November 29, 2024

Tube Investments of India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based- Cash Credit	525.0	525.0	[ICRA]AA+ (Stable); reaffirmed
Short-term – Fund based – interchangeable	(525.0)	(525.0)	[ICRA]A1+; reaffirmed
Short-term – non-fund based – LC/BG	500.0	500.0	[ICRA]A1+; reaffirmed
Commercial Paper	525.0	525.0	[ICRA]A1+; reaffirmed
Total	**1550.0**	**1550.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings for Tube Investments of India Limited (TIIL) factors in ICRA's expectation of a sustained financial performance in the medium term, supported by its well-entrenched market position across all its operating segments, diversified revenue base, and strong debt metrics and liquidity. TIIL has diversified product profile, with several product categories at the standalone level under engineering, metal formed products and mobility (cycles) divisions among others. Further, TIIL also benefits at the consolidated level from additional diversity from gearbox manufacturing through Shanthi Gears Limited (rated [ICRA]AA (Stable)/[ICRA]A1+) and power systems and industrial systems through CG Power and Industrial Solutions Limited (CG Power). It has also ventured into other new business areas, including electric vehicles (EV), medical consumables, contract development and manufacturing operations (CDMO) and electronics (although revenues are low at present) and is foraying into outsourced semiconductor assembly and testing (OSAT) through CG Power. In terms of business position, TIIL remains the market leader in cold drawn welded (CDW) tubes in India and it continues to be one of the major suppliers of automotive chains in the domestic market and is an established player in fine blanking products. Further, CG Power is a leading player across products in both of its operating segments – power systems and industrial solutions. TIIL's market position is expected to remain stable across its product categories over the medium term.

TIIL has relatively healthy scale of operations and reported an operating income of Rs. 16,890.3 crore in FY2024 and Rs. 9,502.5 crore in H1 FY2025, aided by growth across segments. Its operating profit margins were healthy at 12.1% for FY2024 (PY: 12.8%) and 10.7% in H1 FY2025 (H1 FY2024: 12.5%) and it has remained net debt negative from FY2023, aided by its healthy accruals and effective working capital management. Going forward, the company is expected to witness healthy revenue growth aided by its existing and new products and businesses, market share gains and geographic expansions, although the auto component revenues would remain susceptible to the industry cyclicality. Also, TIIL's margins are expected to remain healthy, although likely to be capped by the initial gestational losses in the new businesses. TIIL has a planned cumulative capex plans of over Rs. 3,000-3,500 crore over the medium term, for capacity enhancement in existing businesses and new business ventures such as EV, electronics, medical consumables and CDMO. The EV business is expected to be funded primarily through already-raised private equity funds/internal accruals while the remaining businesses are likely to be funded primarily through internal accruals. This apart the company, through its subsidiary CG Power, is setting up an OSAT facility and has been approved grant of subsidy for the project from Government of India. Further, the Board of Directors of CG Power have approved a proposal to raise funds upto Rs. 3,500 crore through Qualified Institutional Placement (QIP) in the near term. ICRA expects the company's debt metrics and liquidity to remain strong over the medium term, supported by anticipated healthy accruals and in the absence of sizeable debt addition as a proportion of anticipated accruals. TIIL is open to acquisitions in related verticals. The acquisitions, upon materialisation, would be evaluated on case-by-case basis.

The stable outlook on the long-term rating reflects that the company will be able to sustain its credit profile supported by its cash accruals, strong liquidity position and established market position, despite its proposed investments and gestational losses from the EV business.

Key rating drivers and their description

Credit strengths

Diversified revenue base and healthy scale of operations – TIIL, at standalone level, has three divisions namely engineering, metal formed products and mobility, and it manufactures several product categories under these divisions. Further, TIIL benefits at the consolidated level from additional diversity from gearbox manufacturing through Shanthi Gears Limited and power systems and industrial systems through CG Power. The company has also recently entered the EV space through its subsidiary, TI Clean Mobility Private Limited (TICMPL). The diversified revenue base mitigates risks arising from cyclicality in demand and technology changes to an extent. The company has also ventured into other new business areas, including medical consumables, CDMO and electronics, although the revenues from these remain low at present. TIIL has relatively healthy scale of operations, with a consolidated operating income of Rs. 16,890.3 crore in FY2024 (YoY growth of 12.9%) and Rs. 9,502.5 crore in H1 FY2025 (YoY growth of 15.8%), aided by growth in most of the segments.

Well established market position in all its operating segments – TIIL remains the market leader in 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 chains in the domestic market and is an established player in fine blanking products. With a market share of over 20% in the retail cycles segment, the company remains one of the largest organised players in India. Its cycle brands – BSA, Hercules, Montra and Roadeo – continue to feature amongst the best-selling brands in the country. Further, CG Power is a leading player across products in both of its operating segments – power systems and industrial solutions. TIIL's market position is expected to remain stable across its product categories over the medium term.

Strong capital structure and coverage metrics – TIIL has remained net debt negative from FY2023, supported by its healthy accruals and effective working capital management. As a result, its capital structure and coverage metrics remain strong. ICRA expects the company's debt metrics to remain strong over the medium term, supported by anticipated healthy accruals and absence of sizeable incremental debt going forward. Also, the company also enjoys healthy lender/investor comfort and this is expected to continue going forward as well.

Credit challenges

Losses expected in new businesses over the medium term due to their nascent stages of operation; earnings susceptible to inherent cyclicality in the auto industry – The company has ventured into multiple new business areas including EVs, contract development and manufacturing operations (CDMO) and electronics as part of its strategy to diversify revenues and expand in opportunistic sectors. Most of these businesses are in their initial stages of operation and are likely to incur gestational losses over the next few quarters at least. The company is also setting up an OSAT facility through CG Power. Also, TIIL derives a sizeable portion of its revenues from the auto industry, predominantly two-wheeler (2W) and passenger vehicles (PV). Although the proportion of revenues from the auto industry have reduced from past levels of ~53% in FY2020 to ~27% in H1 FY2025 with the CG Power acquisition, TIIL's earnings remain exposed to the inherent cyclicality in the auto industry.

Sizeable capex plans over the medium term – TIIL has a planned cumulative capex plans of Rs. 3,000-3,500 crore over the medium term, for capacity enhancement in existing businesses and new business ventures such as EV, electronics, medical consumables and CDMO. The EV business is expected to be funded primarily through already-raised private equity funds/internal accruals while the remaining businesses are likely to be funded primarily through internal accruals. This apart, the Government of India has approved the company's application for setting up an OSAT facility and for the grant of subsidy for the project. While the estimated capex on the project ~Rs. 7,600 crore over a period of five years, CG Power's contribution is expected to be only beyond the Government grants and investments by Joint Venture partners. ICRA draws comfort from the company's strong liquidity position and anticipated healthy accruals from the business. Further, the Board of Directors of

CG Power have approved a proposal to raise funds upto Rs. 3,500 crore through Qualified Institutional Placement (QIP) in the near term. TIIL is open to acquisitions in related verticals. The acquisitions, upon materialisation, would be evaluated on case-by-case basis. ICRA will also continue to monitor the progress of the OSAT project and its funding.

Declining demand in the cycles segment – TIIL's mobility division witnessed a YoY volume drop of 16% in FY2023, 12% in FY2024 and 4% in H1 FY2025, impacted by migration to 2W/motorcycles as a commuting medium from cycles and lower demand for special cycles post pandemic. The declining trend in this segment has been observed in the last few years. The drop in volumes has impacted the mobility division's margins, with losses reported in some periods. The impact of pickup in e-bike volumes going forward on the mobility division's revenues and margins remain to be seen.

Environmental and Social Risks

Environmental considerations: Even as TIIL is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, its automotive manufacturing customers remain exposed with their products being used across different fuel powertrains and this may have an impact on the company. Further, it remains exposed to tightening environmental regulations with regard to waste and pollution norms and this could require capital investments. However, the company has been taking steps to minimise the impact of environmental risks on its operations and carbon footprint, by enhancing its reliance on renewable sources and other energy-saving efforts such as adoption of energy-efficient fixtures/equipment, reducing waste generation, zero liquid discharge in over 80% of the facilities and extensive water recycling.

Social considerations: Social considerations for TIIL relate primarily to maintaining healthy industrial relations and product safety. Attracting and nurturing skilled manpower is critical as it seeks to keep pace with innovation and technological changes. On the product front, vehicle recalls by original equipment manufacturers (OEMs) because of defective auto parts could be a risk to TIIL. TIIL also has exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like preference for ride sharing. The company is also vulnerable to data security and data privacy risks. However, its ability to mitigate risks arising from human capital issues in the past and history of no product recalls, provides comfort.

Liquidity position: Strong

TIIL's liquidity is strong with unencumbered cash and liquid investments of over Rs. 3,000 crore at consolidated level as on September 30, 2024. The company's average working capital utilisation (standalone) was at 56.0% of sanctioned limits and 71.0% of drawing power for the period October 2023 to September 2024. CG Power also has Rs. 500.0 crore of unutilised working capital limits. In relation to these sources of cash, TIIL currently has cumulative capex plans of Rs. 3,000-3,500 crore over the medium term, to be funded primarily through internal accruals and already-raised private equity funds, apart from the capex for the OSAT facility in CG Power. The company also has consolidated repayment obligations of Rs. 6.6 crore, Rs. 13.2 crore and Rs. 13.2 crore in H2 FY2025, FY2026 and FY2027 respectively on its existing loans. Overall, ICRA expects TIIL to be able to meet its medium-term commitments through internal sources of cash and yet be left with healthy cash/liquid investments surplus.

Rating sensitivities

Positive factors – ICRA could upgrade TIIL's ratings if the company is able to demonstrate sustained period of strong cashflow generation and healthy return indicators, leading to improvement in credit profile.

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 relating to investee businesses going forward would also remain a key monitorable. Further, TIIL is open to acquisitions in related verticals. The acquisitions, upon materialisation, would be evaluated on case-by-case basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Tube Investments of India Limited

About the company

Tube Investments of India Limited (TIIL/the company) is one of the flagship companies of the over Rs. 77,000 crore Chennai based Murugappa Group. At the standalone level, the company has three divisions – cycles, engineering and metal formed products. The cycles segment manufactures standard and special cycles under the brands BSA, Hercules, Montra and Roadeo and trades some imported brands like Bianchi and Schwinn to name a few. The engineering division manufactures ERW (electric resistance welded) tubes, CDW (cold drawn welded) tubes and cold rolled steel strips (CRSS); while metal formed products comprise automotive and industrial chains, fine blanking products, doorframes and railway products. In FY2021, TIIL acquired a controlling stake in CG Power and Industrial Solutions Limited , which is among the top five 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.

As of September 30, 2024, TIIL had 11 subsidiaries/associates/joint ventures. Shanthi Gears Limited (70.46% subsidiary of TIIL) manufactures standard and customised gears for various engineering and industrial segments, while Financiere C10 SAS (95% subsidiary) manufactures engineering and industrial chains, primarily in France. The company acquired 80.0% 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. In the last couple of years, the company has incorporated a wholly-owned subsidiary, TI Clean Mobility Private Limited (TICMPL), for its EV business and acquired stake in three entities under that (these are currently engaged in manufacturing of etractors, e-SCV and e-HCVs). Further, TIIL has 27.8% stake in Aerostrovilos Energy Private Limited, engaged in the development of micro-gas turbine technology, and 76.0% stake in Moshine Electronics Private Limited, engaged in manufacturing of camera modules for mobile phones. TIIL acquired in FY2024, 67.0% stake in TI Medical Private Limited (erstwhile Lotus Surgicals Private Limited), which is into the business of producing wound closure products. The company also invested in 50.0% stake of X2 fuels and Energy Private Limited which is engaged in developing processes to convert waste to liquid/solid fuels. TIIL has also invested in contract development and manufacturing operations (CDMO) and active pharmaceutical ingredients (API) business as part of strategy to diversify into new businesses relating to which the company incorporated a subsidiary 3xper Innoventure Limited.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	14,964.7	16,890.3
PAT	1,344.6	1,723.2
OPBDIT/OI	12.8%	12.1%
PAT/OI	9.0%	10.2%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	0.4	0.4
Interest coverage (times)	33.1	28.1

Source: Company, ICRA Research; 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: 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)	Nov 29, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based- Cash Credit	Long-term	525.0	[ICRA]AA+ (Stable)	Nov 30, 2023	[ICRA]AA+ (Stable)	Nov 30, 2022	[ICRA]AA+ (Stable)	Nov 22, 2021	[ICRA]AA+ (Stable)
				Sep 29, 2023	[ICRA]AA+ (Stable)				
Fund based – interchangeable	Short-term	(525.0)	[ICRA]A1+	Nov 30, 2023	[ICRA]A1+	Nov 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
				Sep 29, 2023	[ICRA]A1+				
Non-fund based – LC/BG	Short-term	500.0	[ICRA]A1+	Nov 30, 2023	[ICRA]A1+	Nov 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
				Sep 29, 2023	[ICRA]A1+				
Commercial Paper	Short-term	525.0	[ICRA]A1+	Nov 30, 2023	[ICRA]A1+	Nov 30, 2022	[ICRA]A1+	Nov 22, 2021	[ICRA]A1+
				Sep 29, 2023	[ICRA]A1+				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based- Cash Credit	Simple
Short-term – Fund based – interchangeable	Simple
Short-term – Non-fund based – LC/BG	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	525.0	[ICRA]AA+ (Stable)
NA	EPC/WCDL/STL/Buyers Credit	-	-	-	(525.0)	[ICRA]A1+
NA	LC/BG	-	-	-	500.0	[ICRA]A1+
NA*	Commercial Paper	-	-	-	525.0	[ICRA]A1+

Source: Company; *Yet to be placed

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shanthi Gears Limited	70.46%	Full Consolidation
Financiere C10 SAS (FC 10)	95.00%	Full Consolidation
Great Cycles (Private) Limited	80.00%	Full Consolidation
Creative Cycles (Private) Limited	80.00%	Full Consolidation
CG Power and Industrial Solutions Limited	58.00%	Full Consolidation
TI Clean Mobility Private Limited	99.99%	Full Consolidation
Aerostrovilos Energy Private Limited	27.78%	Equity Method
Moshine Electronics Private Limited	76.00%	Full Consolidation
X2Fuels and Energy Private Limited	50.00%	Equity Method
TI Medical Private Limited	67.00%	Full Consolidation
3xper Innoventure Limited	95.00%	Full Consolidation

Source: Company's Annual report for FY2024 and Company Press Releases

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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.

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