

TVS Motor Company Limited (Revised)

September 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	677.57 (Enhanced from 222.47)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term/short-term bank facilities	350.00	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Long-term/short-term bank facilities	200.00	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Short-term bank facilities	608.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	1,835.57 (₹ One thousand eight hundred thirty-five crore and fifty-seven lakh only)		
Non-convertible debentures	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total long-term instruments	500.00 (₹ Five hundred crore only)		
Commercial paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	500.00 (₹ Five hundred crore only)		

Details of instruments/facilities in Annexure-1.

Detailed 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 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

Positive factors – Factors that could lead to positive rating action/upgrade:

- 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.

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

Negative factors – Factors that could lead to negative rating action/downgrade:

- 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.

Detailed description of the key rating drivers
Key rating 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 June 30, 2022.

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

Domestic contribution (%)	Two-wheeler Industry						TVSM					
	FY17	FY18	FY19	FY20	FY21	FY22	FY17	FY18	FY19	FY20	FY21	FY22
Motorcycle	63.1	62.5	64.2	64.4	66.3	66.7	31.1	31.9	32.3	31.3	29.0	34.6
Scooter	31.9	33.3	31.6	32.0	29.6	29.8	33.2	38.2	39.6	42.2	42.5	42.3
Mopeds	5.1	4.3	4.2	3.7	4.1	3.5	35.8	29.9	28.1	26.4	28.5	23.1

Source: CMIE.

While the industry had muted motorcycle sales growth in FY22, TVSM recorded an improvement as a result of the increasing market share in the motorcycle segment. The industry reported de-growth in the scooter and moped segments. Although TVSM reported a de-growth in the scooter segment, it was lower than that of the industry, as TVSM has a strong presence in the scooter segment, being the second largest player in the domestic scooter segment and also due to its robust growth in the export markets.

Launch of electric two-wheelers: TVSM has continuously been investing in research and development (R&D), focusing on technology and product development. Notably, TVSM launched its first electric scooter, TVS I-Qube, in January 2020 in Bengaluru, and has gradually increased its presence pan-India. In FY20, I-Qube had a presence in Bengaluru and Delhi, and over two years since its launch, I-Qube has expanded its presence to 33 cities and 74 dealers across India that offer sales and after-sales services for iQube.

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%. TVSM mainly exports its three-wheelers, thus having a lesser presence in the domestic market. Major export markets include Nigeria, Ethiopia, Guinea, 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. Exports contributed around 36% of the total revenue in FY22 (PY: 28%) and are expected to further increase going ahead. The trend in 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 (TOI) and operating margins in FY22: 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 Q1FY23, the TOI witnessed a marginal improvement on a quarter-on-quarter basis by 9%. The operating margin also improved to 10.31% in Q1FY23. CARE Ratings Limited (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 rating 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 (NBFC) 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. 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 cyclicity, 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 ₹328.75 crore as on March 31, 2022, and is expected to generate gross cash accruals (GCA) of ₹2,159 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.

Analytical approach: Standalone

For arriving at the ratings, 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.

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](#)

[Short-term instruments](#)
[Manufacturing companies](#)

About the company

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)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
TOI	16,782.73	20,801.29	6,030.92
PBILDT	1,462.62	1,972.52	621.67
PAT	612.04	893.56	320.54
Overall gearing (times)	0.37	0.50	NA
Interest coverage (times)	10.33	15.66	16.55

A: Audited; UA: Unaudited; NA: Not 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: Not applicable

Disclosure of interest of Managing Director & CEO: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	March 2027	677.57	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+; Stable/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+

*Details of commercial paper issue: There is no outstanding CP as on September 27, 2022.

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 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 (September 30, 2021)	1)CARE AA+; Stable (October 07, 2020)	1)CARE AA+; Stable (December 26, 2019)
2.	Fund-based – LT/ST-Cash credit	LT/ST*	200.00	CARE AA+; Stable/ CARE A1+	-	1)CARE AA+; Stable/ CARE A1+ (September 30, 2021)	1)CARE AA+; Stable/ CARE A1+ (October 07, 2020)	1)CARE AA+; Stable/ CARE A1+ (December 26, 2019)
3.	Non-fund-based - ST-BG/LC	ST	450.00	CARE A1+	-	1)CARE A1+ (September 30, 2021)	1)CARE A1+ (October 07, 2020)	1)CARE A1+ (December 26, 2019)
4.	Non-fund-based-Short term	ST	158.00	CARE A1+	-	1)CARE A1+ (September 30, 2021)	1)CARE A1+ (October 07, 2020)	1)CARE A1+ (December 26, 2019)
5.	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (September 30, 2021)	1)CARE A1+ (October 07, 2020)	1)CARE A1+ (December 26, 2019)
6.	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (September 30, 2021)	1)CARE AA+; Stable (October 07, 2020) 2)CARE AA+; Stable (May 11, 2020)	-
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+ (September 30, 2021)	1)CARE A1+ (October 07, 2020)	-

*Long term/short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not available

Annexure-4: Complexity level of the 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

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.

Annexure-5: Bank lender details for this company

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

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About us:

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