September 16, 2024

Tata International Vehicle Applications Pvt Ltd: Ratings upgraded to [ICRA]A+ (Stable)/ [ICRA]A1; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based – Term Loan	-	21.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable); assigned for the enhanced amount
Long Term / Short Term-Fund Based/Non-Fund Based	70.00	75.00	[ICRA]A+ (Stable)/ [ICRA]A1; upgraded from [ICRA]A (Stable)/ [ICRA]A2+; assigned for the enhanced amount
Long-term/ Short -term – Unallocated	17.24	-	-
Total	**87.24**	**96.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the company's better-than-expected improvement in revenue growth and operating profitability. Tata International Vehicle Applications Pvt Ltd (TIVA) has consistently managed to maintain a strong increase in the top line (CAGR of 48.3% in the last three years), while the operating margins have improved by 510 bps over the last three years. ICRA expects the entity to post a 12-15% growth in its revenues in FY2025, while maintaining the margins at the current level. Strong demand in the near term and a shift in end-user preferences towards organised manufacturers will strengthen TIVA's position as one of the largest trailer manufacturers in the country. Further, with TIVA being the sole supplier of trailers to Tata Motors Ltd. (TML; rated [ICRA] AA+(Stable) / [ICRA]A1+), the market leader in the domestic commercial vehicle (CV) industry, the company is expected to maintain its market position and strong financial profile. Although pick-up of sales in the underlying CV sector remained flat in FY2024, TIVA reported a strong YoY revenue growth of 43.6%, driven by volume expansion and changing preferences of end-users from unorganised to organised manufacturers.

Further, the ratings continue to derive comfort from the company's comfortable capital structure. The company has been free from external debt (except vendor bill discounting) in FY2024. ICRA notes that the entity is in the process of setting up a vehicle scrappage unit with a capital outlay of Rs. 30-35 crore, of which Rs. 21 crore will be funded by debt. The vehicle scrappage unit is expected to aid in diversification of the company's revenue from the volatility of the commercial vehicle sector, and aid in margin expansion in the longer term. The scrappage unit is expected to become operational in October 2024. The margins from the scrappage unit will remain under monitoring.

ICRA also notes TIVA's efforts to diversify its revenue mix, wherein it commenced manufacturing trailers for the defence sector from FY2022 where the realisations are significantly higher, aiding both its revenue growth and diversification prospects. The ratings also factor in the financial flexibility enjoyed by TIVA for being a part of the Tata Group.

The ratings, however, continue to remain constrained by the company's modest scale of operations and intense competition from organised as well as unorganised trailer manufacturers. However, this risk is expected to be mitigated over the medium term as competition from the unorganised segment is moderating after implementation of the goods and services tax (GST), which led to reduction in the price differential between TIVA and its competitors' products. Additionally, with the enforcement of safety regulations such as Anti-lock braking system (ABS), safety rails, etc., the company is positioned to benefit due to its technologically superior products. However, the company remains exposed to the inherent cyclicality in the domestic medium and heavy commercial vehicle (M&HCV) industry. The company's ability to scale up revenues from the defence sector and vehicle scrapping can help mitigate risks associated with the cyclicality of the underlying M&HCV market over the medium-to-long term.

The Stable outlook reflects ICRA's expectations that TIVA will maintain its healthy business and financial risk profiles, going forward, and leverage the stable demand from the CV industry over the near-to-medium term. It would also continue to benefit from the strong financial flexibility for being a part of the Tata Group.

Key rating drivers and their description

Credit strengths

Strong financial flexibility as part of the Tata Group - TIVA is a 99.99% subsidiary of Tata International Limited (TIL), which in turn is held completely by Tata Group companies with a 49.68% holding by Tata Sons Private Limited (rated [ICRA]AAA(Stable)/A1+). The ratings continue to draw comfort from TIVA's strong parentage, which lends it with financial flexibility. It is the sole supplier of trailers to TML, the market leader in the domestic M&HCV segment with about 49% market share in FY2024.

Strong position in domestic trailer segment – TIVA is one of the largest organised players in the trailer segment in India. Apart from TML, the company sells trailers directly to dealers of other original equipment manufacturers (OEMs) as well as to customers (predominantly fleet operators) in the open market. While the market is characterised by a large number of unorganised players as well, TIVA has been strengthening its market position and capturing market share from unorganised players over the years, especially post GST implementation and the pandemic, which impacted smaller players with limited financial flexibility. Further, with the implementation of stringent safety regulations, TIVA is poised to capture market share from its unorganised counterparts.

Steady growth in revenues, and improvement in operating profitability – TIVA has achieved a steady CAGR of 48.3% in its revenues since FY2022 (to Rs. 859.8 crore in FY2024) along with significant expansion in its operating margin by 510 bps (to 9.7%) during the same period. This was achieved on the back of higher volumes and realisations along with reduced operating expenses. Post the pandemic, TIVA has been successful in capturing market share from unorganised players on the back of its strong technological and manufacturing capabilities. ICRA expects TIVA to benefit from this paradigm shift in the near-to-medium term.

Credit challenges

Susceptible to cyclicality in domestic M&HCV industry – The domestic M&HCV industry exhibits significant cyclicality, with its prospects closely linked to some of the key segments of the economy, such as industrial growth and investments in infrastructure and construction. As TIVA deals with supply of trailers for M&HCVs, its sales volume and earnings remain susceptible to cyclicality in the segment. However, the company's efforts to diversify into other sectors such as defence and vehicle scrapping centres, would help it mitigate this risk over the medium-to-long term.

Intense competition from organised as well as unorganised segments – Though the company remains the largest organised trailer manufacturer in India, its operations remain exposed to intense competition from other organised and unorganised players, which account for a sizeable share of the domestic trailer manufacturing industry.

Liquidity position: Adequate

TIVA's liquidity position is adequate, primarily supported by expectations of healthy cash accruals of Rs. 25-30 crore annually, coupled with unutilised fund-based working capital limits of Rs. 39.6 crore as on March 31, 2024, and free cash and balances of ~Rs. 40 crore. Against the same, the company has capex plans of about Rs. 35 crore in FY2025, to be funded through a mix of debt of Rs. 21 crore and internal accruals, which include investments for setting up a scrappage facility in Pune as a franchisee of Tata Motors Limited. The repayment of the loan starts from FY2026 as the same comes with a moratorium of 1 year.

Rating sensitivities

Positive factors – The ratings may be upgraded upon significant improvement in the company's scale of operations and diversification in business and customer profile, while maintaining strong operating profitability.

Negative factors – Negative pressure on the ratings could arise in case of sustained weakening in financial performance and deterioration in liquidity or coverage metrics. Downward pressure could also emerge from any large debt-funded capex or dividend pay-out, which results in stretched liquidity or deterioration in coverage metrics on a sustained basis. Specific credit metrics which would lead to a downgrade would include total debt / OPBITDA above 1.75 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the issuer

About the company

Tata International Vehicle Applications Pvt. Ltd. (TIVA) was incorporated on 25th June 2005 as a 50:50 joint venture between Tata International Ltd (TIL) and Dutch Lanka Trailers Manufacturers Ltd (DLT, step-down wholly-owned subsidiary of TRF Limited), Sri Lanka and started its manufacturing activity from April 2006. TIVA became a 99.99% subsidiary of TIL with effect from FY2021.

TIVA is in the business of designing, manufacturing and selling of trailers, which are used for transporting containers, steel coils, structural steel, cement, granite and marble, coal and heavy cargo. The company has three major product segments of flatbed, skeletal and sidewall with tonnage ranging from 35 tonnes to 55 tonnes, with lengths between 7 meters and 22 meters. (A pictorial snapshot of various trailers manufactured by TIVA is attached in Annexure 1). TIVA is estimated to be the largest trailer manufacturer in India and is the preferred supplier (currently sole supplier) for trailers to Tata Motors Limited (TML). Currently TIVA has an installed capacity of 9160 trailers per year with manufacturing units located at Ajmer (Rajasthan), Waki and Nighoje in Pune (Maharashtra) and Jamshedpur (Jharkhand).

In the current fiscal, TIVA has also decided to enter the organised vehicle scrapping space and plans to set up a new vehicle scrappage facility in Pune, as a franchisee of TML.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	598.7	859.8
PAT	18.1	53.9
OPBDIT/OI	6.5%	9.7%
PAT/OI	3.0%	6.3%
Total outside liabilities/Tangible net worth (times)	2.5	2.4
Total debt/OPBDIT (times)	1.6	0.5
Interest coverage (times)	7.1	19.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)					Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	21.00	Sep 16, 2024	[ICRA]A+ (Stable)	-	-	02-Aug-2022	[ICRA]A (Stable)	02-Jul-2021	[ICRA]A- (Stable)
Fund Based Cash Credit	Long term	-	-	-	-	-	02-Aug-2022	[ICRA]A (Stable)	02-Jul-2021	[ICRA]A- (Stable)
Non-Fund Based	Short term	-	-	-	-	-	02-Aug-2022	[ICRA]A2+	02-Jul-2021	[ICRA]A2+
Fund Based / Non-fund Based facilities	Long Term/ Short term	75.00	Sep 16, 2024	[ICRA]A+ (Stable)/ [ICRA]A1	27-Jul-2023	[ICRA]A (Stable)/ [ICRA]A2+	02-Aug-2022	[ICRA]A (Stable)/ [ICRA]A2+	02-Jul-2021	[ICRA]A- (Stable)/ [ICRA]A2+
Unallocated	Long Term/ Short term	-	-	-	27-Jul-2023	[ICRA]A (Stable)/ [ICRA]A2+	0s2-Aug-2022	[ICRA]A (Stable)/ [ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based – Term Loan	Simple
Long Term / Short Term-Fund Based/Non-Fund Based	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based /Non-fund Based**	NA	NA	NA	75.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	**Term Loans**	15-Jan-2024	9.15%	FY2030	21.00	[ICRA]A+ (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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About ICRA Limited:

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