

Tube Investments of India Limited

February 28, 2019

Summary of rated instruments

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
Short-term fund based - sublimit	(525.00)	(525.00)	
Short-term non-fund based	500.00	500.00	[ICRA]A1+; reaffirmed
Commercial paper	525.00	525.00	
Total	1,550.00	1,550.00	

*Instrument details in Annexure - I

Rationale

The ratings reaffirmation factors in TIIL's diverse product profile and its strong, well-entrenched market position across products. TIIL's product portfolio comprises of cycles (~26% of revenues), tubes and strips (~49% of revenues), chains, doorframes, fineblanking products and railway products (~25% of revenues) at the standalone level and, additionally gears at the consolidated level. In terms of business position, the company remains the market leader in CDW (cold drawn welded) tubes and one of the two key players in chains in India. TIIL has also maintained its close to 25% market share in the retail clientele for cycles, supported by its popular brands BSA, Hercules, Roadeo and Montra. The ratings also draw comfort from the company's strong interest coverage metrics – which stood at 6.8 and 10.2 times respectively on consolidated basis for FY2018 and 9M FY2019.

The engineering and metal forming products divisions witnessed healthy revenue growth during 9M FY2019 – the former by 33.0% and the latter by 17.7% on YoY basis. The healthy demand has resulted in high capacity utilization of over 90% across most product categories in these two divisions. TIIL is exploring capacity expansion possibilities and expects about Rs. 200 crore capex per year, likely to be funded by internal accruals, over the next three years.

TIIL continues to report moderate profit margins and profitability, despite the improvement during 9M FY2019. The company's consolidated operating margins stood at 8.3% for FY2018 and 9.5% respectively for 9M FY2019, while its RoCE stood at 13.2% for FY2018 (FY2017: 12.9%). Further, its revenues are vulnerable to fluctuations in 2W/passenger car demand (56% of revenues from these two segments during 9M FY2019) while its margins are susceptible to increase in commodity prices. Nevertheless, ~18% of revenues (excluding cycles) from non-auto businesses (industrial and Railways), anticipated improvement in market penetration level and the relatively stable margins of the engineering and metal forming divisions in the past – primarily from passing on commodity price increases to customers, mitigate these risks to a large extent.

Outlook: Stable

ICRA believes that TIIL will continue to maintain its dominant market position and that demand for its products from the engineering and metal forming divisions will continue to drive revenues. Further, while the margins are likely to remain stable with the company passing on any increase in raw material prices, TIIL's debt metrics are also expected to remain at similar levels in the medium term, despite the proposed capex. The outlook may be revised to 'positive' if there is substantial improvement in profit margins, RoCE and debt levels. The outlook may be revised to 'negative' if TIIL's profit

margins or cash accruals are lower than expected; or if there is any major capex or working capital stretch that causes increase in debt levels. Acquisitions or increase in investment would be rating sensitivities.

Key rating drivers

Credit strengths

Diversified revenue base – At the standalone level, the company has three key divisions – cycles, engineering and metal formed products; and several products/product categories under these divisions. The engineering division, which manufactures tubes and strips, is the largest contributor to revenues at ~49% of net sales. Cycles division manufactures and trades cycles and constituted 26% of standalone sales in 9M FY2019; while metal formed products, through which the company manufactures chains, door frames, fine blanking products and railways products contributed to 25% of net sales during the same period. At the consolidated level, the company enjoys additional diversity from gearbox manufacturing, through Shanthi Gears Limited – although the company contributes to less than 5% of consolidated revenues. The diversified revenue base mitigates risks arising from cyclical demand and technology changes to a large extent.

Well established market position in all the segments – The company remains one of the leading players in cold drawn welded (CDW) tubes – key product in the engineering division. Through its metal formed products division, TIIL continues to be one of the two major suppliers of automotive and industrial chains in India and an establishing player in fineblanking products. Also, the company's replacement brands in the chains segment – 'Diamond', 'Rombo' and 'Razor' are well known in India and continue to have high brand pull. In the cycles business, with a market share of close to 25% in the retail segment, the company remains one of the four largest organized players in India; and its cycle brands – BSA, Hercules, Montra and Roadeo – continue to feature amongst the best-selling brands in the country. TIIL's market position is expected to remain strong across products over the medium term. The company's customers across divisions (barring cycles which is more retail oriented) continue to be in the marquee category and comprise of reputed tier-I auto suppliers and OEMs.

Healthy coverage metrics – TIIL's coverage metrics continue to be healthy with interest coverage of 6.8 and 10.2 times respectively on consolidated basis for FY2018 and 9M FY2019. The coverage metrics and are likely to remain comfortable going forward.

Credit challenges

Moderate operating and net margins; moderate profitability – TIIL's consolidated operating profit margin (OPM) stood at 8.3% for FY2018 and 9.5% respectively for 9M FY2019, while its net margins were 3.1% and 4.4% respectively for the same periods. Despite improvement in YTD FY2019, the margins continue to be moderate. While the operating margins in the engineering and metal formed products divisions were at 11.3% and 13.0% respectively for 9M FY2019, the sub 5% OPM from the cycles division has been dragging down the overall margins. TIIL's RoCE also remained moderate at 13.2% on consolidated basis for FY2018 (FY2017: 12.9%), despite the high capacity utilisation. TIIL's net gearing (adjusted for cash and liquid investments) stood at 0.5 times on consolidated basis as on March 31, 2018 (0.6 times as on March 31, 2017).

Exposed to volatility in demand from 2W/passenger car industries – TIIL continues to derive 56% of its revenues from the auto segment; of this, about 50% each comes from the 2W and passenger car segments. While the single-digit industry growth anticipated for these two segments in FY2019 could slow down TIIL's revenue growth in the near term,

presence in non-auto (18% of revenues) – in the industrial and railways businesses, and anticipated improvement in market penetration level mitigate the risk to a large extent.

Exposed to volatility in commodity price movements, although the company has been able to sustain margins in the past by passing on the same – By virtue of most of its raw materials being linked to various forms/alloys of steel, TIL's margins are vulnerable to unfavourable commodity price movements. However, the company's demonstrated ability to pass on raw material price increases to its customers has resulted in operating margin stability at 10-12% in engineering and 12-14% in the metal forming division.

Declining demand from 'standards' in the cycles segment; delayed payments from Government orders a challenge – Standard cycles are an integral part of the cycle segment, but its volumes have been on a declining trend in the last few years due to migration to 2W/motorcycles as a commuting medium from cycles. TIL used to sell close to 18 lakh standard cycles in FY2014; this has reduced to about 5.3 lakh cycles for 9M FY2019. The sales volumes of standard cycles are likely to decline further going forward. Although the company has compensated this to a large extent through increase in sale of specials and higher Government orders, delayed receipt of receivables in the latter is an area of concern.

Liquidity Position:

TIL's liquidity position has remained adequate in the last one to two years, with healthy retained cash flows. Its average working capital utilisation has been at ~60% of sanctioned limits and drawing power as on month ends for the period January to December 2018, and the company had cash/liquid investments of Rs. 133.9 crore at a consolidated level as on March 31, 2018. The company has proposed capex of ~Rs. 200 crore per year over the next two years (to be funded through internal accruals) and NCD repayments of Rs. 100.0 crore each in FY2020 and FY2021. Despite this, ICRA expects TIL's liquidity position to remain adequate over the medium term.

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidation

About the company:

TIL is one of the flagship companies of the over Rs. 30,000 crore Chennai-based Murugappa group. At the standalone level (which constitutes over 90% of TIL's consolidated revenues from FY2018), 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 of automotive and industrial chains, fine blanking products, doorframes, special products such as agri blades and motor casings, and railway products. The three divisions constituted ~26%, ~49% and ~25% of net sales in 9M FY2019 respectively. TIL has 16 plants as on date across the three divisions.

TIL has five subsidiaries/joint ventures (JV) as on date. Shanthy Gears Limited (70.1% subsidiary of TIL) 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. TI Tsubamex Private Limited is a 78:22 JV between the company and Tsubamex Private Limited, Japan and does large sheet metal stampings die design and engineering in its factory near Chennai. TIIL used to be a joint venture partner (with 50% stake) in TI Absolute Concepts Private Limited which runs 'Ciclo Cafe' – cycle themed cafes in Chennai, Hyderabad and Gurugram. However, the company has exited this venture wef. June 04, 2018.

TIIL is one of the flagship companies of the Chennai based Murugappa group – a conglomerate having presence across sugar, fertilisers, financial institutions and auto components, to name a few. TIIL held about 60% stake in Cholamandalam MS General Insurance Company Limited (rated [ICRA]AA (Stable)) and about 46% stake in Cholamandalam Investment & Finance Company Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+)-investments aggregating to over Rs. 900 crore as on March 31, 2016. Post demerger arrangement in FY2017, these investments are part of another listed company – TI Financial Holdings Limited wef. April 01, 2016 (appointed date of demerger) and TIIL currently holds only the manufacturing investments.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	4,493.0	5,027.5
PAT (Rs. crore)	174.4	155.5
OPBDIT/ OI (%)	9.1%	8.3%
RoCE (%)	12.9%	13.2%
Total Debt/ TNW (times)	0.7	0.6
Total Debt/ OPBDIT (times)	2.1	1.9
Interest coverage (times)	5.3	6.8

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

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)	Date & Rating Feb 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Long-term fund based	525.00		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2	Short-term fund based - sublimit	(525.00)				-	-
3	Short-term non-fund based	500.00		[ICRA]A1+	[ICRA]A1+	-	-
4	Commercial paper	525.00				-	-

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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
CC				525.00	[ICRA]AA+ (Stable)
EPC / WCDL/ STL/ Buyers Credit			NA	(525.00)	
LC/BG				500.00	[ICRA]A1+
Commercial Paper				525.00	

Source: Tube Investments of India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shanti Gears Limited	70.1%	
Financiere C10 SAS (FC 10)	100.0%	
Great Cycles (Private) Limited	80.0%	Full consolidation
Creative Cycles (Private) Limited	80.0%	
TI Tsubamex Private Limited	78.3%	
TI Absolute Concepts Private Limited	50.0%	Equity method

Source: Tube Investments of India Limited; TI Absolute Concepts Private Limited was a joint venture company until June 04, 2018 and TIIL held 50.0% stake; Great Cycles (Private) Limited and Creative Cycles (Private) Limited are subsidiaries from March 09, 2018

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