

TVS Credit Services Limited

April 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,000.00	1,500.00	[ICRA]A1+; assigned/ outstanding
Fund-based Term Loan	2,146.00	2,146.00	[ICRA]A+ (Stable); outstanding
Total	3,146.00	3,646.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the [ICRA]A1+ (pronounced ICRA A one plus)¹ rating to the Rs. 1,500.00-crore (enhanced from Rs. 1,000.00-crore) commercial paper (CP) programme of TVS Credit Services Limited (TVSCSL, the company).

ICRA has [ICRA]A+ (pronounced ICRA A plus) rating outstanding with a Stable outlook on the company's Rs. 2,146.00-crore long-term loan facilities from bank.

Rationale

The assigned rating considers the company's strategic importance to TVSL Motor Company Limited (TVSM), and the committed operational, managerial and financial support from TVSM. TVSM holds 7% of TVSCSL directly and about 86% indirectly through its wholly-owned subsidiary - TVS Motor Services Limited (TVS Motor Services). The rating also takes note of TVSCSL's experienced board and senior management team, its adequate loan origination and risk management systems, improving profitability with PBT/AMA² of 3.0% in 9M FY2018 compared to 2.6% in FY2017 and its comfortable asset quality (90+ dpd stood at 2.6% as on December 31, 2017).

The rating takes cognisance of the company's limited track record and portfolio seasoning in the used car and tractor segments, and its exposure to a customer segment with modest credit history. The rating also factors in the company's moderate capitalisation profile with net worth/AMA of 13.4% as on December 31, 2017. However, ICRA takes comfort from the steady capital support received from TVS Group since the commencement of its operations. While TVSCSL has good financial flexibility, it would be crucial to diversify its funding sources and avail longer-term funds at competitive rates to ensure a comfortable liquidity position, as the share of relatively longer-tenure assets (used cars and tractors) increase, going forward.

Outlook: Stable

ICRA believes that TVSCSL will continue to benefit from the operational, managerial and financial support from TVS Group. The outlook may be revised to Positive with an improvement in the credit profile of the parent (TVSM), based on ICRA's analysis and as TVSCSL grows and diversifies its portfolio, while maintaining a good asset quality and earnings profile. The outlook may be revised to Negative if there is a moderation in the credit profile of TVSM, based on ICRA's analysis or in case of a significant deterioration in TVSCSL's asset quality, capitalisation or profitability indicators.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

² Profit before tax/average managed assets

Key rating drivers

Credit strengths

Strategic importance to TVSM; operational, managerial and financial support from TVS Group - TVSCSL is strategically important to TVSM given its role as a key financier of two-wheelers for TVSM, which is the third largest two-wheeler manufacturer with a domestic market share of 14% in FY2018 (14% in FY2017) and the second largest exporter of motorcycles. TVSCSL financed about 19% of TVSM's two-wheelers, by volume, during FY2017. The company is also the sole financier of TVSM's two-wheelers in some rural locations, which is a vital market for TVSM.

TVSCSL operates through TVSM's dealership network and benefits from shared branch resources. TVSCSL also derives considerable management support from TVSM. The company's board comprises nine directors of which three are from TVSM, including the Chairman. TVSM held a stake of about 7% directly in TVSCSL, as on March 31, 2017. The bulk of its investments in TVSCSL were routed through TVS Motor Services in the form of redeemable preference shares. TVSM held a 19% equity stake in TVS Motor Services as on March 31, 2017. Following the acquisition of the balance 81% stake from a Group company (TVS Motor Foundation) during Q2 FY2018, TVS Motor Services became a wholly-owned subsidiary of TVSM. Given its significance to TVSM, the company has received regular and timely operational and financial support from the Group in the past, and ICRA expects the support to continue, going forward, as well.

Improvement in portfolio mix through focus on used car and tractor segments - TVSCSL's retail loan portfolio grew at a CAGR of 44% during FY2014-2017 and stood at Rs. 5,002 crore as on March 31, 2017 (Rs. 5,891 crore as on December 31, 2017). The share of two-wheelers in the retail portfolio moderated to 49% as on December 31, 2017, from 68% as on March 31, 2014, driven by robust portfolio growth across the used car and tractor segments (CAGR of 67% each during FY2014-2017). The share of the tractor and used car portfolios stood at 30% and 21%, respectively, as on December 31, 2017. The company recently commenced operations in the consumer durable (CD) segment (since Q2 FY2018) and used commercial vehicle segment (Q4 FY2018) and intends to foray into housing finance in the near term. The company intends to grow its portfolio at a CAGR of 30% during a three-year period (FY2019-FY2021) by expanding its tractor and used car segments and other new asset classes. The proportion of the new asset classes, however, is expected to remain modest at less than 10% over the next three years.

Fairly-diversified geographical presence - TVSCSL has a diversified geographical presence with its portfolio spread across 21 states and union territories. The top three states (Tamil Nadu, Madhya Pradesh and Telangana) accounted for about 40% of the portfolio as on March 31, 2017. The company's presence is largely through the dealers of TVSM (two-wheelers), Eicher Motor Limited (rated [ICRA]AAA/ [ICRA]A1+) and TAFE Motors and Tractors Limited (tractors), while it has a separate structure (sales and collection team) for the used car segment.

Improving core profitability though overall profitability continues to be impacted by legacy portfolio - TVSCSL's profitability (PBT/AMA) improved to 3.0% in 9M FY2018 from 2.6% in FY2017 supported by an improvement in fee income from new businesses (collections for banks and third-party loan originations) and better operational efficiencies. The core profitability, adjusted for the assets and liabilities (along with corresponding interest expense) taken over as a part of the past business arrangement, was adequate at 3.4% in 9M FY2018 (3.0% in FY2017).

Credit challenges

Exposure to relatively-risky customer profile though asset quality remains comfortable – TVSCSL has a moderate borrower profile given that a large proportion of its disbursements are to customers without banking habits and collections are in cash. About 60% of the company's portfolio is in rural areas. The company is focused on increasing its penetration in the self-employed category, given that the salaried segment has access to finance from banking channels. Notwithstanding this, the company's asset quality remains comfortable with 90+ dpd in the two-wheeler segment at 1.7% as on December 31, 2017, while the same for the tractor and used car segments stood at 4.5% and 2.7%, respectively. Overall, the company's 90+ dpd stood at 2.6% as on December 31, 2017. ICRA takes note of the company's conservative provisioning policy considering the moderate profile of its end borrowers. The credit cost stood at 1.1% for 9M FY2018 compared to 1.6% for FY2017. Going forward, TVSCSL's ability to keep incremental slippages and credit costs under control would be critical.

Moderate capitalisation profile; regular equity infusion required going forward: TVSCSL received capital of Rs. 427 crore from TVS Group during April 2012 - March 2018. The company aims to grow its portfolio at a CAGR of about 30% over the next three years (FY2019-FY2021). To achieve this, it would require additional equity of about Rs. 300 crore - Rs. 400 crore over the next three years, assuming managed gearing of 6.5 times. ICRA expects the Group to continue supporting the company, to enable it to achieve the envisaged portfolio growth, as internal generation is expected to remain relatively moderate (three-year average stood at about 11-12%). It would be important for the company to realise the Rs. 220-crore non-yielding advances to the Group entity to enhance its overall credit risk profile.

Critical to diversify funding profile – TVSCSL's borrowing profile comprises term loans and working capital loans from banks (78% as on December 31, 2017) followed by commercial papers and debentures (19%) and portfolio sell down (3%). The company has established relationships with 25 banks, which provides adequate comfort on financial flexibility. Going forward, the company proposes to increase the proportion of long-term funding from banks and through the NCD and subordinated debt route, to diversify its funding profile.

Analytical approach: For arriving at the ratings, ICRA has factored in the management, operational and financial support from TVS Motor Company Limited.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

TVS Credit Services Limited

TVSCSL, a Chennai-based non-deposit taking NBFC incorporated in November 2008, is part of the TVS Group of companies. TVS Motor Services held an 86% equity in the company as on March 31, 2017, while TVSM held about 7%. Other shareholders include PHI Research Private Limited, HDFC Bank Limited and PHI Capital Services LLP, which held 2%, 3% and 2%, respectively. The company's operations are spread across 21 states and union territories in India. The company's retail loan portfolio stood at Rs. 5,891 crore (provisional) as on December 31, 2017.

TVSCSL reported a net profit of Rs. 87.5 crore on a managed asset base of Rs. 5,758.9 crore in FY2017 compared to a net profit of Rs. 50.7 crore on a managed asset base of Rs. 4,759.1 crore in FY2016.

TVS Motor Company Limited

TVS Motor Company Ltd (TVSM) is part of Chennai-based TVS Group and is engaged in the manufacture of two- and three-wheelers. During FY2017, TVSM's two-wheeler (including mopeds) sales volume grew by 11%.

During FY2017, TVSM reported a consolidated net profit of Rs. 511 crore on income from operations of Rs. 13,739 crore compared to Rs. 429 crore of net profit on Rs. 12,515 crore of income from operations during FY2016.

Key financial indicators (Audited)

	FY 2016	FY 2017
Total Income	828.5	1114.8
PAT	50.7	87.5
Net worth	541.1	703.2
Total Managed Portfolio	4,157.9	5,262.8
Total Managed Assets	4,759.1	5,758.9
Return on Managed Assets	1.3%	1.7%
Return on Net worth	10.9%	14.1%
Gearing	5.9	6.0
Gross NPA%	1.3%	2.6%
Net NPA%	0.6%	1.7%
Net NPA/ Net worth	3.7%	12.0%
CAR%	18.0%	18.3%

Amount in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	April 2018	October 2017	March 2017	February 2016
1 CP	Short Term	1,500.00	1,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Long term loan facilities	Long Term	2,146.00	2,146.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CP	-	-	7-365 days	1,500.00	[ICRA]A1+
NA	Long term loan facilities (Proposed)	-	-	-	2,146.00	[ICRA]A+ (Stable)

Source: TVSCSL

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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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