TVS Credit Services Limited

November 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,000.00	CARE AA+; Stable	Assigned
Non-convertible debentures	500.00	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities and debt instruments of TVS Credit Services Limited (TVS Credit) factors in the support from the parent, TVS Motor Company Limited (TVSM; rated 'CARE AA+; Stable/ CARE A1+') in terms of operational and business linkages with sharing of brand name and the support given by the group including periodic infusion of equity by the parent on need basis. As on September 30, 2024, shareholding of TVSM stood at 80.7% and the TVS group stood at 86.9%.

The rating also derives strength from the improvement seen in scale of operations over the last three years, diversified product portfolio, geographically diversified loan portfolio, and relatively diversified funding profile with the demonstrated ability of TVS Credit to raise funds to support business growth. However, the rating is constrained by moderate profitability due to high operational costs and moderate asset quality due to exposure to borrowers with modest credit profiles.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:

- Improvement in credit profile of parent, TVSM
- Substantial increase in scale of operations along with improvement in asset quality and profitability parameters with significant increase in return on total assets (ROTA) on a sustained basis.

Negative factors: Factors that could, individually or collectively lead to negative rating action/downgrade:

- Significant deterioration in credit profile of parent, TVSM
- Material dilution (<51%) in TVSM shareholding in TVS Credit
- Significant deterioration in asset quality and delinquency levels on a sustained basis resulting in a substantial impact on profitability indicators.
- Deterioration in capital adequacy parameters below regulatory requirement.

Analytical approach: Standalone factoring includes support from TVSM, the parent company, with whom TVS Credit shares brand name, operational, and business linkages.

Outlook: Stable

The stable outlook is supported by a diversified product profile, strong fund-raising ability, and benefits from being part of the TVS group.

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

Detailed description of key rating drivers:

Key strengths

Strong parentage and benefits derived from being part of TVS Group

TVS Credit benefits from substantial financial, operational, and managerial support from TVSM, which holds an 80.7% stake as on September 30, 2024. TVS Group together hold 86.99% stake in TVS Credit as on September 30, 2024. TVSM has infused ~₹2344 crore since inception in TVS Credit over the years, thereby exhibiting strong financial support resulting in adequate Capitalisation. TVS Credit's tangible net worth (TNW) stood at ₹4,080 crore as on September 30, 2024. TVSM's directors on TVS Credit's board highlight the strong linkages and managerial support between the two entities.

TVS credit enjoys strong operational linkages with access to dealer network of TVSM and share common. TVS Credit is integral to TVSM's market share growth, financing TVSM's domestic sales through a vast dealer network. TVSM is among the largest two-wheeler manufacturers in India. CARE Ratings expects the parent to continue to provide its support to TVS Credit.

Increasing scale of operations

Overall, the total portfolio grew from ₹11,445 crore as of March 2021 to ₹26,406 crore as on March 31, 2024, representing compounded annual growth rate (CAGR) of 32% in the last three years. The portfolio further grew by 4% in H1FY25 and stood at ₹27,488 crore as on September 30, 2024. CARE Ratings expects that the company will continue to improve its scale of operations with TVSM's support.

Diversified product portfolio along with geographical diversification

TVS has diversified presence in terms of the product segments. The two-wheeler segment remains the largest, consistently holding ~27% of the portfolio as on September 30, 2024, against higher share of 36% as on March 31, 2021. The used car segment has seen steady growth of 19% (CAGR - three years) but share in portfolio has reduced from 11% as on March 31, 2021 to 8% as on March 31, 2024 and September 30, 2024. The tractor segment, while initially growing, has seen asset quality issues which in turn led to a decline in its share from 27% in March 2023 to 22% as on March 31, 2024, and further to 19% as of September 2024. The share of both consumer durables and used commercial vehicles increased to 11% and 12%, respectively, as on September 30, 2024 from 5% and 9%, respectively, as on March 31, 2021. The cross-sell segment (personal loans) grew significantly from 8% as on March 31, 2021 to 18% as on September 30, 2024. The company operates through 46500+ distribution points, with 130 offices across 27 states. Tamil Nadu stands as the highest concentrated state with exposure of 15% and South remains strong region with 40% exposure as on March 31, 2024. West constitutes 26% of the portfolio, while North and East each constitute 17% as on March 31, 2024. The company operates through 5000+ broker/channel partners and with 18,000 employees as on March 31, 2024.

Adequate capital position

As on March 31, 2024, the company reported a capital to risk-weighted assets ratio (CRAR) of 18.59% and a Tier-1 capital adequacy ratio (CAR) of 12.84%, compared to 18.75% and 12.17%, respectively, as on March 31, 2023. By September 30, 2024, these ratios had improved to 19.12% and 14.19%, respectively, against the regulatory requirements of 15% and 10%. The company maintains a policy of keeping its CAR 200 basis points above the regulatory minimum.

The company has successfully reduced its overall gearing (Total debt/Tangible net worth) from 7.53x as on March 31, 2022, to 6.41x as on March 31, 2024, and further to 5.85x as on September 30, 2024. The promoter has consistently supported the company's growth through regular equity infusions. In September 2023, Premji Invest acquired a stake of 11% in the company by a combination of both primary and secondary equity rounds. In H1FY25, the company has raised a capital of ₹330 crore, which was invested by TVSM, HDFC Bank, Premji invest and PHI research. The net gearing ratio stood at 5.91x as on March 31, 2024, and improved to 5.22x as on September 30, 2024. CARE Ratings expects the capitalisation levels to remain adequate with regular capital support from the parent on need basis.

Diversified funding profile

TVS Credit's funding profile is well diversified, with access to low-cost funding from banks and market instruments such as non-convertible debentures (NCDs), subordinated debt, ECB, and Tier-1 Perpetual debt. The company's bank borrowings are diversified across a mix of public and private sector banks, ensuring a balanced and stable funding base. This diversified approach helps TVS Credit maintain financial flexibility and manage funding costs effectively.

Borrowings from banks in the form of term loans and WCDL stood at 76.95% of total borrowings as on March 31, 2024 compared to 76.15% as on March 31, 2023, and remained top source of borrowing. Company has reduced their borrowings in the form of ECBs from 7.85% of total borrowings as on March 31, 2023 to 3.34% as on March 31, 2024. Borrowings in the form of NCDs (including subordinate debt and PDI Tier-1) improved from 13.47% as on March 31, 2021 to 14.79% as on March 31, 2023 and stood at 15.54% as on March 31, 2024. CARE Ratings expects the share of capital market borrowings to improve in the medium term.

Key weaknesses

Moderate profitability levels

The change in the composition of product profile has led to improvement in yields, supporting the rise in net interest margin (NIM) despite the higher cost of funds. NIM has consistently improved from FY21 to FY24 and stood at 13.73% in FY24 and 13.62% in H1FY25. Opex had increased between FY21 and FY23. However, it was controlled in FY24, and stood at 8.95% in FY24 and 8.98% in H1FY25. Credit cost which had improved between FY21 and FY23, increased in FY24 and stood at 4.48% in FY24 and 4.52% in H1FY25. ROTA has been increasing from FY21 to FY24 and stood at 2.27% in FY24 and 2.09% in H1FY25. This increase in ROTA indicates enhanced overall profitability despite fluctuations in other metrics and can be attributed to a favorable product mix. CARE Ratings expects the profitability to continue to remain moderate.

Moderate asset quality due to exposure to borrowers with modest credit profiles

The company's Gross Stage 3 (GS3) and Net Stage 3 (NS3) improved from 3.70% and 2.26%, respectively, as on March 31, 2021, to 2.7% and 1.28%, respectively, as on March 31, 2023. However, these figures moderated slightly in FY24, standing at 2.81% and 1.34%, respectively, as on March 31, 2024, and further to 3.11% and 1.44%, respectively, as on September 30, 2024.

The increase in non-performing assets (NPAs) can be attributed to the tractors and used commercial vehicles segments, followed by Personal loans. The GS3% of tractor segment stood at 7.66% as on March 31, 2024 and 8.60% as on September 30, 2024.

The 30+ and 90+ days past due as on March 31, 2024, were 7.76% and 2.81%, respectively, compared to 7.35% and 2.70%, respectively, as on March 31, 2023. 30+ DPD and 90+ DPD stood at 8.28% and 3.11%, respectively, as on September 30, 2024.
The company targets the self-employed segment in semi-urban and rural areas, which are prone to income vulnerability. Therefore, maintaining asset quality in the near to medium term will be crucial, considering the moderate credit risk of this borrower segment.

Liquidity: Adequate

The asset liability mismatch (ALM) statement of the company does not have negative cumulative mismatch in any of the time buckets upto one year as on September 30, 2024. The company has cash and cash equivalents of ₹2,551 crore as on September 30, 2024. The company's ability to mobilise funds from banks at a competitive rate adds comfort.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Non Banking Financial Companies
Factoring Linkages Parent Sub JV Group

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

TVS Credit, headquartered in Chennai, is a subsidiary of TVSM. Established in 2008 as a step-down subsidiary of TVSM, which currently holds 80.69% stake as on September 30, 2024, TVS Credit began operations as a non-deposit-taking non-banking finance company (NBFC) in 2010 and has since grown its loan book to ₹27,488 crore as on September 30, 2024. The company finances a range of products including two-wheelers, tractors, used cars, used commercial vehicles, business loans, consumer durables, and personal loans (predominantly to existing customers), primarily serving customers with limited access to bank financing.

Brief Financials (₹ crore)	2023 (A)	2024 (A)	H1FY25 (UA)
Total operating income	4152	5795	3246
PAT	389	572	301
Interest coverage (times)	1.44	1.46	1.45
Total assets*	22535	27797	29718
NS 3 (%)	1.28	1.34	1.44
ROTA (%)	2.05	2.27	2.09

A: Audited UA: Unaudited; Note: these are latest available financial results
*Excluding Deferred tax asset and Intangible Assets

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Annexure-2

Detailed explanation of 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
Debentures-Non-convertible debentures	Proposed	-	-	-	500.00	CARE AA+; Stable
Fund-based-Long term	Proposed	-	-	-	1000.00	CARE AA+; Stable

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	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Stable				
2	Fund-based-Long term	LT	1000.00	CARE AA+; Stable				

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-non-convertible debentures	Simple
2	Fund-based-long term	Simple

Annexure-5: Lender details

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

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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