

March 26, 2024

## TVS Automobile Solutions Private Limited: [ICRA]A-(Stable)/[ICRA]A2+ assigned for bank facilities; Issuer rating of [ICRA]A-(Stable) reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]A- (Stable); reaffirmed
Long term fund based limits	-	60.00	[ICRA]A- (Stable); assigned
Short term fund based limits	-	16.00	[ICRA]A2+; assigned
Short term fund based – Sublimit	-	(25.00)	[ICRA]A2+; assigned
Short term non-fund based – Sublimit	-	(35.00)	[ICRA]A2+; assigned
Long-term/Short term – Unallocated	-	54.00	[ICRA]A- (Stable)/[ICRA]A2+; assigned
<b>Total</b>	-	<b>130.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating assigned to the bank facilities of TVS Automobile Solutions Private Limited (TASPL/the company) draws comfort from its strong parentage with TVS Mobility Private Limited (TVS Mobility/parent) holding 21.57% stake in the company (as on December 31, 2023). TVS Mobility is part of the T S Rajam Group, which in turn is a faction of the larger TVS Group – an established name in the domestic auto ancillary industry. TASPL has strong operational and financial linkages with its parent, with operations monitored by TVS Mobility, and the latter's representatives being part of TASPL's Board of Directors. TASPL has strong financial flexibility and lender/investor comfort arising from its parentage. Also, TVS Mobility has committed to timely and adequate fund infusion, as and when required, to meet the company's operational and financial commitments. The rating also considers TASPL's diversified product profile and its established relationships with auto component manufacturers, which, along with favourable demand outlook is likely to drive revenue growth going forward. TASPL has comfortable capital structure and adequate liquidity.

TASPL reported revenues of Rs. 448.0 crore in FY2023 and Rs. 250.2 crore in H1 FY2024 (consolidated excluding Ki Mobility<sup>1</sup>) growing by 15.9% in FY2023 on YoY basis and 11.7% in H1 FY2024 on annualised basis. Growth in the auto component aftermarket industry, product expansions and deeper market penetration supported the topline improvement. However, TASPL reported operating losses from FY2021 to FY2023, impacted by relatively high fixed costs and operating inefficiencies. While various measures including integrated procurement of spares, lower discount/commissions to dealers and inventory optimisation have resulted in operating margin of 2.4% and net margin of 0.7% in H1 FY2024, and ICRA understands that the same is expected to continue going forward, the extent of improvement remains to be seen. While the coverage metrics remained weak till FY2023 because of operating losses, in the absence of any significant capex plans, they are expected to improve going forward as accruals improve. TASPL's working capital intensity was relatively high at around 30% in FY2023. While the company has undertaken concrete measures to reduce the same, the extent of improvement remains to be seen.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its strong parentage, diversified product profile and established relationship with auto component manufacturers, favourable demand outlook and adequate liquidity.

<sup>1</sup> The company's board of directors has approved a restructuring scheme, by virtue of which the company will no longer be a shareholder in Ki Mobility Solutions Private Limited. TVS Mobility is slated to become the key promoter shareholder in Ki Mobility, subject to regulatory approvals.

## Key rating drivers and their description

### Credit strengths

**Strong parentage** – TVS Mobility Private Limited is the holding company of the T S Rajam faction of the larger TVS Group of companies – an established name in the domestic auto ancillary industry. TVS Mobility Private Limited (TVS Mobility/parent company) holds a 21.57% stake in the company (as on December 31, 2023), while other Group companies hold a 34.17% stake, resulting in a 55.74% stake by the T S Rajam Group. ICRA draws comfort from TASPL's strong operational and financial linkages with the parent. Further, TASPL's operations are monitored by TVS Mobility, and the latter's representatives are part of TASPL's Board of Directors. TASPL has strong financial flexibility and lender/investor comfort arising from its parentage. Also, TVS Mobility has committed to timely and adequate fund infusion, as and when required, to meet the company's operational and financial commitments.

**Diversified product profile; established relationships with auto component manufacturers** – TASPL has over 16,000 dealers across South and East India. Further, the company has a diversified product profile comprising brake systems, power train components, tyres, fasteners, and lubricants, among others. The company caters to products of more than 30 auto component manufacturers including Bosch Limited, Valeo India Private Limited, and ZF Commercial Vehicle Control Systems India Limited to name a few. Apart from this, the company is one of the prime distributors for the original equipment (OE) spares of Mahindra & Mahindra Limited in South India.

**Comfortable capital structure** – The company has been conservative on debt in the last few quarters and its net worth was Rs. 460-465 crore as on September 30, 2023. As a result, it has comfortable debt metrics as illustrated by a gearing of 0.2 times as on September 30, 2023. ICRA expects TASPL's capital structure to remain comfortable going forward, with anticipated improvement in accruals in the absence of any significant capex plans over the medium term.

**Favourable demand prospects for auto component spares over the medium term** – The aftermarket segment constitutes around a fifth of the overall demand and remains a vital cog in the Indian auto component industry. ICRA expects the replacement demand to grow at a moderate pace in FY2024 at 6-8% and 5-7% in FY2025, supported by underlying demand drivers, including the increase in mobility, improving economic activity and healthy freight movement. The replacement segment has also benefitted from the postponement of new vehicle purchases due to increased inflationary pressures and elongated waiting periods, especially in the passenger vehicle (PV) segment. Demand for used cars remains healthy, aided by the growth of organised players, elongated wait periods for new cars and improved financing penetration. Growth of the organised players has enhanced the accessibility and reliability of aftermarket services and products, and in turn, supported the demand. Besides, reduced imports and growth in the proportion of branded parts, deeper penetration in rural/semi-urban regions and better awareness among consumers about vehicle safety and the importance of periodic maintenance are likely to facilitate growth in the replacement demand over the medium term.

### Credit challenges

**Operating losses till FY2023** – The company has reported operating losses from FY2021 to FY2023, impacted by relatively high fixed costs and operating inefficiencies. While various measures including integrated procurement of spares, lower discount / commissions to dealers and inventory optimisation have resulted in operating margin of 2.4% and net margin of 0.7% in H1 FY2024. ICRA understands that the same is expected to continue going forward, aided by operating leverage and sustenance of cost-optimisation measures undertaken. Nevertheless, the extent of improvement in margins, given competitive pressures and limited value addition given its trading nature of operations, remains to be seen. Also, while the coverage metrics remained weak till FY2023 because of the operating losses, in the absence of any significant capex plans, they are expected to improve going forward as accruals improve. The company's adequate liquidity, strong financial flexibility, its track record of fund raising and the parent's commitment to extend timely and adequate fund infusion, as and when required provide comfort.

**Working capital intensive nature of operations** – The company holds relatively higher levels of inventory because of its diversified product profile and wide geographic presence. It also offers relatively higher credit periods to its customers,

compared to other aftermarket distributors. As a result, TASPL's working capital intensity was at around 30% in FY2023. While the company has undertaken measures to reduce the same, the extent of improvement remains to be seen.

**Exposed to competitive risks** – Akin to other players in the auto-component aftermarket business, the company witnesses intense competition from OE spares, other organised and unorganised players and imports, which restricts its pricing flexibility and margins. However, its wide distribution network and brand equity mitigate the risk to an extent. Further, the company has undertaken cost-optimisation initiatives in its supply chain and distribution network to mitigate margin pressures that could arise because of competition to an extent.

### Liquidity position: Adequate

TASL's liquidity is adequate with a free cash and bank balance of Rs. 60.0 crore and undrawn working capital lines of around Rs. 45.0 crore at the consolidated level (excluding Ki Mobility) as on December 31, 2023. TVS Mobility has committed to timely and adequate fund infusion, as and when required, to meet the company's operational and financial commitments. Against these sources of cash, the company has negligible repayment obligations of Rs. 0.7 crore in FY2025 on its existing debt. It does not have any repayment obligations on existing debt in FY2026. The company has only minimal capex plans, which are expected to be funded through internal accruals.

### Rating sensitivities

**Positive factors** – Sustained and significant improvement in the company's earnings and debt indicators resulting in improvement of credit metrics could result in rating upgrade. Further, improvement in the credit profile of the support provider (TVS Mobility) or strengthening of TASPL's operational/ financial linkages with the support provider could result in an upgrade. Specific metric that could lead to an upgrade includes interest coverage of more than 4.0 times on a sustained basis.

**Negative factors** – Negative pressure on the rating could arise in case of the company's inability to sustain cash accruals, or sizeable debt funded capex or stretch in the working capital cycle leading to weakening of liquidity and credit profile. Further, significant deterioration in the credit profile of the support provider (TVS Mobility) or weakening of TASPL's operational / financial linkages with the support provider, could also result in a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for Auto Components</a>
Parent/Group support	TVS Mobility Private Limited; TVS Mobility has committed to provide timely and adequate fund infusion, as and when required, to meet the company's operational and financial commitments.
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company excluding Ki Mobility <sup>2</sup> . Details of consolidation provided in Annexure-II.

### About the company

TVS Automobile Solutions Private Limited (TASPL/the company) is a traditional aftermarket distributor of spare parts and components for 2W/3W, passenger vehicles, commercial vehicles and tractors. The company has four operating subsidiaries excluding Ki Mobility Solutions Private Limited (Ki Mobility). Of these, three companies are in the same line of business, however, in different geographies, while TVS Insurance Broking is an IRDAI registered broking entity with pan-India presence. The company derived 96% of its consolidated revenues excluding Ki Mobility from the spare parts distribution business and the remaining 4% from the insurance business in the last three years. TASPL has a diversified product profile comprising of

<sup>2</sup> The company's board of directors has approved a restructuring scheme, by virtue of which the company will no longer be a shareholder in Ki Mobility Solutions Private Limited. TVS Mobility is slated to become the key promoter shareholder in Ki Mobility, subject to regulatory approvals.

brake systems, power train products, tyres, fasteners, lubricants and oil among others. TASPL caters to over 16,000 active dealers/retailers across India and caters to more than 30 auto component manufacturers.

TVS Mobility holds 21.57% stake in the company, while other Group companies hold a 34.17% stake, resulting in 55.74% stake by the T S Rajam Group. The company also has private equity investments from Kitara ASL, Mauritius (14.65%) and Mitsubishi Corporation, Japan (24.09%).

#### Key financial indicators (audited)

Consolidated (excluding Ki Mobility)	FY2022	FY2023
Operating income	386.4	448.0
PAT	-25.0	-24.4
OPBDIT/OI	-6.0%	-3.6%
PAT/OI	-6.5%	-5.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	-8.1	-4.9
Interest coverage (times)	-0.9	-0.8

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with numbers reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

#### Status of non-cooperation with previous CRA: Not applicable

#### Any other information: None

#### Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 26, 2024	Feb 22, 2024			
1	Issuer rating	Long term	-	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
2	Working capital facilities	Long term	60.00	4.85	[ICRA]A-(Stable)	-	-	-	-
3	Overdraft/ Purchase bills discounting	Short term	16.00	-	[ICRA]A2+	-	-	-	-
4	Purchase bills discounting	Short term	(25.00)	-	[ICRA]A2+	-	-	-	-
5	Bank guarantee / Letter of Credit	Short term	(35.00)	-	[ICRA]A2+	-	-	-	-
6	Unallocated	Long term / Short term	54.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-	-

#### Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA

Working capital facilities	Simple
Overdraft/ Purchase bills discounting	Simple
Purchase bills discounting	Simple
Bank guarantee / Letter of Credit	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]A- (Stable)
NA	Working capital facilities	NA	NA	NA	60.00	[ICRA]A- (Stable)
NA	Overdraft/ Purchase bills discounting	NA	NA	NA	16.00	[ICRA]A2+
NA	Purchase bills discounting	NA	NA	NA	(25.00)	[ICRA]A2+
NA	Bank guarantee / Letter of Credit	NA	NA	NA	(35.00)	[ICRA]A2+
NA	Unallocated	NA	NA	NA	54.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Jai and Sons Private Limited	100.00%	Full Consolidation
Topsel Marketing Private Limited	70.00%	Full Consolidation
Universal Components Distribution Private Limited	100.00%	Full Consolidation
TVS Insurance Broking Private Limited	100.00%	Full Consolidation
TVS Distribution & Services Middle East, FZCO	100.00%	Full Consolidation
Myers Tyre Supply (India) Limited	68.23%	Full Consolidation
Essex Automobile Solutions Limited	63.00%	Full Consolidation
Rajgarhia Automobile Solution Limited	51.00%	Full Consolidation

Source: Company; Note - Ki Mobility and its subsidiaries has been excluded from the consolidation given the proposed restructuring at TASPL.

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