).

On a consolidated basis (excluding TVS Credit), debt coverage indicators of TVSM have improved in FY23 on a Y-o-Y basis on the back of improved operating margins due to higher realisations, improved product mix towards premium products and easing input prices. Although the company reported higher total debt (excluding debt of TVS Credit) as on March 31, 2023, the ratios like adjusted net auto debt/gross cash accruals (GCA) and adjusted net auto debt/ PBILDT have improved on account of higher operating profitability in FY23. Going forward, CARE Ratings expects the capital structure of the company 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 FY23; however, majority of exposure is in TVS Motor (Singapore) and TVS Credit, NBFC arm which are strategic in nature

As on March 31, 2023, the overall investment of TVSM in its subsidiaries and associates stood at ₹5,240 crore (PY: ₹4,498 crore). The overall investment stood at around 87% of TVSM's reported net worth as on March 31, 2023 (PY: 93%). A large part of the exposure to its subsidiaries is towards TVS Motor (Singapore), an investment holding company, and TVS Credit, an NBFC arm with assets under management (AUM) of ₹20,602 crore as on March 31, 2023 (PY: ₹13,911 crore as on March 31, 2022). TVSM will be required to invest capital in TVS Motor (Singapore) due to loss funding and capex requirements in its subsidiaries. During FY23, the company made investments of ₹128.48 crore and ₹500 crore in its subsidiaries, TVS Motor (Singapore) and TVS Credit, respectively. Further during Q1FY24, TVSM made investments of ₹414.57 crore and ₹200 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 the last three years. 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. The prices started to cool off from April 2022. However, they are still higher than pre-COVID-19 levels.

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. The two-wheelers industry is likely to see a moderate volume growth of 6-8% in FY24, as the personal mobility demand grows. However, CARE Ratings notes 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

On a standalone basis, TVSM has strong liquidity, with a cash and bank balance of ₹234.45 crore and liquid investments of ₹191.92 crore as on March 31, 2023, and is expected to generate GCA of over ₹2,300 crore in FY24. As against the same, the company has repayment obligations of ₹698.58 crore in FY24 (including lease liability). Thus, the available liquidity is adequate to meet the debt repayment obligations. The company's unutilised working capital lines are more than adequate to meet its incremental working capital needs over the next one year.

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. 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. 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. 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, the company covers most of its electricity consumption with renewable energies and was 87.9% during 2022-23.

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

Short Term Instruments
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Policy on default recognition
Manufacturing Companies
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector
Consolidation

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, 2023. The company also set up a wholly-owned subsidiary in Indonesia in 2007, PT TVS Motor Company Indonesia (PT TVS), for manufacturing motorcycles. In 2020, the company acquired 100% stake in The Norton Motorcycle Co. Limited, UK. TVSM has a presence in all three categories of the two-wheeler industry, i.e., scooters, motorcycles, and mopeds. It is the only player in the moped segment.

Brief Financials (₹ crore): Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income*	24,363.47	31,984.98	9,142.05
PBILDT	2,762.79	4,078.37	1,301.13
PAT	730.88	1,309.46	441.47
Overall gearing (times)	4.47	5.03	NA
Interest coverage (times)	2.94	2.98	2.98

Brief Financials (₹ crore): Standalone	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income*	20,790.51	26,378.09	7,275.47
PBILDT	1,961.74	2,674.69	821.31
PAT	893.56	1,491.03	467.67
Overall gearing (times)	0.50	0.49	NA
Interest coverage (times)	15.58	19.02	17.33

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Include government grants

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: 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
Commercial paper-Commercial paper (Standalone)	Proposed			7 – 365 days	500.00	CARE A1+
Fund-based - LT-Term loan	-	-	-	30 June 2026	1700.00	CARE AA+; Stable
Fund-based - LT/ ST-Cash credit	-	-	-	-	200.00	CARE AA+; Stable / CARE A1+

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	-	350.00	CARE AA+; Stable / CARE A1+
Non-convertible debenture	INE494B08010	15 May 2020	7.5%	15 May 2023	-	Withdrawn
Non-convertible debentures	INE494B08036	14 March 2023	Repo rate + 140 bps	13 March 2026	125.00	CARE AA+; Stable
Non-convertible debentures	Proposed				175.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	450.00	CARE A1+
Non-fund-based-Short term	-	-	-	-	158.00	CARE A1+

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 2023-2024	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
1	Fund-based - LT-Term loan	LT	1700.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Sep-22)	1)CARE AA+; Stable (30-Sep-21)	1)CARE AA+; Stable (07-Oct-20)
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)
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)
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)
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)
6	Debentures-Non-convertible debentures	LT	-	-	-	1)CARE AA+; Stable	1)CARE AA+; Stable	1)CARE AA+; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2020-2021
						(29-Sep-22)	(30-Sep-21)	(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+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (29-Sep-22)	1)CARE AA+; Stable / CARE A1+ (30-Sep-21)	1)CARE A1+ (07-Oct-20)
8	Debentures-Non-convertible debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (02-Mar-23)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-Cash credit	Simple
5	Fund-based - LT/ ST-Packing credit in foreign currency	Simple
6	Non-fund-based - ST-BG/LC	Simple
7	Non-fund-based-Short term	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries which are consolidated as on March 31, 2023

Sr. No.	Name of the Company	Country of Incorporation	% of ownership as on March 31, 2023
1	**Subsidiary Companies:**		
a.	Sundaram Auto Components Limited, Chennai	India	100%
b.	TVS Motor Company (Europe) B.V. Amsterdam	Netherlands	100%
c.	PT. TVS Motor Company Indonesia, Jakarta	Indonesia	51.20% by direct holding, 31.71% by (d) and 17.09% by (b)
d.	TVS Motor (Singapore) Pte. Limited, Singapore	Singapore	100%
e.	TVS Housing Limited, Chennai	India	100%
f.	TVS Motor Services Limited, Chennai	India	100%
g.	TVS Credit Services Limited, Chennai	India	85.63% direct holding and 0.48% by (f)
h.	Harita ARC Services Private Limited, Chennai	India	100% by (g)
i.	Harita Two-Wheeler Mall Private Limited, Chennai	India	100% by (g)
j.	TVS Housing Finance Private Limited, Chennai	India	100% by (g)
k.	The Norton Motorcycle Co. Limited, London	UK	100% by (d)
l.	TVS Digital Pte Limited, Singapore	Singapore	100% by (d)
m.	The GO AG, Zurich	Switzerland	81.90% by (d)
n.	EGO Movement Stuttgart, GmbH	Germany	100% by (m)
o.	TVS Electric Mobility Ltd, Chennai	India	100%
p.	Swiss E-Mobility Group (Holding) AG, Freienbach	Switzerland	75% by (d)
q.	Swiss E-Mobility Group (Schweiz) AG, Zurich	Switzerland	100% by (p)
r.	Colag E-Mobility GmbH, Germany, Nuremberg	Germany	100% by (p)
s.	Alexand'Ro Edouard'O Passion VéloSàrl ("Passion Vélo"), Neuchatel, Switzerland	Switzerland	100% by (p)
t.	EBCO Limited, Warwickshire, England	United Kingdom	70% by (d)
u.	Celerity Motor GmbH, Germany	Germany	100% by (d)
2	**Associate Companies:**		
v.	Emerald Haven Realty Limited, Chennai	India	43.54%
w.	Ultraviolette Automotive Private Limited, Bengaluru	India	28.66%
x.	Tagbox Solutions Private Limited, Bengaluru	India	23.50%
y.	Tagbox Pte Ltd, Singapore	Singapore	24.32% by (l)
z.	Predictronics Corp, USA	USA	23.49% by (l)

Sr. No.	Name of the Company	Country of Incorporation	% of ownership as on March 31, 2023
aa.	Scienaptic Systems Inc., USA	USA	21.03% by (I)
ab.	Altizon Inc, USA	USA	20.0% by (I)
ac.	Drive-X Mobility Private Limited, Coimbatore (Formerly known as NKars Mobility Millennial Solutions Private Limited)	India	48.27%

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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