

July 14, 2021

TVS Credit Services Limited: Long-term rating upgraded to [ICRA]AA-(Stable); Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Facilities	2,146.00	2,146.00	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable)
Commercial Paper	1,500.00	2,000.00	[ICRA]A1+; reaffirmed
Total	3,646.00	4,146.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action considers the continued operational, managerial and financial support for TVS Credit Services Limited (TVSCSL) from its parent – TVS Motor Company Limited (TVSM). TVSM is the dominant shareholder in TVSCSL with a stake of 84.5%¹ as of March 2021. Moreover, as a captive financing arm, TVSCSL is strategically important for TVSM’s operations. The ratings take comfort from the steady and regular capital support received from the TVSM Group since the commencement of TVSCSL’s operations. ICRA notes that TVSCSL received total equity infusion of Rs. 596 crore from the TVSM Group over the last 7 years (including Rs. 100 crore in FY2021) and a further Rs. 50 crore in Q1 FY2022. The regular equity support has enabled the company to maintain its capital profile at adequate levels (net worth/average managed assets (AMA) at 13.9% as on March 31, 2021) despite the relatively lower internal generation in relation to its growth plans. Going forward as well, ICRA expects TVSCSL to secure fresh equity capital regularly to achieve its envisaged growth plans over the medium term.

The ratings also consider TVSCSL’s adequate liquidity profile, supported by its on-balance sheet liquidity, unavailed bank facilities and access to commensurate funding from various lenders. As of March 2021, the company had access to borrowings from more than 25 banks and financial institutions. ICRA takes note of TVSCSL’s geographically diversified presence and the steady improvement in its product diversity by venturing into new asset segments, which supported its business growth.

The ratings, however, continue to factor in the company’s exposure to borrowers with a modest credit profile and the expected near-term pressure on its asset quality because of the Covid-19 pandemic. ICRA also takes note of the deterioration in TVSCSL’s earnings performance as its credit/provision costs increased in FY2021. The return on average managed assets (RoMA) declined to 0.9% in FY2021 from 1.6% in FY2020. The company, however, has increased its provisions in view of the pandemic, which provides some comfort. ICRA expects TVSCSL’s earnings and asset quality profile to improve steadily over the medium term. This, along with regular capital infusions from TVSM, would support TVSCSL’s portfolio growth and bolster its overall risk profile.

Key rating drivers and their description

Credit strengths

Strategic importance to TVSM – TVSCSL is strategically important to TVSM, given its status as a captive financing arm for TVSM’s two-wheelers. TVSM is the third largest two-wheeler manufacturer with a domestic market share of 14.4% in FY2021 (13.9% in FY2020) and the second largest exporter of two-wheelers. With disbursements of about Rs. 2,901 crore in FY2021

¹ 85.1% including subsidiaries of TVSM

and Rs. 3,223 in FY2020, TVSCSL typically financed around 25-27% of TVSM's two-wheelers by volume, in the recent years. TVSCSL is also the sole financier of TVSM's two-wheelers in some rural locations, which are a vital market for TVSM. TVSCSL operates through TVSM's dealership network and benefits from shared branch resources. It also derives considerable management support from TVSM. The company's board comprises eight directors of which four are from TVSM, including the Chairman (Mr. Venu Srinivasan).

While TVSM has been directly infusing equity capital into TVSCSL since FY2016, it had previously routed its investments in the company through TVS Motor Services Limited (TVSMSL; it issued preference shares to TVSM). In Q1 FY2020, following the receipt of approval from the National Company Law Tribunal (NCLT) in April 2019, TVSMSL's equity shares in TVSCSL were transferred to TVSM in lieu of the preference shares held by TVSM in TVSMSL. Following the share transfer, TVSM held a stake of about 84% in TVSCSL as of June 2019, which increased further to 84.5% as of March 2021. Given its strategic importance to TVSM, TVSCSL has received regular and timely support from TVSM, with TVSM being a key participant in the company's capital-raising efforts in the past. ICRA expects the support to continue, going forward, as well. ICRA also notes that TVSCSL contributed around 13% to TVSM's total comprehensive income, on a consolidated basis, in FY2021.

Regular equity infusions support capitalisation profile – TVSCSL reported a Tier-I capital of 13.5% as of March 31, 2021. It has received regular capital infusions from the TVSM Group in the past, which supported its business growth. In FY2021, TVSM infused about Rs. 100 crore of equity and is expected to infuse about Rs. 100 crore in the current fiscal as well. The company envisages to grow its assets under management (AUM) by around 15-20% in FY2022 and by 25-30% during FY2023-FY2024. ICRA expects TVSM to continue to support the company to help it achieve the envisaged portfolio growth while maintaining the gearing at about 6.5-7.0 times, as TVSCSL's internal generation² is expected to remain relatively moderate (three-year average stood at about 11%).

Well-diversified geographical presence; expected improvement in product diversity in the medium term – TVSCSL has a diversified geographical presence with its portfolio spread across 22 states and Union Territories (UTs) with 3,000+ distribution networks. No single state constituted more than 15% of the AUM as of March 2021. The company benefits from TVSM's vast dealership network (around 1,200 dealers and 3,100+ sub-dealers) and the top 5 states constituted about 60% of the AUM as of March 2021. As of March 2021, the company's AUM was Rs. 11,240 crore.

TVSCSL commenced operations as a captive financier of two-wheelers in FY2011 and gradually expanded into other asset classes viz., used cars (FY2013), new tractors (FY2013), used tractors (FY2015), consumer durables (CD; FY2018), used commercial vehicles (CVs; FY2018) and micro, small & medium enterprises (MSMEs; FY2019). Disbursements grew at a compound annual growth rate (CAGR) of about 28% during FY2016-FY2019, aided by strong growth in the two-wheeler segment and the foray into new segments while the growth was calibrated in the used car and tractor segments. The disbursement growth slowed down over the last two years (FY2020-FY2021), given the weak conditions in the two-wheeler industry. Other segments, including tractors and CD, supported TVSCSL in maintaining the overall growth in disbursements during this period. Consequently, the share of two-wheelers in the AUM moderated to 37% as of March 2021 from 68% as on March 31, 2014.

Other key growing segments include the tractor and used CV segments with a share of 26%, and 9%, respectively, as of March 2021. The share of the tractor segment increased in FY2021 (from 19% in March 2020) as tractor sales improved during the period and the company started financing tractors of other manufacturers instead of just TAFE³ and Eicher⁴. Exposure to the used car segment moderated to about 18% in FY2020 and 12% in FY2021 (30% in FY2018), as the company is expected to focus its operations on only a few regions (largely South India) for this asset segment. Overall, TVSCSL's AUM increased at a CAGR of around 16% during the last two years (FY2020-FY2021) vis-à-vis 28% between FY2016 and FY2019. The AUM growth in the current fiscal is expected to be moderate at about 15-20% and pick up to about 25-30% during FY2023-2024. Going forward,

² PAT/ Average Net Worth

³ Tractors and Farm Equipment Limited

⁴ Eicher Motors Limited

TVSCSL is likely to increase the share of tractors and newer asset segments, namely CD, used CVs, personal loans and MSMEs, which accounted for 26%, 5%, 9% and 3%, respectively, of its AUM in March 2021. It will also add other new products to its asset mix.

Credit challenges

Exposure to borrowers with modest credit risk profile; asset quality pressures on account of the pandemic – TVSCSL has exposure to borrowers with a modest credit profile as a large proportion of its disbursements are to borrowers without banking habits (especially two-wheeler financing). The company predominantly targets the self-employed segment, which is prone to income shocks. TVSCSL faced asset quality pressures in FY2021, with its customers adversely affected by the pandemic. It reported write-off and repossession losses of 3.2% (of AUM) in FY2021 vis-à-vis 2.2% in FY2020. The gross non-performing assets (NPAs) stood at 5.0% as on March 31, 2021 compared to 3.8% as on March 31, 2020. The company, however, increased its expected credit loss (ECL) provision to 2.5% of the AUM in March 2021 from 2.0% in March 2020 (1.7% in March 2019). As of March 2021, the company had a restructured book of 4.7%.

Going forward, TVSCSL's ability to keep incremental slippages and credit costs under control, in view of the continuing adverse business conditions emanating from the intermittent lockdowns in FY2022, would be critical considering the target segment and new product diversifications.

Deterioration in earnings performance in FY2021; profitability expected to improve going forward – TVSCSL incurred higher credit-related and provision costs in FY2021 on account of the pandemic. As a result, credit costs jumped sharply to 4.1% in FY2021 from 2.8% in FY2020, resulting in a decline in the net profitability to 0.9% in FY2021 from 1.6% in FY2020. ICRA notes that the company, in view of the pandemic, has correspondingly augmented its ECL provisions over the last two years. The net interest margin (NIM) remains relatively stable despite the reduction in the yield on advances, backed by a corresponding reduction in the borrowing costs. However, the company continues to incur high operating costs (8.4% in FY2021 as a proportion of managed assets) because of the operational infrastructure setup for business growth and product diversification, with most of the processes being undertaken by the in-house teams. Going forward, ICRA, on a base case, expects the credit costs to reduce steadily while TVSCSL would benefit from economies of scale, which would boost its profitability to the pre-FY2020 levels.

Liquidity position: Adequate

TVSCSL had cash and liquid investments of Rs. 570 crore and undrawn credit lines of Rs. 345 crore as on May 31, 2021 (Rs. 650 crore and Rs. 447 crore, respectively, as on March 31, 2021). Its debt repayment obligations stand at Rs. 1,520 crore (including Rs. 850-crore commercial paper; CP) during July-September 2021. ICRA also takes note of the credit lines, which are in various stages of sanction, and expects timely support from the TVSM Group, if required. Currently, TVSCSL has a diverse funding profile including bank borrowings (66% of borrowings as of March 2021), external commercial borrowings (13%), subordinated debt (8%), CP (7%), non-convertible debentures (NCDs; 4%), and perpetual debentures (1%). The company has relationships with more than 25 banks and financial institutions, providing adequate comfort on its financial flexibility. Access to funds from diverse sources and the ability to secure funding at competitive rates provide good financial flexibility to TVSCSL.

ICRA notes that TVSCSL's collections, like other non-banking financial companies (NBFCs), were adversely impacted by the Covid-19-related lockdown. The collections dipped to a low of about Rs. 232 crore in April 2020 during the nationwide lockdown but improved steadily over the subsequent few months to about Rs. 680 crore in September 2020. Further, the collections during Q3 and Q4 FY2021 remained healthy at an average of about Rs. 770 crore and Rs. 840 crore, respectively. The average collections in Q1 FY2022 declined marginally by around 5% vis-à-vis Q4 FY2021, given the localised lockdowns related to the second wave of the pandemic.

Rating sensitivities

Positive factors – ICRA could upgrade or revise the outlook to Positive if the company is able to improve its RoMA to more than 3.0% on a sustained basis while keeping the asset quality under control. A material improvement in the credit risk profile of TVSM could also positively impact the rating.

Negative factors – ICRA could downgrade or revise the outlook to Negative in case of a significant deterioration in TVSCSL’s asset quality, impacting the profitability indicators, or lower-than-expected support from TVSM. A material deterioration in TVSM’s credit risk profile could also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies Rating Approach – Implicit Support from Parent or Group
Parent/Group Support	The ratings assigned to TVSCSL factor in the high likelihood of receiving financial support from its parent, TVSM, because of the close business linkages and strategic importance of TVSCSL to TVSM. ICRA also expects TVSM to be willing to extend financial support to TVSCSL to protect its reputation from the consequences of a Group entity’s distress. TVSM also has a consistent track record of extending timely financial support to TVSCSL, whenever required.
Consolidation/Standalone	While arriving at the ratings, ICRA has considered the standalone financials of TVSCSL. TVSCSL has six subsidiaries, which were yet to commence operations as of March 2021.

About the company

TVSCSL, a Chennai-based non-deposit taking NBFC incorporated in November 2008, is a part of the TVSM Group of companies. Following the group restructuring exercise undertaken in FY2020, the company has become a direct subsidiary of TVS Motor Company Limited (TVSM) with TVSM holding a stake of 84.5% in TVSCSL as of March 2021. Other minority shareholders include Lucas TVS Limited, Sundaram Clayton Limited, TVS Motor Foundation, HDFC Bank Limited, PHI Research Private Limited and PHI Capital Services LLP, etc. The company’s operations are spread across 25 states and Union Territories in India. Its retail loan portfolio stood at Rs. 11,240 crore as of March 2021 (Rs. 9,215 crore as of March 2020).

TVS Motor Company Limited

TVS Motor Company Limited, a part of the Chennai-based TVSM Group, manufactures two- and three-wheelers. TVSM sold 30.5 lakh two-wheelers and three-wheelers in FY2021, registering a volume decline of 6.5% YoY. In FY2021, TVSM reported a consolidated net profit of Rs. 607.5 crore on a total income of Rs. 19,420.8 crore vis-à-vis a net profit of Rs. 646.8 crore on a total income of Rs. 18,849.3 crore in FY2020.

Key financial indicators (audited)

TVSCSL	FY2019	FY2020	FY2021
Total income (Rs. crore)	1,625	2,003	2,241
Profit after tax (Rs. crore)	148	151	97
Net worth (Rs. crore)	1,151	1,372	1,564
Loan book (Rs. crore)	8,364	9,648	11,445
Total managed assets (Rs. crore)	8,752	10,284	12,226
Return on managed assets (%)	1.9%	1.6%	0.9%
Return on net worth (%)	14.6%	11.9%	6.6%
Managed gearing (times)	6.4	6.2	6.5
Gross stage 3 (%)	3.3%	3.8%	3.7% (5.0%*)
Net stage 3 (%)	2.0%	2.4%	2.3% (3.4%#)
Solvency (Net stage 3/Net worth)	14.8%	16.6%	17.0% (25.0% [§])
CRAR (%)	17.5%	17.0%	18.5%

Source: Company, ICRA Research

*Gross non-performing assets; # Net non-performing assets; § Net NPA/Net Worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Jul 14, 2021	Oct 30, 2020	Jul 31, 2019	Apr 27, 2018	
1	Long-term bank facilities	Long term	2,146.00	2,146.00	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Commercial paper	Short term	2,000.00	2,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Bank Facilities	Simple
Commercial Paper	Very Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
INE729N14FM6	Commercial Paper	23-Apr-2021	4.40%	23-Jul-2021	50	[ICRA]A1+
INE729N14FM6	Commercial Paper	23-Apr-2021	4.40%	23-Jul-2021	50	[ICRA]A1+
INE729N14FM6	Commercial Paper	23-Apr-2021	4.40%	23-Jul-2021	100	[ICRA]A1+
INE729N14FN4	Commercial Paper	27-Apr-2021	4.40%	27-Jul-2021	150	[ICRA]A1+
INE729N14FO2	Commercial Paper	17-May-2021	4.30%	12-Aug-2021	250	[ICRA]A1+
INE729N14FP2	Commercial Paper	19-May-2021	4.30%	17-Aug-2021	250	[ICRA]A1+
Unallocated	Commercial Paper	NA	NA	NA	1,150	[ICRA]A1+
NA	Long-term Bank Facilities	NA	NA	NA	2,146	[ICRA]AA- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Karthik Srinivasan

+91 22 6114 3444

karthiks@icraindia.com

A M Karthik

+91 44 4596 4308

a.karthik@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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