

## TVS Motor Company Limited

June 29, 2018

### Ratings

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper (CP)	400.00 (enhanced from Rs.200 crore)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total</b>	<b>400.00</b> <b>(Rupees Four Hundred Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the commercial paper 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 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, 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 manufacturer in India and is the flagship company of 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).

**Established presence in the two wheeler industry across 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.

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

2W Industry sales	Volumes(Domestic + Export)			Growth rate(%)
	FY 16	FY 17	FY18	FY18
Industry Total Sales	18,938,727	19,928,784	23,007,688	15.4
Motorcycles	12,911,021	13,121,844	15,096,538	15.0
Scooters	5,289,159	5,897,501	7,034,218	19.3
Mopeds	738,547	910,519	876,932	-3.7
<b>TVS</b>				
<b>TVS Total sales</b>	2,567,881	2,855,283	3,367,426	17.9
TVS Motor Cycles	1,016,807	1,074,442	1,355,576	26.2
TVS Scooters	812,527	870,171	1,134,918	30.4
TVS Mopeds	738,547	910,519	876,932	-3.7

Domestic industry sales were impacted due to demonetization in FY17 and exports were impacted due to currency issues in key export markets of Africa. This has resulted in the moderate industry growth of 5.2% in FY17. Motorcycles segment grew by 1.6% in FY17 while scooters segment continued to grow faster at 11.5% in FY17. However, total Two wheeler industry (including exports) reported strong volume growth of 15.4% for FY18 due to good monsoon, government's continuous spending on infrastructure especially rural, soft interest rate and easy financing options, new launches and upgrades, wide variety of models available across all segments and categories and strong exports.

TVSM continued to grow better than industry. For TVSM, two wheeler total sales volumes stood at 33.6 lakh units, growth of 17.9% for FY18 which is better than Industry growth. The better than industry growth can be attributed to increase in

<sup>3</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Dealer network, higher growth in motorcycle segment(26.2% in FY18) due to strong performance of Apache and Victor and growth in Scooter segment (30.4% in FY18) led by Jupiter.

**Improvement in two wheeler market share supported by better performance of the products launched:**

**TVSM's Domestic market share trend**

**(% market share)**

	FY14	FY15	FY16	FY17	7mFY18
<b>Motorcycle</b>	5.5	6.2	6.7	7.0	7.6
<b>Scooters</b>	12.7	15.1	15.4	14.7	16.1
<b>Overall(including Moped)</b>	<b>11.8</b>	<b>13.1</b>	<b>13.4</b>	<b>14.2</b>	<b>14.2</b>

In FY17, despite demonetization TVSM reported domestic volume growth of 12.7% better than two wheeler domestic industry growth of 6.9%. Hence overall domestic market share improved to 14.2% in FY17 from 11.8% in FY14. TVSM has been continuously improving domestic market share due to outperforming Industry growth.

**Increasing share of premium segment and scooters in the two wheeler industry:**

**Segment wise contribution (%) for Industry and TVSM**

% Contribution	Industry				TVSM			
	FY14	FY15	FY16	FY17	FY14	FY15	FY16	FY17
Motorcycle	70.8	67.1	65.0	63.1	32.7	31.6	32.2	31.1
Scooter	24.3	28.2	30.6	31.9	26.1	32.5	35.0	33.2
Mopeds	4.9	4.7	4.4	5.1	41.2	35.8	32.8	35.8

In domestic two wheeler market, scooter's contribution has been increasing to the total two wheelers due to gender neutral image and strong urban demand. Scooter category share has now increased to 31.9% in FY17 from 24.3% in FY14 to the total two wheelers.

TVSM has strong presence in the scooter segment through Scooty Zest, Scooty Pep, Wego and Jupiter. For TVSM, Scooter category share has increased to 33.2% in FY17 from 26.1% in FY14 to the total two wheelers.

Domestic two wheeler market can be 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 motorcycle segment (above 125 cc) is continuously increasing and has come to ~24% in FY17 from ~16% in FY13 to total motorcycle. The growth in premium segment is mainly due to continued traction from urban demand and changing consumer preference towards premium segment. Entry level segment is continuously falling and is taken over by premium motorcycles and scooters.

TVSM has presence in entry level segment (up to 110 cc) through Star City, Star Sport and recently launched Victor and has strong presence in Premium category (151-200 cc) through Apache RTR (160,180,200 cc variants). TVSM has recently launched Apache RTR 310 CC (jointly developed product with BMW) in domestic market. This would increase TVSM's presence in the continuously growing premium segment of motorcycles and also provide higher realization.

**Improvement in FY17 financial performance and relatively low leverage levels and comfortable debt protection metrics**

: Total operating income grew by 9.6% during FY17 to reach Rs.12,225 Cr, driven by increase in overall sales volume and improvement in sales realisation. PBILDT Margin for the company stood at 7.76% for FY17 almost similar to that of FY16 margins of 7.74%. Relatively low profit margin could be attributed mainly to high fixed overheads (employee cost and marketing spend).

Long term debt equity ratio witnessed improvement to 0.21 times as on March 31, 2017 (PY: 0.35 times) whereas overall gearing remained almost flat at 0.49 times as on March 31, 2017 as against 0.51 times as on March 31, 2016 mainly due to increase in working capital borrowings .

Company reported Income of Rs.15,274 for FY18 at growth of 25% YoY due to strong volume growth and improvement in realization. Company reported PAT of Rs. 663 Cr for FY18 (PY: Rs.591 Cr). Overall gearing improved to 0.42x in FY18 (PY:0.49 x).

**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.

**Prospects:** India is the world's largest two-wheeler (TW) market, followed by China and Indonesia. Over the past few years the two wheeler industry has witnessed healthy growth scenario primarily driven by strong demand from urban as well as rural areas owing to healthy economic scenario. Growing population in urban and rural areas also created the need for regular commuting and thereby pushing the demand for low cost and fuel efficient two wheelers.

Two wheeler industry is expected to grow continuously due to government focus on rural income and infrastructure development boosting rural demand, steady demand from Urban, lower interest rate and easy financing available, growing middle class income and aspirations and increasing penetration levels.

The ability of TVSM to grow its market share amidst a highly competitive environment, improve the margins and stabilization of the subsidiaries' operation will be the key rating sensitivities.

#### 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 Rs.111 crore in PT TVS. Investments in PT TVS stood at Rs.366 crore as on March 31, 2017 (PY: Rs.255 crore).

During FY17, PT TVS registered a sales volume of around 26,750 vehicles during FY17 as against 17,100 vehicles during FY16. PT TVS continued to focus on exports and has exported around 25,000 units during FY17 as against 15,000 vehicles in FY16. For FY17, PT TVS reported net loss of Rs.45 Cr (PY: net loss of Rs.72 Cr) over total income of Rs.149 Cr (PY: Rs.89 Cr).

As on March 31, 2017, the overall investment of TVSM in its group companies stood at Rs.1,587 crore. Besides investment in PT TVS, much of the incremental investment was towards TVS Motor Services Limited (holding company of TVS Credit 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.

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 ~97% of the consolidated Total income (FY17). However, financial and operational performances of major subsidiaries and likely investment commitments to group companies have been factored in during the analysis. CARE has taken a limited review based on the key operational and financial parameters for the year ended March 2018.

#### 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	11,155	12,225
PBILDT	863	949
PAT	482	591
Overall gearing (times)	0.51	0.49
Interest coverage (times)	17.7	21.6

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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**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
Commercial Paper	-	-	07-364 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	150.00	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	20.00	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+ (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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