

October 28, 2022

## TVS Credit Services Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*                | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action  |
|----------------------------|--------------------------------------|-------------------------------------|--|
| Commercial paper           | 2,500.00                             | 2,500.00                            | [ICRA]A1+; reaffirmed  |
| Long term – Term loans     | 1,771.00                             | 3,771.00                            | [ICRA]AA (Stable);<br>reaffirmed/assigned for enhanced<br>amount |
| Short-term bank facilities | 375.00                               | 375.00                              | [ICRA]A1+; reaffirmed  |
| Perpetual debt             | -                                    | 100.00                              | [ICRA]AA- (Stable); assigned                                     |
| <b>Total</b>               | <b>4,646.00</b>                      | <b>6,746.00</b>                     |  |

\*Instrument details are provided in Annexure I

### Rationale

The ratings factor in the operational, managerial and financial support derived from TVS Motor Company Limited (TVSM), which is the promoter of TVS Credit Services Limited (TVSCSL), with a stake of 84.2% (including via TVSM's subsidiaries) as of March 2022. As a captive financing arm for TVSM's two-wheeler (2W) business, TVSCSL is strategically important for TVSM's operations.

TVSM is a leading domestic 2W manufacturer, producing a wide range of 2Ws and three-wheelers (3Ws). It also exports vehicles to markets like Asia, Africa, Latin America, etc. In the 2W segment, TVSM has a presence across scooters, motorcycles and mopeds and has strengthened its position with new model launches across sub-segments, strong brand equity, wide distribution reach and marketing efforts. Consequently, it has gradually increased its market share over the years (crossing 15% in FY2022). Going forward, ICRA expects the company's performance to be supported by the rising preference towards personal mobility, the increase in rural demand given the normal monsoon guidance, and strong brand strength. TVSM is also expected to make higher investments, a large part of which is expected towards electronic vehicles (EVs).

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 has received a total equity infusion of Rs. 942 crore from the TVSM Group since FY2011 (including Rs. 100 crore in FY2022 and Rs. 150 crore in H1 FY2023). The regular equity support has helped the company maintain its capital profile at adequate levels (net worth/average managed assets (AMA) at 13.5% as on March 31, 2022) despite the relatively lower internal capital generation in relation to its growth plans. ICRA expects TVSCSL to secure fresh equity capital regularly to achieve its envisaged growth plans over the medium term. ICRA takes note of TVSCSL's geographically diversified presence and the steady improvement in its product diversity by venturing into new asset segments, which has supported its business growth.

The ratings, however, continue to factor in the company's exposure to borrowers with a modest credit profile. TVSCSL faced significant asset quality pressure in FY2021 and FY2022, with its customers adversely affected by the Covid-19 pandemic. It reported write-offs and repossession losses of 3.1% (of gross advances) in both FY2022 and FY2021 vis-à-vis 2.2% in FY2020. However, the gross non-performing assets (NPAs) declined to 3.1% as of June 30, 2022 from 3.7% as on March 31, 2022 (5.0% as on March 31, 2021) backed by the continued improvement in the collection efficiency. Further, the total restructured book, which stood at 4.6% of the gross advances as of March 2021, declined to 2.3% as of March 2022 and 1.7% as of June 2022. ICRA expects the pressure on the asset quality to ease, going forward, since the effect of the pandemic has been absorbed to a large extent.

ICRA notes that the company continues to incur high operating costs (10.2% in Q1 FY2023 and 9.1% in FY2022 as a proportion of AMA) 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, TVSCSL's ability to improve its operating efficiency and maintain tight control on its credit costs would remain crucial for a sustained improvement in its earnings profile. The company, however, has increased its provisions in view of the pandemic. ICRA expects TVSCSL's earnings and asset quality profile to improve over the medium term. This, along with regular capital infusions from TVSM, would support TVSCSL's portfolio growth while keeping the capital structure under control.

## 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 2Ws. TVSM is the third largest 2W manufacturer with a domestic market share of 15.2% in FY2022 (14.4% in FY2021) and the second largest exporter of motorcycles. TVSCSL finances around 20-26% of the parent's domestic sales by volume. TVSCSL is also the sole financier of TVSM's 2Ws 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 the TVSM Group, including the Chairman.

While TVSM has been directly infusing equity capital into TVSCSL since FY2018, it had previously routed its investments in the company through TVS Motor Services Limited (TVSMSL; issued preference shares to TVSM). Given its strategic importance to TVSM, the company has received regular and timely support from the parent in the past. ICRA expects the support to continue, going forward, as well. ICRA also notes that TVSCSL, on a consolidated basis, contributed around 17% to TVSM's profit in FY2022, up from 16% in FY2021.

**Well-diversified geographical presence; further diversification in asset segments expected in the medium term** – TVSCSL has a diversified geographical presence with its portfolio spread across 26 states and Union Territories (UTs) with a strong dealership network. No single state constituted more than 15% of the assets under management (AUM) as of March 2022. 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 2022.

TVSCSL commenced operations as a captive financier of 2Ws in FY2011, and gradually expanded into other asset classes, viz. used cars (FY2013), new tractors (FY2013), used tractors (FY2015), consumer durables (CDs; FY2018), used commercial vehicles (CVs; FY2018) and micro, small and medium enterprises (MSMEs; FY2019). The overall disbursements jumped substantially (45% YoY growth) in FY2022, led by the newer asset classes like CDs, used CVs, cross-sell loans (unsecured loans to existing borrowers), and MSME. Disbursement growth in the 2W and tractors segments was moderate, constrained by the industry growth in these segments. Disbursements in the used car segment witnessed a healthy growth following the run-down of the old book in the previous years.

In Q1 FY2023, TVSCSL had disbursed Rs. 4,803 crore vis-à-vis Rs. 12,533 crore in FY2022. While disbursements have grown strongly, the portfolio growth was lower at 28% in FY2022 and 11% in Q1 FY2023 owing to the short loan tenors in a few segments. The company is expected to continue its strong portfolio growth performance at a compound annual growth rate (CAGR) of 25-30% over the medium term.

### Credit challenges

**Exposure to borrowers with modest credit risk profile** – TVSCSL has exposure to borrowers with a modest credit profile as borrowers in semi-urban and rural areas, without regular banking habits (especially in 2W financing), account for a large portion of its disbursements. The company predominantly targets the self-employed segment, which is prone to income shocks. TVSCSL faced significant asset quality pressure in FY2021 and FY2022, with its customers adversely affected by the

pandemic. It reported write-offs and repossession losses of 3.1% (of gross advances) in FY2022 and FY2021 (2.2% in FY2020). However, the gross NPAs declined to 3.1% as of June 30, 2022 from 3.7% as on March 31, 2022 (5.0% as on March 31, 2021) backed by some improvement in the collection efficiency. Further, the total restructured book, which stood at 4.57% of the gross advances as of March 2021, declined to 2.33% as of March 2022 and 1.67% as of June 2022. The company also increased its expected credit loss (ECL) provision to 2.7% as of March 2022 from 2.5% as of March 2021 (2.0% as of March 2020).

Going forward, TVSCSL's ability to keep incremental restructuring, slippages and credit costs under control, in view of the change in the portfolio mix to segments with a relatively lower track record, would be critical considering the target segment and new product diversification.

**Moderate capitalisation profile; however, regular equity infusions provide comfort** – TVSCSL reported a Tier I capital of 11.56% as of June 30, 2022. It received regular capital infusions from the TVS Group in the past, which supported its business growth. TVSM infused about Rs. 100 crore of equity in FY2022 and Rs. 150 crore in H1 FY2023. Going forward, ICRA expects TVSM to continue supporting the company to help it achieve the envisaged portfolio growth while maintaining the gearing at 6.5-7.5x, as TVSCSL's internal generation is expected to remain relatively moderate.

**Subdued earnings performance** – TVSCSL's net interest margins have remained relatively stable despite the reduction in the yield on advances backed by a corresponding reduction in the borrowing costs. However, going forward, the company could face some pressure due to further diversification into low-yielding asset segments and an increase in the cost of funds in view of the macroeconomic conditions.

ICRA notes that TVSCSL continues to incur high operating costs (10.2% in Q1 FY2023, 9.1% in FY2022 and 8.4% in FY2021 as a proportion of AMA) because of the operational infrastructure setup for business growth and product diversification, with most of the processes being undertaken by the in-house teams. Moreover, over the last two years, the company has been incurring higher credit and provision costs (4.0% in FY2022 and 4.1% in FY2021 vis-à-vis 2.7% in FY2020) on account of the pandemic, which further impacted its profitability. However, ICRA notes that the company's credit costs declined in Q1 FY2023 to 2.6% and the overall net profitability improved to 2.1%. ICRA expects the credit and provision costs to decline going forward, with the effect of the pandemic being largely absorbed in the previous years. TVSCSL's ability to improve its operating efficiency and control its credit costs would remain crucial for incremental profitability, going forward.

## Liquidity position: Adequate

TVSCSL had cash and liquid investments of Rs. 998 crore and undrawn credit lines of Rs. 620 crore as on September 30, 2022 vis-à-vis payment obligations of Rs. 4,220 crore (including interest servicing) during October 2022-March 2023. It had also collected, on average, Rs. 900-1,200 crore per month in Q1 FY2023. The monthly average collections are expected to be in the range of Rs. 1,100-1,200 crore over the next six months. ICRA also expects timely liquidity/funding support from the TVSM Group, if required. Access to funds from diverse sources and the ability to secure funding at competitive rates provide good financial flexibility to TVSCSL.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings or revise the outlook to Positive if there is an improvement in the credit risk profile of TVSM. An improvement in TVSCSL's return on managed assets (RoMA) to over 3.0% on a sustained basis, while keeping the asset quality under control, would also positively impact the ratings.

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

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a><br><a href="#">Impact of Parent or Group Support on an Issuer's Rating</a>                  |
| Parent/Group support            | TVS Motor Company Limited (parent)   |
| Consolidation/Standalone        | While arriving at the ratings, ICRA has considered the standalone financials of TVSCSL. TVSCSL has three subsidiaries, which were yet to commence operations as of March 2022. |

## About the company

TVSCSL, a Chennai-based non-deposit taking non-banking financial company (NBFC) incorporated in November 2008, is a part of the TVSM Group of companies. Following the group restructuring exercise undertaken in FY2020, the company is a direct subsidiary of TVS Motor Company Limited (TVSM) with TVSM holding a stake of 84.2% (including via TVSM's subsidiaries) as of March 2022. Other minority shareholders include Lucas TVS Limited, Sundaram Clayton Limited, TVS Motor Foundation, TVS Motor Services Limited and its nominees, VS Investments Private Limited, HDFC Limited, PHI Research Private Limited and PHI Capital Services LLP. The company's operations are spread across 26 states and UTs in India. Its loan portfolio stood at Rs. 14,403 crore as of March 2022 (Rs. 11,445 crore as of March 2021).

### TVS Motor Company Limited

TVS Motor Company Limited, a part of the Chennai-based TVSM Group, manufactures 2Ws and 3Ws. It sold 33.1 lakh 2Ws and 3Ws in FY2022, registering a year-on-year (YoY) volume growth of around 8%. In FY2022, TVSM reported a consolidated net profit of Rs. 730.9 crore on total income of Rs. 24,388.2 crore vis-à-vis a net profit of Rs. 607.5 crore on total income of Rs. 19,468.0 crore in FY2021.

### Key financial indicators (audited)

|                                  | FY2021                      | FY2022 | Q1 FY2023 |
|----------------------------------|-----------------------------|--------|-----------|
| Total income                     | 2,241                       | 2,755  | 868       |
| Profit after tax                 | 97                          | 121    | 83        |
| Net worth                        | 1,564                       | 1,864  | 1,949     |
| Loan book                        | 11,445                      | 14,403 | 15,967    |
| Total managed assets             | 12,226                      | 15,460 | 16,966    |
| Return on managed assets         | 0.9%                        | 0.9%   | 2.1%      |
| Return on net worth              | 6.6%                        | 7.0%   | 17.5%     |
| Managed gearing (times)          | 6.5                         | 7.0    | 7.3       |
| Gross stage 3                    | 3.7% (5.0%*)                | 3.7%   | 3.1%      |
| Net stage 3                      | 2.3% (3.4%#)                | 1.8%   | 1.4%      |
| Solvency (Net stage 3/Net worth) | 16.6% (25.0% <sup>§</sup> ) | 14.0%  | 11.5%     |
| CRAR                             | 18.5%                       | 18.6%  | 17.1%     |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; \*Gross non-performing assets; # Net non-performing assets; <sup>§</sup> Net NPA/Net worth Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

| Instrument                   | Type       | Current Rating (FY2023)  |                                | Chronology of Rating History for the Past 3 Years |                   |                   |                         |                         |                         |
|------------------------------|------------|--------------------------|--------------------------------|---|-------------------|-------------------|-------------------------|-------------------------|-------------------------|
|                              |            | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2023                           |                   |                   | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
|                              |            |                          |                                | Oct 28, 2022                                      | Aug 18, 2022      | Jun 20, 2022      | Jul 14, 2021            | Oct 30, 2020            | Jul 31, 2019            |
| 1 Long term – Unallocated    | Long term  | 0.00                     | 0.00                           | -   | -                 | [ICRA]AA (Stable) | [ICRA]AA- (Stable)      | [ICRA]A+ (Stable)       | [ICRA]A+ (Stable)       |
| 2 Commercial paper           | Short term | 2,500.00                 | 2,500.00                       | [ICRA]A1+   | [ICRA]A1+         | [ICRA]A1+         | [ICRA]A1+               | [ICRA]A1+               | [ICRA]A1+               |
| 3 Long term – Term loans     | Long term  | 3,771.00                 | 3,771.00                       | [ICRA]AA (Stable)                                 | [ICRA]AA (Stable) | -                 | -                       | -                       | -                       |
| 4 Short-term bank facilities | Short term | 375.00                   | 375.00                         | [ICRA]A1+   | [ICRA]A1+         | -                 | -                       | -                       | -                       |
| 5 Perpetual debt             | Long term  | 100.00                   | 100.00                         | [ICRA]AA- (Stable)                                | -                 | -                 | -                       | -                       | -                       |

### Complexity level of the rated instrument

| Instrument                 | Complexity Indicator |
|----------------------------|----------------------|
| Commercial paper           | Very Simple          |
| Long term – Term loans     | Simple               |
| Short-term bank facilities | Simple               |
| Perpetual debt             | Moderately Complex   |

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](http://www.icra.in)

## Annexure I: Instrument details

| ISIN         | Instrument Name           | Date of Issuance | Coupon Rate | Maturity  | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------|---------------------------|------------------|-------------|---|--------------------------|----------------------------|
| INE729N14GU7 | Commercial Paper          | Jul-21-2022      | 6.20%       | Oct-20-2022   | 150.00                   | [ICRA]A1+                  |
| INE729N14GU7 | Commercial Paper          | Jul-21-2022      | 6.20%       | Oct-20-2022   | 150.00                   | [ICRA]A1+                  |
| INE729N14GT9 | Commercial Paper          | Jul-22-2022      | 6.20%       | Oct-21-2022   | 100.00                   | [ICRA]A1+                  |
| INE729N14GW3 | Commercial Paper          | Jul-26-2022      | 6.20%       | Oct-25-2022   | 150.00                   | [ICRA]A1+                  |
| INE729N14GW3 | Commercial Paper          | Jul-26-2022      | 6.20%       | Oct-25-2022   | 100.00                   | [ICRA]A1+                  |
| INE729N14GV5 | Commercial Paper          | Jul-28-2022      | 6.20%       | Oct-27-2022   | 100.00                   | [ICRA]A1+                  |
| INE729N14GZ6 | Commercial Paper          | Aug-23-2022      | 6.50%       | Nov-22-2022   | 250.00                   | [ICRA]A1+                  |
| INE729N14GY9 | Commercial Paper          | Aug-24-2022      | 6.50%       | Nov-23-2022   | 150.00                   | [ICRA]A1+                  |
| INE729N14GX1 | Commercial Paper          | Aug-25-2022      | 6.50%       | Nov-24-2022   | 100.00                   | [ICRA]A1+                  |
| INE729N14GX1 | Commercial Paper          | Aug-25-2022      | 6.50%       | Nov-24-2022   | 50.00                    | [ICRA]A1+                  |
| INE729N14GX1 | Commercial Paper          | Aug-25-2022      | 6.50%       | Nov-24-2022   | 50.00                    | [ICRA]A1+                  |
| INE729N14HB5 | Commercial Paper          | Sep-15-2022      | 6.53%       | Dec-05-2022   | 250.00                   | [ICRA]A1+                  |
| Unallocated  | Commercial Paper          | NA               | NA          | NA  | 900.00                   | [ICRA]A1+                  |
| NA           | WCDL                      | Jun-21-2022      | NA          | NA  | 375.00                   | [ICRA]A1+                  |
| INE729N08014 | Perpetual Debt            | Nov-24-2017      | 11.50%      | NA (call option – 10 years from the date of issuance) | 100.00                   | [ICRA]AA- (Stable)         |
| NA           | Term Loan-1               | Jul-21-2022      | NA          | Jul-30-2025   | 500.00                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-2               | May-20-2022      | NA          | May-20-2025   | 300.00                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-3               | Jun-29-2022      | NA          | Jul-28-2025   | 750.00                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-4               | Sep-29-2022      | NA          | Sep-29-2025   | 250.00                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-5               | Sep-21-2021      | NA          | Sep-21-2024   | 250.00                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-6               | Feb-06-2020      | NA          | Feb-06-2023   | 41.70                    | [ICRA]AA (Stable)          |
| NA           | Term Loan-7               | Mar-20-2020      | NA          | Mar-20-2023   | 50.00                    | [ICRA]AA (Stable)          |
| NA           | Term Loan-8               | May-04-2020      | NA          | May-04-2023   | 75.00                    | [ICRA]AA (Stable)          |
| NA           | Term Loan-9               | Feb-24-2020      | NA          | Feb-24-2023   | 40.00                    | [ICRA]AA (Stable)          |
| NA           | Term Loan-10              | Mar-30-2022      | NA          | Apr-29-2025   | 418.81                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-11 <sup>#</sup> | Jul-13-2020      | NA          | Jul-13-2023   | 377.90                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-12 <sup>#</sup> | Oct-19-2020      | NA          | Oct-19-2023   | 343.81                   | [ICRA]AA (Stable)          |
| NA           | Term Loan-13              | Mar-27-2020      | NA          | Mar-30-2023   | 20.00                    | [ICRA]AA (Stable)          |
| Unallocated  | Term loan                 | NA               | NA          | NA  | 353.78                   | [ICRA]AA (Stable)          |

Source: Company; <sup>#</sup>External commercial borrowing

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

## Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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