December 06, 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	3,300.00	3,300.00	[ICRA]A1+; reaffirmed
Long term – Term loans	6,271.00	8,021.00	[ICRA]AA (Stable); reaffirmed/assigned for enhanced amount
Short-term bank facilities	1,375.00	2,125.00	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Perpetual debt	100.00	100.00	[ICRA]AA- (Stable); reaffirmed
Total	**11,046.00**	**13,546.00**	

**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 its assets under management (AUM), and its strengthened capital profile, following the recent capital infusion. TVSCSL recorded a higher net profitability of 2.1% in H1 FY2024 and 2.0% in FY2023 vis-à-vis 0.9% in FY2022 (0.9% in FY2021). The ratings continue to factor in the operational, managerial and financial support derived from the promoter, TVS Motor Company Limited (TVSM), which had a stake of 81.0% (including via TVSM's subsidiary) in the company as of September 2023. TVSM is the third largest domestic two-wheeler (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.

ICRA takes note of the recent capital infusion of Rs. 580 crore in H1 FY2024 from TVSM and a new investor, PI Opportunities Fund-I Scheme II[1] (PI). The ratings continue to take comfort from the steady and regular capital support from the TVSM Group since the commencement of TVSCSL's operations. ICRA notes that TVSCSL has received a total equity infusion of Rs. 1,492 crore from the TVSM Group since FY2011 (including Rs. 500 crore in FY2023 and Rs. 200 crore in H1 FY2024). Regular equity infusions have helped TVSCSL support its capital profile (Tier-1 capital of 13.7% as of September 2023), especially given the strong growth witnessed during FY2022-H1 FY2024. However, following the recent regulatory changes on risk weights for consumer credit exposures, the company's Tier-1 capital is expected to have been negatively impacted by around 100 basis points (bps). Nevertheless, it would remain within 12.0-13.0%, in line with TVSCSL's steady-state capitalisation target. ICRA expects TVSCSL to secure equity capital on a timely basis, 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 collection and credit costs. Nevertheless, the asset quality performance has largely gone back to the pre-pandemic levels with the gross stage 3 (GS3) improving to 2.7% as on March 31, 2023 (3.7% in March 2022). The company's asset quality witnessed some weakening in H1 FY2024 with the GS3 and credit costs increasing to 3.1% and 4.4% (3.3% in FY2023), respectively, due to stress largely in the tractors, cross-sell and consumer durables (CDs) segments. In H1 FY2024, the company undertook the sale of written-off accounts/non-performing assets to an asset reconstruction company in an all-cash deal for a consideration of Rs. 85 crore (0.35% of average

[1] *Premji Invest*

managed assets). Further, it augmented its overall credit provisions to 3.7% as of September 2023 from 3.3% as of March 2023 (2.7% as of March 2022 and 2.5% as of March 2021).

ICRA also notes that the company continues to incur high operating costs (9.0% in H1 FY2024 and 9.7% in FY2023 as a proportion of average managed assets) related to the significant employee costs due to the expansion of the employee base to support growth in recent years. Going forward, TVSCSL's ability to improve its earnings as its business expands and maintain tight control on its asset quality would remain crucial.

Key rating drivers and their description

Credit strengths

Diversified geographical presence and exposure to retail asset segments – 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 commercial vehicles (CVs; FY2018) and business loans (BLs; FY2019). During FY2022-FY2023, TVSCSL's AUM expanded significantly at a compound annual growth rate (CAGR) of 38% and grew by 29% (annualised) in H1 FY2024 to Rs. 24,343 crore as of September 2023. The share of the 2W segment has declined steadily over the years (25% as of September 2023 from 46% as of March 2019) as the company expanded its presence to financing tractors (25% as of September 2023), used CVs (12%), CDs (7%) and cross-sell (predominantly personal loans; 18%). 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 segments. ICRA notes that the share of CD and cross-sell has increased steadily in recent years and is expected to be about 25-30% in the near to medium term. Cross-sell exposures are restricted to borrowers from the existing customer base with an already established credit track record with the company.

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 September 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 61% of the AUM as of September 2023 (62% as of March 2023).

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 16.7% in 7M FY2024 (16.1% in FY2023) and the second largest exporter of motorcycles. With average monthly disbursements of ~Rs. 410 crore in the 2W segment (out of total average monthly disbursements of ~Rs. 2,000 crore), TVSCSL financed 20.3% of TVSM's 2W sales, by volume, in H1 FY2024 (22.2% in FY2023). It is also the key financer 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 six 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 equity support from the promoter in the past. ICRA expects the same to continue, going forward, as well. ICRA also notes that TVSCSL, on a consolidated basis, contributed ~23% to TVSM's profit[2] in FY2023 and H1 FY2024, up from 12% in FY2022.

Improving earnings profile – TVSCSL's net profitability improved to 2.0% in FY2023 from 0.9% in FY2022 and FY2021, supported by better interest margins and lower credit costs. The net profitability increased further to 2.1% in H1 FY2024 on the back of some moderation in operating costs, though credit costs remained elevated. Higher write-offs, especially in the tractors, CD and cross-sell segments in which the company has been steadily increasing its exposure, and the creation of management overlay in credit provisions were the key reasons for the higher credit costs in H1 FY2024.

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[2] *Profit before interest and taxes*

ICRA notes that although TVSCSL's operating cost improved in H1 FY2024, it remains high (9.0% in H1 FY2024 and 9.7% in FY2023 as a proportion of average managed assets). This is 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 enhance 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 is to borrowers in semi-urban and rural areas without regular banking habits. 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 same has improved from the peaks seen during the pandemic with the GS3 declining to 2.7% as of March 31, 2023 from 3.7% as on March 31, 2022. ICRA notes that the company's asset quality witnessed some weakening in H1 FY2024 with the GS3 and credit costs increasing to 3.1% and 4.4% (annualised), respectively. Write-offs and repossession losses increased to 2.9% (annualised) of gross advances in H1 FY2024 from 1.4% in FY2023 (3.1% in FY2022 and FY2021), with the tractors, CDs and cross-sell segments accounting for the majority. In H1 FY2024, the company undertook the sale of written-off accounts/non-performing assets to an asset reconstruction company in an all-cash deal for a consideration of Rs. 85 crore (0.35% of average managed assets). Further, it augmented its overall credit provisions to 3.7% as of September 2023 from 3.3% as of March 2023 (2.7% as of March 2022 and 2.5% as of March 2021).

ICRA takes note of TVSCSL's unsecured/consumer credit exposures (CD and cross-sell), which stood at ~25% of the loan book as of September 2023. Recently, the Reserve Bank of India (RBI) increased the risk weights for consumer credit exposures in view of the underlying risks and concerns emanating from the high growth witnessed in these segments. However, ICRA takes comfort as the cross-sell loans disbursed by TVSCSL are largely to borrowers with an already established credit track record with the company. Further, the company follows a conservative provision and write-off policy. Going forward, TVSCSL's ability to keep incremental slippages and credit costs under control, considering the target segment, would be critical from an asset quality perspective.

Moderate capitalisation, though regular equity infusions provide comfort – While TVSCSL had increased its scale of operations, its capital profile was also strengthened with a Tier-1 capital of 13.7% as of September 2023 compared to 12.2% as of March 2023 (12.3% as of March 2022), supported by the equity infusion of about Rs. 580 crore (including Rs. 380 crore from a new external investor – PI) in H1 FY2024. Following the recent regulatory changes on risk weights for consumer credit exposures, the company's Tier-1 capital is expected to have been negatively impacted by around 100 bps. Nevertheless, its Tier-1 would remain within 12.0-13.0%, in line with its steady-state capitalisation target. ICRA expects TVSCSL to secure timely equity capital from TVSM, which, in addition to a steady improvement in its internal generation, would support its near-to-medium-term growth plans.

Liquidity position: Adequate

TVSCSL had cash of Rs. 1,100 crore and sanctioned and undrawn bank lines of Rs. 2,170 crore as on October 31, 2023 vis-à-vis payment obligations of Rs. 6,768 crore during November 2023-April 2024. Its average collections stood at ~Rs. 1,700 crore per month in H1 FY2024.

The company received an equity infusion of Rs. 580 crore in H1 FY2024. Going forward, ICRA expects timely liquidity/funding support from the TVSM Group to support its 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 – The ratings could be positively impacted if there is a sustained improvement in TVSCSL's return on managed assets (RoMA), while keeping the asset quality under control, or in case of an improvement in the credit risk profile of TVSM.

Negative factors – Deterioration in the credit risk profile of TVSM, lower-than-expected support from TVSM, or a significant deterioration in TVSCSL's asset quality, resulting in adverse profitability indicators, could 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 September 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. The company is a subsidiary of TVS Motor Company Limited (TVSM), which held a stake (diluted basis) of 81.0% (including via TVSM's subsidiary) as of September 2023. Other minority shareholders include PI Opportunities Fund-I Scheme II, Lucas TVS Limited, TVS Motor Services Limited, HDFC Bank and PHI Research Private Limited. The company's operations are spread across 28 states and UTs in India. Its loan portfolio stood at Rs. 24,343 crore as of September 2023 (Rs. 21,255 crore as of March 2023).

TVS Motor Company Limited

TVS Motor Company Limited, the flagship entity of the Chennai-based TVSM Group, manufactures 2Ws and 3Ws. It sold 20.3 lakh 2Ws and 3Ws in H1 FY2024 vis-à-vis 36.8 lakh in FY2023. TVSM reported a consolidated net profit of Rs. 857.4 crore in H1 FY2024 on total income of Rs. 19,126.0 crore vis-à-vis Rs. 1,309.5 crore and Rs. 32,112.0 crore, respectively, in FY2023.

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024 (P)
Total income	2,755	4,160	2,748
Profit after tax	121	389	252
Net worth	1,864	2,758	3,558
Loan book	14,403	21,255	24,343
Total managed assets	15,460	22,750	26,266
Return on managed assets	0.9%	2.0%	2.1%
Return on net worth	7.0%	16.8%	15.9%
Managed gearing (times)	7.0	6.9	6.0
Gross stage 3	3.7%	2.7%	3.1%
Net stage 3	1.8%	1.3%	1.5%
Solvency (Net stage 3/Net worth)	14.0%	9.7%	10.1%
CRAR	18.6%	18.8%	18.7%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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	Current Rating (FY2024)						Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021
					Dec 06, 2023	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	Short term	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	Long term	8,021.00	8,021.00	[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	Short term	2,125.00	2,125.00	[ICRA]A1+	[ICRA]A1+	[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)	[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
INE729N14HY7	Commercial paper	Nov-21-2023	7.93%	Feb-20-2024	250.00	[ICRA]A1+
INE729N14HZ4	Commercial paper	Nov-22-2023	7.93%	Feb-21-2024	400.00	[ICRA]A1+
INE729N14IA5	Commercial paper	Nov-24-2023	7.93%	Feb-23-2024	250.00	[ICRA]A1+
Unallocated	Commercial paper	NA	NA	NA	2,400.00	[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+
NA	Short-term bank facilities	NA	NA	NA	750.00	[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	187.50	[ICRA]AA (Stable)
NA	Term loan-2	Jul-21-2022	NA	Jul-30-2025	350.00	[ICRA]AA (Stable)
NA	Term loan-3	Dec-31-2022	NA	Dec-31-2025	630.00	[ICRA]AA (Stable)
NA	Term loan-4	Jan-30-2023	NA	Jun-30-2024	120.00	[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	243.17	[ICRA]AA (Stable)
NA	Term loan-7	Jun-29-2022	NA	Jul-29-2025	425.67	[ICRA]AA (Stable)
NA	Term loan-8	Dec-23-2022	NA	Jan-26-2026	447.95	[ICRA]AA (Stable)
NA	Term loan-9	Feb-20-2023	NA	Mar-20-2026	120.54	[ICRA]AA (Stable)
NA	Term loan-10	Mar-29-2023	NA	Apr-29-2026	312.50	[ICRA]AA (Stable)
NA	Term loan-11	Sep-29-2022	NA	Sep-30-2025	250.00	[ICRA]AA (Stable)
NA	Term loan-12	Jun-30-2023	NA	Jun-30-2026	250.00	[ICRA]AA (Stable)
NA	Term loan-13	May-31-2023	NA	May-29-2026	400.00	[ICRA]AA (Stable)
NA	Term loan-14	Sep-29-2023	NA	Sep-29-2027	385.00	[ICRA]AA (Stable)
NA	Term loan-15	Sep-29-2023	NA	Sep-29-2027	115.00	[ICRA]AA (Stable)
NA	Term loan-16	Sep-29-2023	NA	Jul-29-2027	250.00	[ICRA]AA (Stable)
NA	Term loan-17	Aug-31-2023	NA	Mar-27-2027	1000.00	[ICRA]AA (Stable)
NA	Term loan-18	Aug-31-2023	NA	Feb-28-2025	300.00	[ICRA]AA (Stable)
NA	Term loan-19	Aug-30-2023	NA	Aug-30-2026	150.00	[ICRA]AA (Stable)
Unallocated	Term loan	NA	NA	NA	1783.67	[ICRA]AA (Stable)

Source: Company

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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