

July 21, 2023

TVS Credit Services Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	2,500.00	3,300.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Long term – Term loans	5,271.00	6,271.00	[ICRA]AA (Stable); reaffirmed/assigned for enhanced amount
Short-term bank facilities	1,375.00	1,375.00	[ICRA]A1+; reaffirmed
Perpetual debt	100.00	100.00	[ICRA]AA- (Stable); reaffirmed
Total	9,246.00	11,046.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings takes into consideration the improving earnings profile of TVS Credit Services Limited (TVSCSL) amid the growth in the assets under management (AUM). TVSCSL recorded a higher net profitability of 2.0% in FY2023 vis-à-vis 0.9% in FY2022 (0.9% in FY2021), supported by better margins and lower credit costs, while its AUM grew a healthy 48% in FY2023. The ratings also factor in TVSCSL's increasing diversification from its traditional captive two-wheeler (2W) lending segment, with the share of other segments such as tractors, used commercial vehicles (CVs), consumer durables (CDs) and cross-sell personal loans improving steadily over the years. The ratings continue to consider the operational, managerial and financial support derived from TVS Motor Company Limited (TVSM), which is TVSCSL's promoter, with a stake of 86.1% (including via TVSM's subsidiary) as of March 2023. TVSM is a leading domestic 2W manufacturer, producing a wide range of 2Ws and three-wheelers (3Ws). As the sole financing entity in the TVSM Group, 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. 150 crore in FY2022 and Rs. 500 crore in FY2023) while incremental capital infusion from external investors is expected in FY2024. 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 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.

The ratings, however, continue to factor in the company's exposure to borrowers with a modest credit profile as they are predominantly self-employed with a presence in semi-urban and rural areas. This was demonstrated during the Covid-19 pandemic, when delinquencies and write-offs jumped significantly, resulting in higher collections and credit costs. Nevertheless, the asset quality performance has improved better compared to the pre-pandemic level with the gross stage 3 at 2.7% as of March 31, 2023 vis-à-vis 3.7% as on March 31, 2022.

ICRA also notes that the company continues to incur significant operating costs (9.7% in FY2023 and 9.4% in FY2022 as a proportion of average managed assets) because of high employee costs as it has been expanding its employee base to support its growth in recent years. 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.

Key rating drivers and their description

Credit strengths

Increasing asset segment diversification – 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), CDs (FY2018), used CVs (FY2018) and business loans (BLs; FY2019). In the last two years (FY2022-FY2023), TVSCSL's AUM expanded significantly at a compound annual growth rate (CAGR) of 38% reaching Rs. 21,255 crore as of March 2023. The share of the 2W segment has declined steadily over the years (27% as of March 2023 from 46% as of March 2019) as the company had expanded its presence to financing tractors (29% as of March 2023), used CVs (10%), CDs (6%) and cross-sell (predominantly personal loans; 15%). TVSCSL is targeting a CAGR of 25-30% for its portfolio over the medium term with plans to diversify into newer asset segments, while continuing to scale up further in the existing asset segments.

TVSCSL has a diversified geographical presence with its portfolio spread across 28 states and Union Territories (UTs), along with a strong dealership network. No single state constituted more than 15% of the AUM as of March 2023. 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 62% of the AUM as of March 2023 (60% as of March 2022).

Strategic importance to TVSM – TVSCSL is strategically important to TVSM, given its status as a captive financing arm of 2Ws for TVSM. TVSM is the third largest 2W manufacturer with a domestic market share of 16.1% in FY2023 (15.2% in FY2022) and the second largest exporter of motorcycles. With monthly disbursements (average) of ~Rs. 380 crore in the 2W segment (out of total average monthly disbursements of ~Rs. 1,800 crore), TVSCSL financed 22.2% of TVSM's 2Ws, by volume, in FY2023 (23.2% in FY2022). It 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 and its board comprises seven directors of which five are directors at TVSM as well, including the Chairman.

Given its strategic importance to TVSM, the company has received regular and timely support from the promoter in the past which ICRA expects to continue, going forward, as well. ICRA also notes that TVSCSL, on a consolidated basis, contributed around 23% to TVSM's profit¹ in FY2023, up from 12% in FY2022.

Improving earnings profile – During the pandemic, TVSCSL had incurred higher credit and provision costs (4.0% in FY2022 and 4.1% in FY2021 vis-à-vis 2.7% in FY2020), leading to subdued net profitability at 0.9% in FY2022 and FY2021 vis-à-vis 1.6% in FY2020. However, with the impact of the pandemic waning, the net profitability improved to 2.0% in FY2023, supported by better interest margins and lower credit costs (write-offs and repossession losses reduced to 1.4% of gross advances in FY2023 from 3.1% in FY2022).

ICRA notes that TVSCSL continues to incur significant operating costs (9.7% in FY2023 and 9.4% in FY2022 as a proportion of average managed assets) because of high employee costs as it has been expanding its employee base to support its growth in recent years. Going forward, ICRA expects TVSCSL to improve its operating efficiency, while keeping its credit costs under control as it scales up its operations, which would support a steady improvement in its earnings profile over the medium term.

Credit challenges

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

¹ Profit before interest and taxes

3 improved to 2.7% as of March 31, 2023 from 3.7% as on March 31, 2022 (5.0% as on March 31, 2021) and it reported lower credit cost of 3.3% vis-à-vis 4.0% in FY2022 (4.1% in FY2021). The company increased its expected credit loss (ECL) provision to 3.3% as of March 2023 from 2.7% as of March 2022 (2.5% as of March 2021 and 2.0% as of March 2020).

Going forward, TVSCSL’s ability to keep incremental slippages and credit costs under control, in view of the continuing scale-up of operations, would be critical, considering the target segment.

Moderate capitalisation profile, though regular equity infusions provide comfort – TVSCSL’s capital profile remained stable with a Tier-1 capital of 12.2% as of March 31, 2023 compared to 12.3% as of March 2022 (13.5% as of March 2021), irrespective of the growth in the AUM. This was supported by TVSM’s equity infusion of about Rs. 500 crore and the improvement in internal accruals in FY2023. ICRA notes that internal accruals were moderate with respect to the growth witnessed by TVSCSL in the recent past. Nevertheless, it received regular capital infusions from the TVSM Group, which supported business growth. Also, TVSCSL will be receiving equity capital from external investors in FY2024, which would support its capital profile further. Going forward, ICRA expects TVSM to continue providing funding support to the company in a timely manner, given its growth plans over the medium term.

Liquidity position: Adequate

TVSCSL had cash of Rs. 2,236 crore and sanctioned and undrawn bank lines of Rs. 3,170 crore as on June 30, 2023 vis-à-vis payment obligations of Rs. 6,147 crore during July 2023-December 2023. Its average collections stood at ~Rs. 1,500 crore per month in H2 FY2023.

The company received equity of Rs. 150 crore in FY2022 and Rs. 500 crore in FY2023. ICRA also expects timely liquidity/funding support from the TVSM Group to support the growth plans in the medium term. 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. A sustained improvement in TVSCSL’s return on managed assets (RoMA), 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	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; stake of 86.1% (including via its subsidiary) as of March 2023). The company’s

operations are spread across 28 states and UTs 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 2Ws and 3Ws 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	6.9
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% ⁵)	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; ⁵ Net NPA/Net worth Amount in Rs. crore; P – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years								
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	
				Jul 21, 2023	May 18, 2023	Mar 10, 2023	Oct 28, 2022	Aug 18, 2022	Jun 20, 2022	Jul 14, 2021	Oct 30, 2020	
1	Commercial paper	3,300.00	3,300.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Long term – Term loans	6,271.00	6,271.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[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	1,375.00	1,375.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-
4	Perpetual debt	100.00	100.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	-
5	Long term – Unallocated	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
INE729N14HO8	Commercial Paper	Apr-28-2023	7.60%	Jul-28-2023	250.00	[ICRA]A1+
INE729N14HP5	Commercial Paper	May-18-2023	7.60%	Jul-27-2023	150.00	[ICRA]A1+
INE729N14HR1	Commercial Paper	May-26-2023	7.60%	Aug-17-2023	250.00	[ICRA]A1+
INE729N14HS9	Commercial Paper	May-31-2023	7.60%	Aug-25-2023	400.00	[ICRA]A1+
INE729N14HT7	Commercial Paper	Jun-02-2023	7.44%	Aug-30-2023	200.00	[ICRA]A1+
INE729N14HU5	Commercial Paper	Apr-28-2023	7.44%	Sep-01-2023	550.00	[ICRA]A1+
Unallocated	Commercial Paper	NA	NA	NA	1,500.00	[ICRA]A1+
NA	Short term bank facilities	Jun-21-2022	NA	NA	375.00	[ICRA]A1+
NA	Short term bank facilities	Feb-13-2023	NA	NA	300.00	[ICRA]A1+
NA	Short term bank facilities	Mar-30-2023	NA	NA	200.00	[ICRA]A1+
NA	Short term bank facilities	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	218.75	[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	160.00	[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	297.21	[ICRA]AA (Stable)
NA	Term Loan-7	Jun-29-2022	NA	Jul-29-2025	506.75	[ICRA]AA (Stable)
NA	Term Loan-8	Dec-23-2022	NA	Jan-26-2026	500.42	[ICRA]AA (Stable)
NA	Term Loan-9	Feb-20-2023	NA	Mar-20-2026	135.27	[ICRA]AA (Stable)
NA	Term Loan-10	Mar-29-2023	NA	Apr-29-2026	343.75	[ICRA]AA (Stable)
NA	Term Loan-11	Sep-29-2022	NA	Sep-30-2025	250.00	[ICRA]AA (Stable)
NA	Term Loan-12 [#]	Jul-13-2020	NA	Jul-13-2023	377.90	[ICRA]AA (Stable)
NA	Term Loan-13 [#]	Oct-19-2020	NA	Oct-19-2023	343.81	[ICRA]AA (Stable)
NA	Term Loan-14	Jun-28-2023	NA	Jun-30-2026	1,000.00	[ICRA]AA (Stable)
NA	Term Loan-15	May-31-2023	NA	May-29-2026	400.00	[ICRA]AA (Stable)
NA	Term Loan-16	Jun-30-2023	NA	Jun-30-2026	250.00	[ICRA]AA (Stable)
Unallocated	Term Loan	NA	NA	NA	37.14	[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

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

Richardson Xavier J
+91 90 9487 7278
richardson.xavier@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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.