TVS Motor Company Limited

September 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,700.00	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	550.00 (Enhanced from 350.00)	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	608.00	CARE A1+	Reaffirmed
Long-term / Short-term bank facilities	-	-	Withdrawn
Non-convertible debentures	300.00	CARE AA+; Stable	Reaffirmed
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and instruments of TVS Motor Company Limited (TVSM) continue to reflect strong business risk profile marked by its established position in the two-wheeler segment with improving market share y-o-y in internal combustion engine (ICE) and electric vehicle (EV), while maintaining its strong position in the three-wheeler segment and diversified geographic profile. Ratings also factor the robust financial risk profile supported by strong debt coverage metrics and liquidity profile. TVS' overall market share in two-wheeler segment has improved to 19% in FY24 (PY: 18%), while for EV alone it improved to 19% in FY24 (PY: 11%), whereas for three-wheeler despite moderation, market share remained healthy at 15% in FY24 (PY: 20%).

However, rating strengths continue to be constrained by its exposure to commodity price risk, currency risk, highly competitive and volatile industry scenario, and significant exposure to its subsidiaries, a few of which are loss-making. The company has invested ₹2,767.47 crore over the last three years ended FY24 in companies through its investment arm, TVS Motor (Singapore) Private Limited. Furthermore, overall investment in equity instruments stood at ~86% (PY: 88%) of TVSM's reported net worth as on March 31, 2024. CARE Ratings will continue to monitor substantial incremental investments impacting its adjusted leverage.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantially improving profit margins on a sustained basis, supported by a substantial increase in market share on a sustained basis, and reducing exposure to group companies.

Negative factors

- Significantly deteriorating performance of subsidiaries/associates where TVSM has significant exposure, leading to weakening of liquidity.
- Significantly declining market share and operating profitability on a sustained basis.

Analytical approach:

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

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

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

Detailed description of 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 three categories, motorcycles, scooters, and mopeds, catering domestic and international markets. TVSM is also the only company to have a presence in moped segment for the domestic market.
TVSM manufactures a wide range of two-wheelers and three-wheelers from its facilities at Hosur, Tamil Nadu; Mysuru, Karnataka; and Nalagarh, Himachal Pradesh.
In FY24, TVSM recorded higher volume growth of 34.43% and 16.49%, while the domestic motorcycle and scooter industry grew by 13.91% and 12.50%, respectively. Domestic volumes for TVSM and the industry in moped segment improved by 9.11% and 15.09% in FY24 and 5MFY25, respectively. TVSM recorded higher growth in motorcycle and scooter segments in FY24 compared to the industry average, 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 for motorcycle and scooters.

Improving market share and penetration of EV
TVSM has been heavily investing in research and development, focusing on technology and product innovation. Since launching its first electric scooter, TVS iQube, in January 2020, TVSM has expanded its presence across India. The company is now the second-largest player in high-speed electric two-wheeler segment, with its market share rising to 19% in FY24 from 4% in FY22. In FY24, TVSM introduced its flagship electric two-wheeler, TVS X, and plans to expand its portfolio with new variants and innovative features. TVSM aims to launch its premium EV and ICE range in France and Italy, followed by other selected EU markets. Models including Jupiter 125, NTORQ, iQube S, TVS X, Ronin 250, Apache RR 310, and Apache RTR 310 will be available in Europe. Additionally, TVSM is collaborating with BMW on CE02 electric two-wheeler for global markets. EVs contributed 12.41% of TVSM's total scooter volumes in Q1FY25, up from 12.35% in FY24 and 7.25% in FY23.

Geographically diversified revenue stream
TVSM's top export destinations include countries, such as Nigeria, Turkey, Guinea, Congo, Colombia and Bangladesh among others, where it provides a varied product portfolio consisting of motorcycles, scooters, mopeds, and three-wheelers. CARE Ratings observes that the exports contributed ~24% of the total revenue in FY24 (PY: 28%) and expects to further increase going ahead. With continuous brand building and positioning of product categories 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 resulted in TVSM having a PAN-India presence across categories, with scope for improvement in the west and north regions.

Sustained improvement in operating performance, expected to continue
TVSM's automobile business grew at a compound annual growth rate (CAGR) of 18.7% from FY20 to FY24 and y-o-y growth of 19.0% in FY24 due to improvement in volumes and better realisations. Driven by price hikes, premiumisation of product mix, softening commodity prices and sustained cost reduction initiatives, its operating profit margins for automobile business marginally improved from 8.54% in FY23 to 8.64% in FY24, while improving its market share to 10.5% (PY: 8.9%) in domestic motorcycle segment in FY24 and improving share in domestic scooter segment to 24.9% (PY: 24.0%).

Improvement in the financial risk profile in FY24
Overall gearing of automobile business on a net basis, as on March 31, 2024, improved to 1.17x (PY: 1.61x) considering accretion of profits to reserves in FY24. Debt coverage indicators also improved considering improvement in operating performance of automobile business due to improved volumes, price hikes, favourable operating leverage, improved product mix toward premium products and easing input prices. As on March 31, 2024, its net automobile debt/PBILDT improved to 1.03x from 1.30x as on March 31, 2023, considering higher operating profitability in FY24. Going forward, CARE Ratings expects the company's capital structure to remain comfortable, as capex requirements are primarily expected to be met through internal accruals and available liquidity.

Liquidity: Strong

TVSM's automobile business has strong liquidity, with cash and liquid investments of ₹678.87 crore as on March 31, 2024, and expected strong cash accruals of ~₹2,500 crore in FY25. Further on a standalone basis, TVSM has unutilised fund-based working capital limits of ~₹1,000 crore as on July 31, 2024.

Key weaknesses

Decline in three-wheeler sales considering political and economic uncertainties in key export markets

TVSM reported a three-wheeler sales volume of 1.46 lakh, recording a degrowth of 13.6% for FY24 as against the three-wheeler industry, which reported a volume growth of 16.1%. In 5MFY25, the company reported three-wheeler sales volume of 0.58 lakh, recording y-o-y degrowth of 6.6%. 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.

Significant exposure in subsidiaries witnessed, further increased in FY24; however, majority of exposure is in TVS Motor (Singapore) and TVS Credit, NBFC arm which are strategic

As on March 31, 2024, TVSM's overall investment in its subsidiaries and associates stood at ₹6,573 crore (PY: ₹5,239 crore). Overall investment stood at ~85% of TVSM's reported net worth as on March 31, 2024 (PY: 87%). 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 ₹25,900 crore as on March 31, 2024 (PY: ₹20,602 crore as on March 31, 2023). TVSM will be required to invest capital in TVS Motor (Singapore) due to loss funding and capex requirements in its subsidiaries. In FY24, the company made investments of ₹1,231.34 crore and ₹100 crore in its subsidiaries, TVS Motor (Singapore) and TVS Credit, respectively. Further, in Q1FY25, TVSM made investments of ₹163.58 crore and ₹282.67 crore in its subsidiaries, TVS Motor (Singapore) and TVS Credit, respectively. Higher-than-envisaged exposure to subsidiaries will be a key rating monitorable.

Exposure to commodity inflation

Key raw materials required for two-wheeler original equipment manufacturers (OEMs) are steel, iron, and aluminium, among others. Prices of metals (especially steel) and rubber have elevated since H2FY21. Accordingly, most 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. Thus, margins of OEMs are subject to variations in the prices of raw materials. 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

Two-wheeler business is prone to macro-economic factors, inherent cyclicality, levels of rural income, and competition, and hence, displays significant variation in revenues over economic cycles. Two-wheelers industry is likely to see a healthy volume growth in FY25, as personal mobility demand grows. However, CARE Ratings notes, since the segment is highly price-sensitive, change in the prices of two-wheelers or an increase in the cost of petrol may have a bearing on sales volumes.

Environment, social, and governance (ESG) risks

Environmental:

- The company's policy and actions are principally aimed to reduce CO2 emission intensity through active development of EVs 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 in its products. Under Extended Producer Responsibility (EPR), in FY24, 935 metric tons of single-use plastic waste was collected, meeting the target set by the Plastic Waste Management Rules, 2016.
- Hazardous waste generated in the factory through 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. Considering Nationally Determined Contributions (NDC)-2, the company covers most electricity consumption with renewable energy sources, achieving 93.2% (PY: 87.9%) in FY24.
- The company has reduced specific water consumption by over 10% in FY24.

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. In its board, about 50% comprises independent directors (four of eight directors) and one-woman director.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 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, 2024. 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 Company Limited, UK. TVSM has a presence in all three categories of the two-wheeler industry, including scooters, motorcycles, and mopeds. It is the only player in moped segment.

Brief Financials (₹ crore) Automobile Business*	FY23	FY24
Total operating income	27,832.55	33,110.96
PBILDT	2,376.58	2,861.73
PAT	920.17	1,205.98
Gross cash accruals	1,680.71	2,065.46
Overall gearing (times)	1.87	1.44
Net debt/ PBILDT (times)	1.30	1.03
Interest coverage (times)	11.91	10.41

Note: these are latest available financial results
*TVSM (Consolidated) minus TVS Credit (Consolidated)

Brief Standalone Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	26,143.99	31,539.35	8,375.59
PBILDT	2,440.59	3,277.09	960.17
PAT	1,491.03	2,083.00	577.32
Overall gearing (times)	0.49	0.30	NA
Interest coverage (times)	17.35	18.04	25.80

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)*	-	-	-	7-364 days	500.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	30-06-2026	1700.00	CARE AA+; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	-	550.00	CARE AA+; Stable / CARE A1+
Non Convertible Debentures	INE494B08036	14-03-2023	Repo rate + 140 bps	13-03-2026	125.00	CARE AA+; Stable
Non Convertible Debentures*	-	-	-	-	175.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	450.00	CARE A1+
Non-fund-based-Short Term	-	-	-	-	158.00	CARE A1+

*Proposed, no outstanding

Annexure-2: Rating history for 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	Fund-based - LT-Term Loan	LT	1700.00	CARE AA+; Stable	-	1)CARE AA+; Stable (28-Sep-23)	1)CARE AA+; Stable (29-Sep-22)	1)CARE AA+; Stable (30-Sep-21)
2	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)CARE AA+; Stable / CARE A1+ (28-Sep-23)	1)CARE AA+; Stable / CARE A1+ (29-Sep-22)	1)CARE AA+; Stable / CARE A1+ (30-Sep-21)
3	Non-fund-based - ST-BG/LC	ST	450.00	CARE A1+	-	1)CARE A1+ (28-Sep-23)	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)
4	Non-fund-based-Short Term	ST	158.00	CARE A1+	-	1)CARE A1+ (28-Sep-23)	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)
5	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (28-Sep-23)	1)CARE A1+ (29-Sep-22)	1)CARE A1+ (30-Sep-21)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (28-Sep-23)	1)CARE AA+; Stable (29-Sep-22)	1)CARE AA+; Stable (30-Sep-21)
7	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	550.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (28-Sep-23)	1)CARE AA+; Stable / CARE A1+ (29-Sep-22)	1)CARE AA+ / CARE A1+ (30-Sep-21)
8	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (28-Sep-23)	1)CARE AA+; Stable (02-Mar-23)	-

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

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

<table>
<tr><th>Sr No</th><th>Name of the entity</th><th>Extent of consolidation</th><th>Rationale for consolidation</th></tr>
<tr><td>1</td><td>Sundaram Auto Components Limited</td><td rowspan="17">Full</td><td rowspan="17">Subsidiaries with strong linkages</td></tr>
<tr><td>2</td><td>TVS Digital Limited (formerly known as TVS Housing Limited)</td></tr>
<tr><td>3</td><td>TVS Motor Services Limited</td></tr>
<tr><td>4</td><td>TVS Electric Mobility Limited</td></tr>
<tr><td>5</td><td>TVS Motor Company (Europe) B.V.</td></tr>
<tr><td>6</td><td>TVS Motor (Singapore) Pte Limited</td></tr>
<tr><td>7</td><td>PT TVS Motor Company Indonesia</td></tr>
<tr><td>8</td><td>The Norton Motorcycle Co Limited, UK</td></tr>
<tr><td>9</td><td>TVS Digital Pte Limited, Singapore</td></tr>
<tr><td>10</td><td>The GO Corporation, Switzerland</td></tr>
<tr><td>11</td><td>Swiss E-mobility Group (Holding) AG, Switzerland</td></tr>
<tr><td>12</td><td>EBCO Limited, UK</td></tr>
<tr><td>13</td><td>Celerity Motor GmbH, Germany</td></tr>
<tr><td>14</td><td>EGO Movement, Stuttgart GmbH, Germany</td></tr>
<tr><td>15</td><td>Swiss E-mobility Group (Schweiz), AG, Switzerland</td></tr>
<tr><td>16</td><td>Colag E-mobility GmbH, Germany</td></tr>
<tr><td>17</td><td>Alexand'RoEdouard'O Passion VeloSarl, Switzerland</td></tr>
<tr><td>18</td><td>Ultraviolette Automotive Private Limited</td><td rowspan="9">Proportionate</td><td rowspan="9">Associates with strong linkages</td></tr>
<tr><td>19</td><td>DriveX Mobility Private Limited</td></tr>
<tr><td>20</td><td>Indian Foundation for Quality Management</td></tr>
<tr><td>21</td><td>Killwatt GmbH, Germany</td></tr>
<tr><td>22</td><td>ION Mobility Pte. Ltd.</td></tr>
<tr><td>23</td><td>Predictronics Corp, USA</td></tr>
<tr><td>24</td><td>Tagbox Pte Ltd., Singapore</td></tr>
<tr><td>25</td><td>Altizon Inc, USA</td></tr>
<tr><td>26</td><td>Scienaptic Systems Inc., USA</td></tr>
</table>

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