

## TVS Motor Company Limited

May 11, 2020

### Ratings

Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debenture issue (Proposed)	500.00	<b>CARE AA+; Stable</b> <b>(Double A Plus; Outlook: Stable)</b>	Assigned

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed NCD issue of TVS Motor Company Limited (TVSM) continue to draw strength from the long track record of operations of TVSM with an established presence in the two-wheeler industry across all the product segments & geographies, experienced management team, low leverage levels and comfortable debt protection metrics. The ratings are constrained by relatively low profit margin, significant exposure to its subsidiaries and highly competitive industry scenario.

### Rating Sensitivities

#### Positive Factors

- Significant improvement in profit margins on the sustained basis
- Sizeable improvement in the market share on the sustained basis

#### Negative Factors

- Significant increase in Investments to the group companies/subsidiaries funded through debt or internal accruals. Any significant deterioration in the performance of Subsidiaries/Associates where TVSM has significant exposure.
- Significant decline in market share and profitability on sustained basis

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Part of the TVS group, one of the leading groups in the Indian Auto & Auto components industry**

TVS Motor Company Limited (TVSM) is one of the leading two-wheeler manufacturers in India and is the flagship company of the TVS group, one of the leading groups in the Indian Auto & Auto ancillary industry. TVSM manufactures wide range of two-wheelers and three-wheelers from its facilities located at Hosur (Tamil Nadu), Mysore (Karnataka) and Nalagarh (Himachal Pradesh). Sundaram Clayton Limited, leading manufacturer of aluminum die-casting components for automotive applications, is the majority shareholder in TVSM (holding 57.40% stake as on March 31, 2020).

#### **Established presence in the two-wheeler industry across product segments and geographies**

TVSM has over the years established itself as a leading player in the domestic two-wheeler industry and is the only company to have presence in all the three categories, i.e., motorcycles, scooters and mopeds in the domestic market. In addition to established pan India presence in domestic market, TVSM also exports to various countries such as Bangladesh, Nigeria, Sri Lanka, Guinea, Kenya, Nepal etc. Exports contributed around 23% of the total operating income in FY19 (refers to the period April 1 to March 31).

#### **Category wise contribution for industry and TVSM for domestic market**

% Contribution	Industry					TVSM				
	FY15	FY16	FY17	FY18	FY19	FY15	FY16	FY17	FY18	FY19
Motorcycle	67.1	65.0	63.1	62.5	64.2	31.6	32.2	31.1	31.9	32.4
Scooter	28.2	30.6	31.9	33.3	31.6	32.5	35.0	33.2	38.2	39.6
Mopeds	4.7	4.4	5.1	4.3	4.2	35.8	32.8	35.8	29.9	28.1

For TVSM, Scooter contributed to 39.6%, Motorcycle contributed to 32.4% and Mopeds to 27.5% to overall 2W sales volumes. TVSM has strong presence in the scooter segment through Jupiter, N-Torque, Scooty Zest, Scooty Pep etc. The premium segment (150cc and above) has been one of the faster-growing motorcycle segments and TVSM has strong presence through TVS Apache. However, TVSM has a modest presence in entry level and Executive segment (up 75cc to 125 cc) as on H1FY20.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Continuous outperformance in growth as compared to industry supported by success of new launches**

Two wheeler	Growth Rate (Domestic + export) (%)					
	FY15	FY16	FY17	FY18	FY19	6MFY20
<b>Industry Total Sales</b>	<b>9.1</b>	<b>2.7</b>	<b>5.2</b>	<b>15.5</b>	<b>6.3</b>	<b>-13.6</b>
-Motorcycles	4.1	-0.5	1.6	15.1	9.0	-11.5
-Scooters	27.0	12.6	11.5	19.3	0.9	-16.6
-Mopeds	3.9	-2.6	23.3	-3.7	2.3	-25.9
<b>TVS</b>						
<b>TVS Total sales</b>	<b>20.7</b>	<b>6.4</b>	<b>11.2</b>	<b>17.9</b>	<b>11.6</b>	<b>-11.1</b>
-TVS Motor Cycles	20.0	6.8	5.7	26.2	15.1	-6.0
-TVS Scooters	47.5	15.8	7.1	30.4	14.6	-7.2
-TVS Mopeds	3.9	-2.6	23.3	-3.7	2.3	-25.9

The two wheeler (2W) Industry (Domestic + Exports) reported a growth of 6.3% in FY19 due to growth in both domestic as well as export market.

TVSM continued to grow better than industry in 2W in FY19 also. The better than industry growth for FY19 can be attributed to strong product portfolio both in motorcycle and scooter and increase in dealer network.

During FY20, Industry witnessed drop in volume mainly due to drop in domestic market on subdued retail demand caused by lower consumer sentiment on economic slowdown, increase in the prices of two wheelers (due to increase in upfront insurance cost and implementation of safety norms), lower credit availability, slowdown in rural demand and higher inventory with dealers. TVSM reported Y-o-Y de-growth of 17.8% in total 2W sales volume as against industry de-growth of 14.4% for FY20.

TVSM three wheelers reported sales volume of 1.56 lakh units in FY19, growth of 58.5% YoY due to strong growth in exports.

**Continuous increase in domestic market share albeit at slower rate**
**TVSM's Domestic market share trend (% market share)**

	FY 14	FY 15	FY 16	FY 17	FY18	FY19	H1FY20
<b>Overall 2W (Motorcycle + Scooter + Moped)</b>	<b>11.8</b>	<b>13.1</b>	<b>13.4</b>	<b>14.2</b>	<b>14.2</b>	<b>14.8</b>	<b>14.3</b>
Motorcycle	5.5	6.2	6.7	7.0	7.3	7.5	7.2
Scooter	12.7	15.1	15.4	14.7	16.4	18.5	19.2

TVSM has been continuously improving domestic market share due to outperforming Industry growth in almost all the segments. Overall domestic market share has improved from 11.8% in FY14 to 14.8% in FY19 due to out-performance the industry growth in both Motorcycle and scooter segment due to product portfolio mainly Apache and Jupiter.

For H1FY20, market share came down to 14.3%, due to drop in Moped segment by 26.0% Y-o-Y for H1FY20 mainly due to weak sentiment in rural market, price increase due to insurance and huge discount in the motorcycle by competitors in economy segment (upto 100 cc).

**Improvement in FY19 financial performance**

Total operating income stood at Rs.18,216.5 crore growth of 19.4% YoY driven by increase in overall sales volume (12.8% including 3W) and improvement in average sales realisation (6.6%). For TVSM, PBILDT remained in the range of 7.5% to 8.5% for past four years ending FY19. The company reported PBILDT Margin of 7.91% for FY19 as compared to 8.20% for FY18 mainly due to increase in the raw material cost partially offset by savings in employee cost and other expense. On higher interest expense and depreciation, the PAT for FY19 stood at Rs.670.1 crore as against Rs.662.6 crore in FY18. GCA for FY19 stood at Rs.1,083.5 crore (PY: Rs.1,020.3 Cr).

During 9MFY20, the company reported total operating income of Rs.12,949 crore drop of 6.4% Y-o-Y and PAT of Rs.519 crore (PY: Rs.536 crore) mainly due to slowdown in automobile sector. PBILDT margin stood at 8.6 % for 9MFY20.

**Comfortable capital structure**

Long term debt equity ratio remained at 0.19 times as on March 31, 2019 (PY: 0.22 times) whereas overall gearing remained at 0.48 times as on March 31, 2019 (PY: 0.46 times).

The company had long term debt aggregating Rs.731.1 Cr as on March 31, 2019. Out of total long term debt, Rs. 413.5 Cr is term loan from banks and around Rs.317.6 Cr pertains to soft loans from SIPCOT and sales tax deferral loans with longer repayment term (till 2027). As these loans are almost interest-free with long repayment tenure, they provide comfort and flexibility to TVSM's capital structure. Going forward, with addition of debt towards funding acquisition and capex, overall gearing is expected to increase.

During the month of March 2020, TVSM acquired Britain's Motorcycle Brand Norton Motorcycles (UK) Limited and Norton Motorcycles Holdings Limited (both referred as 'Norton') for a consideration of GBP 16 million (~Rs.153 crore) through the one of its overseas subsidiary (TVS Motor (Singapore) Pte. Ltd). Same was funded through addition of fresh term debt.

#### **Geographically diversified revenue stream**

Over the years, TVSM had a significant market presence in South India. With continuous brand building and positioning of product categories in line with the local demand, TVSM has been able to expand its presence beyond South and currently has significant presence across all the regions.

#### **Key Rating Weaknesses**

##### **Exposure to group entities**

TVSM had set up operations in Indonesia under PT TVS in 2007 with a facility to manufacture 300,000 vehicles. Over the years, TVSM has been investing in PT TVS in order to fund losses. During FY19, TVSM infused Rs.120 crore in PT TVS and its investment related arm. Investments in PT TVS and its investment companies stood at Rs.544 crore as on March 31, 2019. For FY19, PT TVS reported net loss of Rs.49 Cr (PY: net loss of Rs.50 Cr) over total income of Rs.239 Cr (PY: Rs.183 Cr).

TVSM has invested Rs.266 crore in FY19 in subsidiaries and associates. Out of the total investments, majority was towards PT TVS and TVS Credit Service Limited which is the retail finance arm of the Company for financing of two-wheelers. As on March 31, 2019, the overall investment of TVSM in its group companies stood at Rs.2,301 crore (PY: Rs.2,035 crore). Overall investment stood at 69.9% of TVSM's networth as on March 31, 2019 as against 72.1% as on March 31, 2018.

#### **Liquidity- Adequate**

Liquidity of TVSM remains adequate with cash and bank balance of Rs. 414 crore as on March 31, 2020 and low debt repayment obligation of Rs. 46.1 crore for FY21 as compared to GCA of Rs.834 crore reported during 9MFY20. Average working capital utilisation of ~54.9 % for the twelve month period ended February 2020. The current ratio has been marginally less than unity on account of the short working capital cycle, as the domestic sale is made on cash & carry basis while the company gets longer credit period from its suppliers.

#### **Analytical approach:**

For arriving at the ratings, CARE has considered TVSM's standalone financials as TVSM contributed to ~90% of the consolidated gross income for FY19. However, financial and operational performances of major subsidiaries and likely investment commitments to group companies have been factored in during the analysis.

#### **Applicable Criteria**

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Consolidation and Factoring Linkages](#)

#### **About the Company**

TVS Motor Company Ltd (TVSM) is amongst the largest two-wheeler manufacturers in India. TVSM currently manufactures a wide range of two-wheelers and three-wheelers at its manufacturing facilities located at Hosur (Tamil Nadu), Mysore (Karnataka) and Nalagarh (Himachal Pradesh) with a total installed manufacturing capacity of 55.00 lakh two wheelers and 2.0 lakh three wheelers per annum as on March 31, 2019. The company has also set up a wholly owned subsidiary in Indonesia, PT. TVS Motor company Indonesia (PT TVS) for the manufacture of motorcycles in 2007.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	15,252	18,216
PBILDT	1,251	1,442
PAT	663	670
Overall gearing (times)	0.46	0.48
Interest coverage (times)	22.10	17.90

#### **A-Audited**

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures (Proposed)	-	-	-	500.00	CARE AA+; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	211.42	CARE AA+; Stable	-	1)CARE AA+; Stable (26-Dec-19)	1)CARE AA+; Stable (05-Oct-18)	1)CARE AA+; Stable (05-Jan-18)
2.	Fund-based-LT/ST	LT/ST	350.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (26-Dec-19)	1)CARE AA+; Stable / CARE A1+ (05-Oct-18)	1)CARE AA+; Stable / CARE A1+ (05-Jan-18)
3.	Non-fund-based - ST-BG/LC	ST	350.00	CARE A1+	-	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (05-Jan-18)
4.	Non-fund-based-Short Term	ST	50.00	CARE A1+	-	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (05-Jan-18)
5.	Commercial Paper	ST	400.00	CARE A1+	-	1)CARE A1+ (26-Dec-19)	1)CARE A1+ (05-Oct-18) 2)CARE A1+ (29-Jun-18)	1)CARE A1+ (05-Jan-18)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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