November 22, 2021

Tube Investments of India Limited: Ratings reaffirmed; long-term rating removed from watch with developing implications and stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	525.00	525.00	[ICRA]AA+ (Stable); reaffirmed; removed from watch with developing implications and stable outlook assigned
Short-term fund based - sublimit	(525.00)	(525.00)	[ICRA]A1+; reaffirmed
Short-term non-fund based	500.00	500.00	[ICRA]A1+; reaffirmed
Commercial paper	525.00	525.00	[ICRA]A1+; reaffirmed
Total	**1,550.00**	**1,550.00**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating has been removed from watch with developing implications, following the successful completion of initial integration process of the acquired entity, CG Power and Industrial Solutions Limited (CG Power) with Tube Investments of India Limited (TIIL, the company). Post the takeover by TIIL, CG Power's performance has witnessed a sharp turnaround in H1 FY2022, with the latter's revenues improving by 144% on a YoY basis to ~Rs. 2,504 crore in H1 FY2022 (vis-à-vis Rs. 1,026.6 crore in H1 FY2021) and net profits of Rs. 236.1 crore (net profit margin of 9.4%). This was primarily aided by adequate working capital, post the fund infusion by TIIL and focussed marketing initiatives by TIIL's business development team. With elimination of operational bottlenecks, CG Power's strong brand and its healthy orderbook position, ICRA expects the performance improvement to remain sustainable going forward. Further, with the completion of one-time debt restructuring, execution of agreements for settlement of the liabilities of overseas subsidiaries (which are under liquidation) and TIIL expecting minimal cash outflows of less than Rs. 100.0 crore towards the payment of the same in H2 FY2022, ICRA believes majority of the financial integration has been completed. While TIIL's net debt levels have increased post the takeover of CG Power, the same is expected to reduce going forward, with healthy cashflows from TIIL (excluding CG Power), CG Power's improving cashflows and proceeds from the likely sale of land parcel at Kanjurmarg, Mumbai before March 31, 2022. Any adverse developments on account of findings from the ongoing Serious Fraud Investigation Office's (SFIO) investigation or continuing income tax litigations (from the pre-acquisition period) would remain a key monitorable. Also, ICRA notes that TIIL is open to acquisitions in related verticals. The acquisitions, upon materialization, would be evaluated on case-by-case basis.

The ratings also draw comfort from TIIL's diverse product profile, its strong, well-entrenched market position across all its operating segments and products, which has been further strengthened through CG Power's acquisition. The company has comfortable capital structure with net gearing of 0.2 times as on September 30, 2021 and it also enjoys exceptional lender/investor comfort and this is expected to continue going forward as well. TIIL reported revenue growth of ~246% on a YoY basis in revenues in H1 FY2022 to Rs. 5,700.2 crore, aided by additional revenues from CG Power, lower base in the previous year, higher realisations as a result of commodity price pass through, better demand from domestic markets and strong export demand. Going forward, with further improvement in CG Power's performance, TIIL's continued focus to grow its organic business in both domestic and export markets, launch of new products and foray in to the three-wheeler electric vehicle space (expected to commence operations in FY2023), ICRA expects the revenue growth to remain healthy going forward. While rising commodity prices remain a concern, the company's demonstrated ability to pass on raw material price increases to its customers mitigates the risk to a large extent. The margins are also supported by various cost-saving initiatives across heads and consolidation exercise undertaken by the company. Consequently, the margins have remained stable in H1 FY2022 at 11.5%, despite a sharp increase in commodity prices over the past few months. While TIIL has not faced any material impact on its performance because of the supply chain issues, sustenance of the same remains to be seen.

Key rating drivers and their description

Credit strengths

Revenue diversification and healthy scale of operations aided by CG Power acquisition and organic business growth – Despite the sharp pandemic-led impact on TIIL's operations in Q1 FY2021, its revenues expanded by ~28% on a YoY basis to Rs. 6,093.4 crore in FY2021, primarily owing to incremental revenues (Rs. 1,393.0 crore) from the newly acquired subsidiary, CG Power (pertaining to four months of consolidation: December 2020 to March 2021) and stable growth in revenues from the engineering and the mobility (cycles) division. With CG Power turning around since its acquisition (~144% YoY growth in revenues in H1 FY2022), and healthy growth in TIIL's existing business segments, the company has witnessed sharp improvement (~246% YoY growth) in topline in H1 FY2022 to Rs. 5,700.2 crore. In addition to increasing the scale of operations, CG power's acquisition has reduced TIIL's exposure to auto industry.

Well established market position in all the operating segments - TIIL remains the market leader in cold drawn welded (CDW) tubes in India – its key product in the engineering division. Under metal formed products division, the company continues to be one of the major suppliers of automotive and industrial chains in the domestic market and is an established player in fine blanking products. TIIL's established presence in the automotive chains aftermarkets segment through its well-known brands in India: 'Diamond' and 'Razor', supported the revenues under metal formed products division in FY2021, despite the subdued demand from 2W OEMs amid the pandemic. Under mobility division, with a market share of ~26% in the retail cycles segment, the company remains one of the largest organized players in India and benefitted from the healthy demand in FY2021, aided by increasing global focus on health and safety. Its cycle brands – BSA, Hercules, Montra and Roadeo – continue to feature amongst the best-selling brands in the country. TIIL's strong presence in its existing business segments, is complemented by CG Power's position, as one of the leading players across products in both of its operating segments – power systems and industrial solutions. TIIL's market position is expected to remain strong across products over the medium term.

Comfortable capital structure; strong financial flexibility and lender/investor comfort – TIIL's net debt levels were low at less than Rs. 200.0 crore as of March 31, 2020 aided by its effective working capital management and relatively lower capex as compared to its healthy accruals over the past few years. While the net debt levels had increased to Rs. 1,064.9 crore as of March 31, 2021, primarily owing to takeover of debt (gross debt of Rs. 1,537.0 crore) as part CG Power's acquisition, the net debt levels reduced to Rs. 681.2 crore as on September 30, 2021 aided by improving cashflows from CG Power in H1 FY2022 and settlement of part of the debt in H1 FY2022. The net gearing remained comfortable at 0.2 times as of September 30, 2021 (vis-à-vis 0.5 times as of March 31, 2021) and ICRA expects the capital structure to remain comfortable over the medium term. ICRA also favourably factors in the lender/investor comfort enjoyed by the company. The company's recent borrowings were tied-up at competitive interest rates at 4.8% p.a. for its NCD programme.

Credit challenges

Earnings vulnerable to inherent cyclicality in the auto industry – TIIL currently derives a sizeable portion of its revenues from the auto industry, predominantly 2W and passenger cars. Further sale of cycles is also seasonal, with the business declining from the past few years (barring FY2021). Although the proportion of revenues from the auto industry have reduced from past levels of ~53% in FY2020 with the CG Power acquisition, TIIL's earnings continue to be exposed to the inherent cyclicality in the auto industry.

Potential vulnerability of earnings to supply chain disruptions and other headwinds – Even as the underlying demand has remained strong, the automotive industry is witnessing supply chain issues, which has affected auto OEM production volumes across segments in the last few months. While TIIL has not witnessed any major bottlenecks/production loss from OEMs because of the supply chain issues, any potential impact on revenues and margins on account of this over the next few months remains to be seen. Further, TIIL's margins are vulnerable to unfavourable commodity price movements, which presently remain at elevated levels, despite slight moderation in the recent months. The company has demonstrated its ability to pass on raw material price increases to its customers, albeit with a lag of three to six months. This has resulted in stability in operating profit margins in H1 FY2022, with OPM of 11.5% (10.8% in FY2021). However, any potential impact going forward remains to be seen.

Increase in net debt levels due to the CG Power acquisition; however, it is expected to reduce over the next 6-12 months, aided by healthy cashflows from both standalone and acquired businesses – TIIL's consolidated net debt levels had increased to Rs. 1,064.9 crore as on March 31, 2021, owing to the addition of ~Rs. 1,537 crore of term loans on TIIL's books, post CG Power's acquisition. Consequently, the coverage indicators moderated, with Net debt/OPBITDA increasing to 1.6 times as on March 31, 2021 vis-à-vis 0.3 times as on March 31, 2020. Improving cashflows from CG Power in H1 FY2022 and settlement of part of the debt in H1 FY2022, resulted in reduction in the net debt levels to Rs. 681.2 crore as on September 30, 2021. Healthy cashflows from TIIL (consolidated excluding CG Power), improving performance of CG Power, proceeds from the likely sale of Kanjurmarg property and absence of debt-funded capex plans are likely to reduce the net debt levels further going forward. Any adverse developments on account of findings from the ongoing SFIO investigation or continuing income tax litigations (from the pre-acquisition period) would remain a key monitorable.

Liquidity position: Adequate

TIIL's liquidity is **adequate** with cash and bank balances and liquid investments of Rs. 387.0 crore at standalone level and Rs. 477.0 crore at subsidiaries (primarily CG Power and Shanthi Gears) as on September 30, 2021. At the standalone level, the company has undrawn fund based working capital limits of Rs. 226.0 crore as on September 30, 2021 and the average working capital utilisation was low at 20.0% of sanctioned limits and 36.0% of drawing power for 12-month period ended September 30, 2021. CG Power also has Rs. 500.0 crore of unutilized working capital limits. In relation to these sources of cash, TIIL has an investment commitment of Rs. 112.5 crore in FY2023 in CG Power (towards the conversion of warrants into equity) and capex commitments of ~Rs. 300 crore and ~Rs. 330-350.0 crore in H2 FY2022 and FY2023 respectively, which are likely to be funded through internal accruals and cash and liquid investments. The company also has consolidated repayment obligations of Rs. 51.0 crore and Rs. 112.8 crore in FY2022 and FY2023 respectively. Further, TIIL enjoys strong financial flexibility and lender/investor comfort, and this is expected to continue going forward as well. Overall, ICRA expects TIIL's liquidity position to remain adequate over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade TIIL's ratings if it achieves material improvement in its accruals and net debt levels leading to improvement in financial profile. Specific triggers for upgrade would include core RoCE and net debt/OPBDITA improving to over 25% and less than 0.5 times respectively on sustained basis.

Negative factors – Downward pressure on TIIL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt on sustained basis. Any material cash outflows/negative surprises relating to the CG Power acquisition going forward would also remain a key monitorable. Further, TIIL is open to acquisitions in related verticals; the acquisitions, upon materialization, would be evaluated on case-by-case basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating methodology for Auto Component Suppliers](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company Details of subsidiaries/joint ventures provided in Annexure-2

About the company

TIIL is one of the flagship companies of the over Rs. 30,000 crore Chennai-based Murugappa group. At the standalone level (which constituted ~70% of TIIL's consolidated revenues in FY2021 and ~51% in H1 FY2022), the company has three divisions – Mobility, engineering and metal formed products. The mobility segment (~8% of the net sales in H1 FY2022) manufactures standard and special cycles under the brands BSA, Hercules, Montra and Roadeo and trades some imported brands like Bianchi. Under mobility division, TIIL is expected to launch its three-wheeler electric vehicle plant, helmed as a partnership venture with TII's in-house technology and design solutions from a Korean company and the plant is expected to commence operations in FY2023. The engineering division (~31% of the net sales in H1 FY2022) manufactures ERW (electric resistance welded) tubes, CDW (cold drawn welded) tubes and cold rolled steel strips (CRSS); while metal formed products division (~13% of the net sales in H1 FY2022) comprises of automotive and industrial chains, fine blanking products, doorframes, special products such as agri-blades and motor casings, and railway products.

On November 26, 2020, TIIL acquired a controlling stake of 53.16% (58.58% on a fully diluted basis) in CG Power and Industrial Solutions Limited**,** which is among the leading players in India in both of its operating segments - power systems and industrial systems. The power systems segment manufactures electrical products such as transformers, switchgears and circuit breakers, which finds application in power transmission. The industrial systems segment manufactures high and low-tension rotating machines (motors and alternators), stampings, as well as railway transportation and signalling products.

TIIL had five subsidiaries as on September 30, 2021. Shanthi Gears Limited (70.5% subsidiary of TIIL) manufactures standard and customized gears for various engineering and industrial segments, while Financiere C10 SAS (100% subsidiary) manufactures engineering and industrial chains, primarily in France. The company acquired 80% stake in two Sri Lankan companies – Creative Cycles (Private) Limited and Great Cycles (Private) Limited in FY2018 for backward integration of the mass premium and super premium cycles.

Key financial indicators (audited)

	Consolidated	
	FY2020	**FY2021**
Operating Income (Rs. crore)	4,766.9	6,093.4
PAT (Rs. crore)	313.3	304.7
OPBDIT/OI (%)	12.7%	10.8%
PAT/OI (%)	6.6%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	2.3
Total Debt/OPBDIT (times)	0.7	3.0
Interest Coverage (times)	18.0	14.1

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Nov 22, 2021	Nov 27, 2020	Aug 14, 2020	Mar 20, 2020	Feb 28, 2019
1	Long-term fund based	Long Term	525.00	134.00	[ICRA]AA+ (Stable)	[ICRA]AA+&	[ICRA]AA+&	[ICRA]AA+	[ICRA]AA+
2	Short-term fund based - sublimit	Short Term	(525.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short-term non-fund based	Short Term	500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial paper	Short Term	525.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based	Simple
Short-term fund based - sublimit	NA
Short-term non-fund based	Very Simple
Commercial paper	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	525.00	[ICRA]AA+ (Stable)
NA	EPC / WCDL/ STL/ Buyers Credit	-	-	-	(525.00)	[ICRA]A1+
NA	LC/BG	-	-	-	500.00	[ICRA]A1+
NA**	Commercial paper	NA	NA	7-365 days	525.00	[ICRA]A1+

*Source: Tube Investments of India Limited; **- Yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Subsidiaries		
Shanti Gears Limited	70.50%	Full Consolidation
CG Power and Industrial Solutions Limited	52.61%	Full Consolidation
Financiere C10 SAS (FC 10)	100.00%	Full Consolidation
Great Cycles (Private) Limited	80.00%	Full Consolidation
Creative Cycles (Private) Limited	80.00%	Full Consolidation

Source: Tube Investments of India Limited

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