

## TVS Motor Company Limited

October 05, 2018

### Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	136.85	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	400.00 (enhanced from Rs.370 crore)	CARE A1+ (A One Plus)	Reaffirmed
Long-term/ Short-term Bank Facilities	350.00	CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
<b>Total Facilities</b>	<b>886.85</b> <b>(Rupees Eight hundred eighty six crore and eighty five lakh only)</b>		
Commercial Paper	400.00 (Rupees Four hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instrument 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, exposure to its subsidiaries, a part of which is towards the subsidiary in Indonesia, wherein the operations are yet to achieve break-even and highly competitive industry scenario.

Going forward, the ability of the company to improve its profitability, grow its market share amidst a highly competitive environment and rationalization of exposure to group companies/subsidiaries will be the key rating sensitivities.

### 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:**

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 aluminium die-casting components for automotive applications, is the majority shareholder in TVSM (holding 57.40% stake).

##### **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 domestic market. In addition to established presence in domestic market, TVSM also exports to various countries. TVSM's top export destinations include countries such as Nigeria, Sri Lanka, Guinea, Bangladesh, Kenya, Nepal etc, where it provides a varied product portfolio consisting of motorcycles, scooters, mopeds and three wheelers. Exports contributed around 20% of the total revenue in FY18 (refers to the period April 1 to March 31).

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

**Two wheeler Industry and TVSM sales volume growth trend:**

(volume in lakh unit)	Volume(Domestic + Export)		Growth rate (%)
	FY 17	FY 18	FY 18
<b>Two wheeler Industry</b>			
<b>Industry Total Volumes</b>	<b>199.30</b>	<b>230.08</b>	<b>15.4</b>
Motorcycles	131.22	150.97	15.0
Scooters	58.98	70.34	19.3
Mpeds	9.11	8.77	-3.7
<b>TVS</b>			
<b>TVS Total Volumes</b>	<b>28.55</b>	<b>33.67</b>	<b>17.9</b>
TVS Motor Cycles	10.74	13.56	26.2
TVS Scooters	8.70	11.35	30.4
TVS Mopeds	9.11	8.77	-3.7

The two wheeler (2W) Industry (domestic + export) reported a strong growth of 15.4% in FY18 due to strong growth in both domestic and export market. The domestic sales grew by 14.8% for FY18 due to restocking at dealers level in first half due to BSIII to BSIV transition, rural demand backed by good monsoon, pent up demand post demonetization, new launches and government's continuous investments to ramp up infrastructure while 2W exports grew by 20.3% in FY18 due to recovery in the International market especially Africa. TVSM continued to grow better than industry in 2W in FY18. The better than industry growth for FY18 can be attributed to increase in Dealer network and strong growth in both motorcycle and scooter segment.

**Improvement in TVSM two-wheeler market share in Domestic Scooter and Motorcycle segment**
**TVSM's Domestic market share trend**

(% market share)

	FY 14	FY 15	FY 16	FY 17	FY 18
Overall 2W (Motorcycle + Scooter + Moped)	11.8	13.1	13.4	14.2	14.2
Motorcycle	5.5	6.2	6.7	7.0	7.3
Scooter	12.7	15.1	15.4	14.7	16.4

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 14.2% in FY18.

Despite improvement in Motorcycle and scooter market share in FY18, overall market share remained flat for FY18 due to drop in mopeds sales volume (drop of 3.5% YoY in FY18) on high base.

**Increasing share of scooters and premium motorcycle segment in the domestic two-wheeler industry**
**Segment wise contribution (%) for industry and TVSM**

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

In domestic market, scooter's share has been increasing in total two wheelers due to gender neutral image and strong urban demand. Scooter category share has now increased to 33.3% in FY18 from 24.3% in FY14 to the total two wheelers. TVSM has strong presence in the scooter segment through Scooty Zest, Scooty Pep, Wego Jupiter and Ntorq.

Domestic two wheeler market can be broadly grouped into three major categories based on cc (cubic capacity) range. Over the years, share of premium motorcycles in total sales has been increasing. Contribution from the premium segment (151 cc and above) for domestic Indian Market is continuously increasing and is on uptrend. The Premium segment contribution (151cc and above) stood at 14.17% to the total motorcycle in FY18 as against 4.71% in FY13. TVSM has presence in entry level and Executive segment (up 75cc to 125 cc) through Star City, Star Sport, Victor and recently launched TVS Redon and has strong presence in Premium category (151-200 cc) through Apache RTR (160,180,200 cc variants). To increase presence in premium segment, TVS has also launched Apache 310 RR (jointly developed product with BMW) in Dec 2017 for domestic market.

**Low leverage levels and comfortable debt protection metrics**

Total operating income stood at Rs.15,193 crore, growth of 24.3 y-o-y driven by increase in overall sales volume and improvement in sales realisation. PBILDT Margin for the company stood at 7.85% for FY18 almost similar to that of FY17 margins of 7.76%. Though volumes has improved significantly in FY18, due to increase in raw material cost, increase in import duty of components and higher Ad, publicity and marketing expenses on new product launches, PBILDT margin remained stable in FY18. PAT for FY18 stood at Rs.662 Cr as against Rs.558 Cr in FY17. Long term debt equity ratio

remained at 0.17 times as on March 31, 2018 (PY: 0.21 times) whereas overall gearing remained almost flat at 0.46 times as on March 31, 2018 as against 0.49 times as on March 31, 2017 mainly due to increase in working capital borrowings.

#### **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 PT TVS and other 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 FY17, TVSM infused around Rs.58 crore in PT TVS. Investments in PT TVS stood at Rs.424 crore as on March 31, 2018. For FY18, PT TVS reported net loss of Rs.50 Cr (PY: net loss of Rs.45 Cr) over total income of Rs.183 Cr (PY: Rs.142 Cr).

As on March 31, 2018, the overall investment of TVSM in its group companies stood at Rs.2,035 crore (PY: Rs.1,588). During FY18, TVSM has acquired entire equity stake in TVS Motor Services Ltd (holding company of TVS Credit Services Limited). Much of the incremental investment was towards TVS Motor Services Limited, majorly due its strategic nature of importance to TVSM given its status as a captive financier of two-wheelers. The growth of this company is expected to be instrumental in aiding TVSM to increase its sales volumes. Besides, TVSM also invested Rs.171 Cr in Sundaram Auto components limited in FY18 (supplies plastic moulded components for two wheelers and four wheelers).

The ability of TVSM to rationalize its exposure to group entities in addition to stabilization of the Indonesian subsidiary's operations would be key to its prospects.

#### **Analytical approach:**

For arriving at the ratings, CARE has considered TVSM's standalone financials as TVSM contributed to ~93% of the consolidated gross income. 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 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](#)

[Factoring Linkages](#)

#### **About the company**

TVS Motor Company Limited (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). 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>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	12,225	15,193
PBILDT	949	1,192
PAT	558	663
Overall gearing (times)	0.49	0.46
Interest coverage (times)	21.60	21.06

**Note:** 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

**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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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
Fund-based-LT/ST	-	-	-	350.00	CARE AA+; Stable / CARE A1+
Non-fund-based-Short Term	-	-	-	50.00	CARE A1+
Fund-based - LT-Term Loan	-	-	Dec 2018	136.85	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	350.00	CARE A1+
Commercial Paper	-	-	7-364 days	400.00	CARE A1+

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	136.85	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Jan-18)	1)CARE AA+; Stable (05-Dec-16) 2)CARE AA+ (03-Nov-16)	1)CARE AA+ (10-Sep-15)
2.	Fund-based-LT/ST	LT/ST	350.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (05-Jan-18)	1)CARE AA+; Stable / CARE A1+ (05-Dec-16) 2)CARE AA+ / CARE A1+ (03-Nov-16)	1)CARE AA+ / CARE A1+ (10-Sep-15)
3.	Non-fund-based - ST-BG/LC	ST	350.00	CARE A1+	-	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (05-Dec-16) 2)CARE A1+ (03-Nov-16)	1)CARE A1+ (10-Sep-15)
4.	Non-fund-based-Short Term	ST	50.00	CARE A1+	-	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (05-Dec-16) 2)CARE A1+ (03-Nov-16)	1)CARE A1+ (10-Sep-15)
5.	Commercial Paper	ST	400.00	CARE A1+	1)CARE A1+ (29-Jun-18)	1)CARE A1+ (05-Jan-18)	1)CARE A1+ (05-Dec-16) 2)CARE A1+ (03-Nov-16)	1)CARE A1+ (10-Sep-15)

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CIN - L67190MH1993PLC071691