

May 18, 2023

TVS Credit Services Limited: Change in limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	2,500.00	2,500.00	[ICRA]A1+; outstanding
Long term – Term loans	5,971.00	5,271.00	[ICRA]AA (Stable); outstanding
Short-term bank facilities	675.00	1,375.00	[ICRA]A1+; outstanding
Perpetual debt	100.00	100.00	[ICRA]AA- (Stable); outstanding
Total	9,246.00	9,246.00	

*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 86.1% (including via TVSM's subsidiary) as of March 2023. TVSM is a leading domestic two-wheeler (2W) manufacturer, producing a wide range of 2Ws and three-wheelers (3Ws). As a captive financing arm for TVSM's 2W business, 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 has received a total equity infusion of Rs. 1,292 crore from the TVSM Group since FY2011 (including Rs. 100 crore in FY2022 and Rs. 500 crore in FY2023). Regular equity infusions have helped TVSCSL support its capital profile (Tier-1 capital of 12.2% as of March 2023), especially given the strong growth witnessed in FY2022 and FY2023. ICRA expects TVSCSL to secure timely equity capital, which, in addition to a steady improvement in its internal generation, would support its near-to-medium-term growth plans. ICRA takes note of TVSCSL's geographically diversified presence and the steady improvement in its product diversity by venturing into new asset segments.

The ratings, however, continue to factor in the company's exposure to borrowers with a modest credit profile. TVSCSL faced 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. The gross stage 3 had declined to 2.7% as of March 31, 2023 from 3.7% as on March 31, 2022, backed by improved collection efficiency and bad loan write-offs. Going forward, the performance of the asset quality, given the company's significant growth plans, would be crucial.

ICRA notes that the company continues to incur high operating costs (9.7% in FY2023 and 9.1% in FY2022 as a proportion of average managed assets) because of the operational infrastructure set-up for business growth and product diversification. Also, most of the processes have been undertaken by the in-house teams. Nevertheless, the profitability had improved to 2.0% in FY2023 vis-à-vis 0.9% in FY2022 and FY2021, supported by higher margins and lower credit costs. 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.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Impact of Parent or Group Support on an Issuer's Rating
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 2023.

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 86.1% (including via TVSM's subsidiary) as of March 2023. Other minority shareholders include Lucas TVS Limited, Sundaram Clayton Limited, TVS Motor Foundation, TVS Motor Services Limited and its nominees, HDFC Limited, PHI Research Private Limited and PHI Capital Services LLP. The company's operations are spread across 28 states and Union Territories in India. Its loan portfolio stood at Rs. 21,255 crore as of March 2023 (Rs. 14,403 crore as of March 2022).

TVS Motor Company Limited

TVS Motor Company Limited, a part of the Chennai-based TVSM Group, manufactures 2Ws and 3Ws. It sold 36.8 lakh 2Ws and 3Ws in FY2023 vis-à-vis 33.1 lakh in FY2022. In FY2023, TVSM reported a consolidated net profit of Rs. 1,309.5 crore on total income of Rs. 32,112.0 crore vis-à-vis a net profit of Rs. 730.9 crore on total income of Rs. 24,388.2 crore in FY2022.

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Total income	2,241	2,755	4,160
Profit after tax	97	121	389
Net worth	1,564	1,864	2,758
Loan book	11,445	14,403	21,255
Total managed assets	12,226	15,460	22,750
Return on managed assets	0.9%	0.9%	2.0%
Return on net worth	6.6%	7.0%	16.8%
Managed gearing (times)	6.5	7.0	6.8
Gross stage 3	3.7% (5.0%*)	3.7%	2.7%
Net stage 3	2.3% (3.4%#)	1.8%	1.3%
Solvency (Net stage 3/Net worth)	16.6% (25.0% [§])	14.0%	9.7%
CRAR	18.5%	18.6%	18.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Gross non-performing assets; # Net non-performing assets; [§] 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	Current Rating (FY2024)				Chronology of Rating History						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	for the Past 3 Years							
				Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	
				May 18, 2023	Mar 10, 2023	Oct 28, 2022	Aug 18, 2022	Jun 20, 2022	Jul 14, 2021	Oct 30, 2020	
1 Commercial paper	Short term	2,500.00	1,400.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2 Long term – Term loans	Long term	5,271.00	4,810.88	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	
3 Short-term bank facilities	Short term	1,375.00	1,375.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	
4 Perpetual debt	Long term	100.00	100.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	
5 Long term – Unallocated	Long term	0.00	0.00	-	-	-	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE729N14HL4	Commercial Paper	Mar-03-2023	8.27%	Jun-02-2023	500.00	[ICRA]A1+
INE729N14HN0	Commercial Paper	Mar-06-2023	8.27%	Jun-05-2023	250.00	[ICRA]A1+
INE729N14HM2	Commercial Paper	Mar-08-2023	8.27%	Jun-07-2023	250.00	[ICRA]A1+
INE729N14HO8	Commercial Paper	Apr-28-2023	7.60%	Jul-28-2023	250.00	[ICRA]A1+
INE729N14HP5	Commercial Paper	Apr-28-2023	7.60%	Jul-28-2023	150.00	[ICRA]A1+
Unallocated	Commercial Paper	NA	NA	NA	1,100.00	[ICRA]A1+
NA	WCDL	Jun-21-2022	NA	NA	375.00	[ICRA]A1+
NA	WCDL	Feb-13-2023	NA	NA	300.00	[ICRA]A1+
NA	WCDL	Mar-30-2023	NA	NA	200.00	[ICRA]A1+
NA	WCDL	Mar-15-2023	NA	NA	500.00	[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	Feb-23-2022	NA	Feb-28-2025	250.00	[ICRA]AA (Stable)
NA	Term Loan-2	Jul-21-2022	NA	Jul-30-2025	450.00	[ICRA]AA (Stable)
NA	Term Loan-3	Dec-31-2022	NA	Dec-31-2025	700.00	[ICRA]AA (Stable)
NA	Term Loan-4	Jan-30-2023	NA	Jun-30-2024	200.00	[ICRA]AA (Stable)
NA	Term Loan-5	May-20-2022	NA	May-20-2025	300.00	[ICRA]AA (Stable)
NA	Term Loan-6	Mar-30-2022	NA	Apr-30-2025	324.23	[ICRA]AA (Stable)
NA	Term Loan-7	Jun-29-2022	NA	Jul-29-2025	547.29	[ICRA]AA (Stable)
NA	Term Loan-8	Dec-23-2022	NA	Jan-26-2026	547.51	[ICRA]AA (Stable)
NA	Term Loan-9	Feb-20-2023	NA	Mar-20-2026	145.14	[ICRA]AA (Stable)
NA	Term Loan-10	Sep-29-2022	NA	Sep-30-2025	250.00	[ICRA]AA (Stable)
NA	Term Loan-11#	Jul-13-2020	NA	Jul-13-2023	377.90	[ICRA]AA (Stable)
NA	Term Loan-12#	Oct-19-2020	NA	Oct-19-2023	343.81	[ICRA]AA (Stable)
NA	Term Loan-13	Mar-29-2023	NA	Apr-29-2026	375.00	[ICRA]AA (Stable)
Unallocated	Term Loan	NA	NA	NA	460.12	[ICRA]AA (Stable)

Source: Company; #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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About ICRA Limited:

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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.

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