T V Sundram Iyengar & Sons Private Limited

February 25, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Working Capital Facilities	500.00	500.00	[ICRA]AA (Stable) / [ICRA]A1+; Reaffirmed
Non-fund Based: Working Capital Facilities	90.00	90.00	[ICRA]A1+; Reaffirmed
Commercial Paper	640.00	660.00	[ICRA]A1+; Reaffirmed
Commercial Paper/Short-term Debt	160.00	0.00	
Total	**1,390.00**	**1,250.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to take comfort from the strong investment portfolio held by T V Sundram Iyengar & Sons Private Limited (TVS Sons), the stable dividend receipts and financial flexibility, supported by the healthy buffer on the market value of investments in comparison to the book values and the total debt outstanding. Apart from strong investment portfolio, TVS Sons also holds land bank in prime locations in South India, with flexibility to monetise the same (or) utilise its land holdings to expand the dealership business, as witnessed in past. The ratings also favourably factor TVS Sons' operational profile characterised by its established track record in automobile dealerships (namely commercial vehicles (CV), passenger vehicles (PV) and spare parts), its wide dealership network, healthy market share in the regions it operates, presence in after-market and spare parts distribution business which provides revenue visibility.

The ratings, however, remain constrained by TVS Sons' moderate debt indicators, low profit margins due to limited value addition and competition, and exposure of earnings to the inherent cyclicality in the auto sector, especially the CV segment, which contributes to a major share of its revenues. This apart, performance of the PV segment has been affected during FY2018 and FY2019 with subdued performance of some of the key OEMs dealt by TVS Sons. Nevertheless, with demand recovery envisaged, coupled with addition of new distribution business in Chennai for Mercedes-Benz cars, TVS Sons' PV segment is expected to improve in FY2020.

Outlook: Stable

ICRA believes that TVS Sons will continue to benefit from the strong investment portfolio, healthy operational profile and extensive experience of the management. The outlook may be revised to Positive with reduction in debt levels and sharp improvement in earnings levels, thus strengthening the overall financial risk profile. The outlook may be revised to Negative with any larger financial support to investee entities, or sharp fall in cash accruals or any major capital expenditure / acquisitions resulting in weakening of coverage and capitalization indicators.

Key rating drivers

Credit strengths

Significant market value buffer on investments and land bank – Incorporated in 1911, TVS Sons is the parent company of TVS group and has made investments in various entities floated later in the group; accordingly, there is a healthy

buffer on market value of investments in comparison to their intrinsic value as measured by book value. As on February 12, 2019, the market value of its quoted investments was Rs. 4,610 crore in comparison to the debt outstanding of Rs. 1,253 crore (as on September 30, 2018). This apart, TVS Sons' investments in few unlisted entities (like Lucas-TVS Limited, Brakes India Limited, TVS Logistics Services Limited, Sundaram Industries Private Limited) have significant market value potential. Nevertheless, these investments are strategic in nature, and are unlikely to be liquidated in the near term. Also, as most of the investee companies have stable credit profile, no major funding support is expected from TVS Sons to the investee companies. TVS Sons also holds surplus land in prime locations in some of the tier-I and tier-II cities of southern parts of India, which provide additional comfort and lends flexibility towards monetisation or utilisation of the same for expansion of the dealership business, as witnessed in past.

Strong operational profile – TVS Sons has a strong operational track record with long standing presence in dealerships of CVs, PVs and spare parts across the country, although with major concentration on South India. The company derives a major portion of its revenues from the vehicle dealership (~72%) and the rest from allied activities such as distribution of spare parts, sale of petroleum products and workshop activities. In the CV space, TVS Sons acts as a key dealer for Ashok Leyland Limited (ALL) in some of the states like Tamil Nadu, Kerala and Karnataka. In FY2018, TVS Sons garnered ~47% of ALL's sales volumes in the region it operates and ~18% of ALL's domestic sales volumes. In the PV segment, it acts as dealer for OEMs like Honda, Mahindra & Mahindra (M&M), Renault, Volkswagen and Mercedez-Benz. In this segment, TVS Sons continues to hold its market position with all its OEMs in the region it operates. The company has also recently added a new dealership for Benz in Chennai, which shall support the overall growth of the PV segment going forward.

Stable income from margin-accretive ancillary business – TVS Sons garners a higher share of income (~25%) from spare parts distribution and servicing business. While the parts distribution industry is highly fragmented, and competition exists from other organised and unorganized players, TVS Sons remains one of the largest players in the business and has been a major beneficiary of the shift in demand from unorganised trade in recent years. This was aided by its long-standing presence and increasing presence of authorised service centres, strong distribution network and rollout of GST. Going forward, the ancillary business is expected to continue to support the earnings growth of the company.

Credit challenges

Vulnerability to cyclicity in automotive industry – TVS Sons' earnings remain exposed to the inherent cyclicality, especially CV industry. Following strong growth in FY2018 and H1FY2019, the near-term demand outlook for CVs is sluggish affected by tightened lending environment (especially from NBFCs) due to tight liquidity conditions, revision in axle load norms (which permits higher carry loads) leading to excess capacities and rise in operating costs impacting small fleet owners. PV demand, which is generally stable, has however been subdued in FY2019 due to weak consumer sentiments affected by higher cost of ownership. In addition, majority of its investments are in entities involved in automotive business, and with margins in dealership business being low, TVS Sons' earnings remains susceptible to cyclicality in the auto industry.

Moderate debt coverage indicators and marginal increase in gearing levels – TVS Sons' debt protection metrics remain moderate with a net gearing of 1.8x and net debt to OPBDITA of 5.2x as on March 31, 2018. As the dealership business is working capital intensive, the debt levels remain high. TVS Sons predominantly uses commercial paper for its funding requirements, resulting in large savings in its overall interest costs. Going forward, the company's ability to reduce the debt levels and improve its debt indicators will be critical for improving the overall credit profile.

Liquidity position

TVS Sons' liquidity position is adequate with a strong cash balance and average working capital utilisation of ~60% in the last one year.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies Rating Methodology for Automobile Dealerships
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company. Though TVS Sons holds a stake in its Group companies, no financial support was extended in recent years. The investee companies have a stable credit profile, operate independently and do not require any assistance from TVS Sons

About the company

Established in 1911, T V Sundram Iyengar & Sons Private Limited (TVS Sons) is the holding company of several entities in the TVS Group. It is one of the largest dealers for medium and heavy commercial vehicles (M&HCVs) and passenger vehicles (PVs) in India, while acting as a key distributor of automotive spare parts and components as well. The TVS Group is a diversified business conglomerate in southern India with interests in the automotive, auto ancillary and financial services industries. TVS Sons continues to be closely held and managed by the family of Late TV Sundram Iyengar.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	8,156.3	8,145.9
PAT (Rs. crore)	136.9	192.2
OPBDIT/OI (%)	2.1%	2.8%
RoCE (%)	13.5%	15.0%
Total Debt/TNW (times)	2.0	2.0
Total Debt/OPBDIT (times)	6.3	5.7
Interest Coverage (times)	1.9	3.0

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				
					Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Feb 2019	Feb 2018	Jan 2017	Jan 2016	Dec 2015	Apr 2015
1	Term Loans	Long Term	-		-	[ICRA]AA (stable) / withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund Based – Working Capital Limits	Long Term / Short Term	500.00		[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+	[ICRA]AA (Stable) / [ICRA]A1+
3	Non-fund Based Working Capital Limits	Short Term	90.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	660.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper / Short-term Debt	Short Term	0.00		-	[ICRA]A1+	[ICRA]A1+	-	-	-
6	Fixed Deposits	Medium Term	-		-	-	-	-	-	MAA+ (stable) / withdrawn

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	Commercial Paper	NA	NA	7-365 days	660.00	[ICRA]A1+
NA	Fund Based	NA	NA		500.00	[ICRA]AA (Stable) / [ICRA]A1+
NA	Non-fund Based	NA	NA		90.00	[ICRA]A1+

Source: TVS Sons

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