

February 21, 2020

TVS Supply Chain Solutions Limited (formerly TVS Logistics Services Limited): Ratings revised to [ICRA]A (Stable) and [ICRA]A1 from [ICRA]A+ (Stable) and [ICRA]A1+

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	50.00	50.00	[ICRA]A (Stable); revised from [ICRA]A+ (Stable)
Long-term fund-based	100.00	100.00	
Short-term fund based	10.00	0.00	[ICRA]A1; revised from [ICRA]A1+
Short-term unallocated	0.00	10.00	
Total	160.00	160.00	

*Instrument details in Annexure – I

Rationale

The revision in ratings factors in TVS Supply Chain Solutions Limited's (TVSSCS, formerly TVS Logistics Services Limited) weaker-than-expected financial performance in FY2019 and FY2020. While the company's profit margins have remained narrow over the last five years, FY2019 and H1 FY2020 margins were further eroded by several macro and micro factors, including trade wars and global macroeconomic slowdown; Brexit-related uncertainty; higher proportion of revenues from the relatively lower margin freight forwarding business; and specific issues in some subsidiaries. TVSSCS's operating profit margins for FY2019 stood at 2.9% (adjusted OPM – 4.3%), and the company reported a net loss of 0.6% (adjusted NPM – 0.9%)¹, while for H1 FY2020, TVSSCS reported an OPM of 4.3% (adjusted OPM – 5.0%) and profit before tax of 2.0% (adjusted PBT/OI – 2.7%)². ICRA expects the company's margins to remain weak for full year FY2020, impacted by the aforementioned factors. The ongoing coronavirus pandemic is also expected to lead to a global slowdown in freight movement.

Periodic acquisitions have increased TVSSCS's consolidated debt levels over the years; the company's consolidated net debt increased to Rs. 1,006.1 crore as on March 31, 2019 and Rs. 1,032.3 crore as on Sep 30, 2019 from Rs. 717.4 crore as on March 31, 2018, an increase of over 40%. The increased debt levels and marginal profits have moderated TVSSCS's coverage metrics in FY2019 and H1 FY2020 from FY2018 levels (after adjusting profits/accruals for one-time operating expenses). The company's net debt/adjusted OPBDITA stood at 3.4 times as on March 31, 2019 and 3.1 times as on Sep 30, 2019 (FY2018 net debt/ adjusted OPBDITA: 2.8x) while its adjusted interest coverage stood at 3.3 times for FY2019 and 3.1 times for H1 FY2020, as against 4.6 times for FY2018. The coverage metrics are expected to remain at current levels for full year FY2020 also.

Further, TVSSCS's return on capital employed (RoCE) has been moderate over the years, due to periodic highly-valued low-margin acquisitions. It weakened further in FY2019 due to lower profits and increase in debt level. The RoCE stood

¹ Adjustments include exceptional operating expenses of Rs. 97.3 crore, majority of which was for specific due diligence/consulting, integration and other cost pertaining to some relatively large acquisitions of FY2018, and one-time loss in a particular business

² One-time operating expense adjustment of Rs. 23.6 crore for H1 FY2020 and Rs. 40 crore expected for full year FY2020

at 4.6% in FY2019 (Previous Year: 9.5%), while its core RoCE³ stood at 4.7% (adjusted core RoCE – 11.1%) in FY2019. ICRA expects the company's profitability to remain at current levels for FY2020.

ICRA draws comfort from the company's ~Rs. 700 crore undrawn lines of credit and healthy cash/liquid investment balances of Rs. 815.5 crore on consolidated basis as on September 30, 2019. Also, TVSSCS has raised Rs. 175 crore private equity investment in Q4 FY2020. Further, the company is currently undertaking multiple financing initiatives which is expected to ease liquidity through incremental lines of credit and favourable credit terms.

While arriving at the ratings, ICRA has also positively factored in TVSSCS's strong parentage and experienced management team, its strong financial flexibility and TVSSCS's ease of access to private equity financing. The company's asset-light business model with operations through rented fleet and warehouses eliminates the need for periodic investments in fixed assets for replacement and business expansion and asset stickiness in dull business environments. Also, TVSSCS has expanded its capabilities and geographic presence significantly over the years through several business acquisitions.

TVSSCS has acquired over twenty-five companies in the last ten years and is open to further acquisitions in the future (likely to be part-funded through equity and debt). This exposes the company to risks associated with inorganic growth although it has expertise of geographic, service and cultural integration through its past acquisitions. ICRA will continue to monitor the company on this front and evaluate the impact of further investments on a case-by-case basis.

Key rating drivers and their description

Credit strengths

- **Strong parentage and hands-on management** – TVSSCS is part of the larger TVS Group, which has strong brand value and is well-known in the domestic and international auto and auto ancillary space. The TVS Group holds 49.9% stake in the company through TVS Sons and the TVS family and has five board members in the company. Mr. R. Dinesh, a fourth-generation TVS family member, has been engaged in the day-to-day operations of the company since the company's early years. Apart from the TVS Group, the company also has private equity investments and three Board representations from Caisse De Depot Et Placement De Quebec (CDPQ, 38.4% stake) and Tata Capital (8.2% stake)⁴, with the investors playing strategic roles in guiding the company.
- **Significant scale up in operations over the last few years through inorganic expansion; diversified capabilities and geographic presence** – TVSSCS has grown its consolidated revenues at a compounded annual growth rate (CAGR) of 21.3% to Rs. 6,779.9 crore in FY2019 from Rs. 3,127.4 crore in FY2015, predominantly through acquisitions. The acquisitions have aided in expanding the company's capabilities and improving geographic presence, both directly and through synergies. The company is an integrated logistics player and its capabilities are diversified across

³ Core RoCE = (Profit before interest and tax minus net non-operating income minus extraordinary gain)/Average (Total debt plus net worth plus minority interest plus deferred tax liability minus capital work in progress minus cash and liquid investments minus long-term investments)

⁴ As on Dec 31, 2019

outsourced supply chain (49% of its consolidated revenues in FY2019), freight forwarding (30% of its consolidated revenues in FY2019) and last mile fulfilment (about 22% of consolidated revenues in FY2019), allowing potential for cross-selling opportunities and cost-effective pricing. Also, TVSSCS has a global presence across India (~26% of consolidated revenues in FY2019), UK (~30% of consolidated revenues in FY2019), USA (~9% of consolidated revenues in FY2019), Spain (~9% of consolidated revenues in FY2019), Australia and New Zealand (~7% of consolidated revenues in FY2019), and other parts of Europe and Asia.

- **Asset-light strategy and customer diversification** – The company operates on an asset-light model, with hired fleet and warehouses. This eliminates the need for periodic investments in fixed assets for replacement and business expansion and asset drag in dull business environments. Also, the company has a diversified customer profile (on consolidated basis) comprising of well-established players across auto, beverages, manufacturing, telecom and electronics and defence among others, mitigating risks arising from loss of single-customer to competition and volatilities in different industries/customers' businesses to a large extent. In terms of segments, auto constituted about 40% of the consolidated topline in FY2019.
- **Strong financial flexibility and adequate liquidity** – TVSSCS has strong financial flexibility, partly from its parentage. The company has raised about Rs. 1,620 crore of equity (including secondary investments and right issues) from private equity players including Kohlberg Kravis Roberts India (KKR), Goldman Sachs, Tata Capital and CDPQ since FY2008 and has been able to provide exits to KKR and Goldman Sachs; primary infusion has been Rs. 775 crore into the company until FY2019. Further, TVSSCS has raised Rs. 175 crore PE funding in Q4 FY2020. The company had ~Rs. 700 crore undrawn lines of credit and healthy cash/liquid investment balance of Rs. 815.5 crore on consolidated basis as on September 30, 2019. Further, the company is currently undertaking multiple financing initiatives which is expected to ease liquidity through incremental lines of credit and favourable credit terms.

Credit challenges

- **Low margins and profitability** – The company's operating profit margins (OPM) have remained at sub 6%, while its net profit margins (NPM) have been at sub 3% over the last five years, despite its expansion into various higher value-add and allied verticals in the global markets. For FY2019, TVSSCS's operating profit margins stood at 2.9% (adjusted OPM – 4.3%), while it reported a net loss of 0.6% (adjusted NPM – 0.9%)⁵. The adjusted FY2019 margins were weaker than that during FY2018 partly due to higher proportion of revenues from relatively lower margin freight forwarding business. In FY2020, the company was impacted by a wide range of factors, including trade wars and global macroeconomic slowdown; Brexit-related uncertainty that prevailed for a large part of the year; the recent Coronavirus epidemic; and specific issues in some subsidiaries. TVSSCS reported an OPM of 4.3% (adjusted OPM – 5.0%) and profit before tax of 2.0% (adjusted PBT/OI – 2.7%)⁶ in H1 FY2020 and its margins are expected to be weak for full year FY2020. Also, TVSSCS's return on core capital employed (core RoCE) which was moderate over the years, due to periodic highly-valued low-margin acquisitions, has weakened in FY2019 due to lower profits

⁵ Adjustments include exceptional operating expenses of Rs. 97.3 crore, majority of which was for specific due diligence/consulting, integration and other cost pertaining to some relatively large acquisitions of FY2018, and one-time loss in a particular business

⁶ One-time operating expense adjustment of Rs. 23.6 crore for H1 FY2020 and Rs. 40 crore expected for full year FY2020

before interest and tax, and substantial increase in net debt levels (Rs. 288.6 crore incremental net debt in FY2019). TVSSCS's RoCE stood at 4.6% in FY2019 (Previous Year: 9.5%), while its core RoCE stood at 4.7% (adjusted core RoCE – 11.1%) in FY2019. ICRA expects the company's profitability to remain at current levels for FY2020.

- **Moderate coverage metrics** – The periodic acquisitions have increased TVSSCS's consolidated debt levels (working capital and for long-term funding) over the years; the company's consolidated gross debt stood at Rs. 1,516.8 crore as on March 31, 2019 (Previous Year: Rs. 1,100.7 crore) and Rs. 1,847.8 crore as on Sep 30, 2019 while its net debt stood at Rs. 1,006.1 crore (Previous Year: Rs. 717.4 crore) and Rs. 1,032.3 crore respectively as on the same dates. The relatively high debt levels and marginal profits have resulted in moderate coverage metrics over the years, with deterioration in FY2019 and H1 FY2020 (from FY2018 levels), adjusting profits/accruals for one-time operating expenses. The company's net debt/OPBDITA stood at 5.1 times as on March 31, 2019 (net debt/ adjusted OPBDITA – 3.4) and 3.6 times as on Sep 30, 2019 (net debt/ adjusted OPBDITA – 3.1) while its interest coverage stood at 2.2 times (adjusted interest coverage – 3.3 times) for FY2019 and 2.6 times (adjusted interest coverage – 3.1 times) for H1 FY2020. The coverage metrics are also expected to remain moderate over the medium term.

Liquidity Position: Adequate

TVSSCS's liquidity is adequate with fund flow from operations of Rs. 73.0 crore in FY2019; cash and bank balances and liquid investments of Rs. 815.5 crore (as on September 30, 2019); and, undrawn working capital limits of ~Rs. 700 crore at the consolidated level (as on September 30, 2019). In addition, the company has raised Rs. 175 crore private equity funding in Q4 FY2020. TVSSCS is also currently undertaking multiple financing initiatives which is expected to ease liquidity through incremental lines of credit and favourable credit terms. In relation to these sources of cash, TVSSCS has average capex commitment of ~Rs. 100 crore per year for FY2020 – FY2022 and debt repayment of Rs. 188.7 crore for the same period (taking into account the multiple ongoing financing initiatives). Although TVSSCS has strong appetite for acquisitions, and part of the available credit/cash is expected to be used for further inorganic expansions, ICRA expects the company to be able to meet its medium-term commitments, and yet be left with sufficient cash/liquid investments surplus.

Rating sensitivities

Positive triggers – Substantial improvement in TVSSCS's profits and reduction in net debt levels, resulting in core RoCE $\geq 17.5\%$ and interest coverage $\geq 3.5x$ could result in a rating upgrade.

Negative triggers – Inability to improve RoCE and debt metrics significantly could result in a rating downgrade. Akin to the past, TVSSCS continues to be open to acquisitions in related verticals. TVSSCS's new acquisitions, however, would be evaluated on a case-by-case basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	T V Sundram Iyengar & Sons Private Limited (rated [ICRA]AA (Stable)/[ICRA]A1+) holds 33.9% stake in TVSSCS. In addition, the individuals of the TVS family own 16.0% stake in the company. The company enjoys strong financial and operational flexibility by virtue of its parentage.
Consolidation / Standalone	Consolidation

About the company:

TVS Supply Chain Solutions Limited (TVSSCS, formerly TVS Logistics Services Limited) is an integrated logistics service provider engaged in outsourced supply chain management, freight forwarding and last mile fulfilment. The company started as a division of TV Sundram Iyengar & Sons Limited (TVS & Sons, [ICRA]AA (Stable)/[ICRA]A1+) in 1996 and was hived off in December 2004 as a wholly-owned subsidiary. In March 2008, private equity player G S Logistics (Goldman Sachs) acquired stake in TVSSCS, followed by a second round of PE funding in May 2012 when Kohlberg Kravis Roberts (KKR) acquired stake in the company. In September 2015, Tata Capital (through two investment arms) infused additional equity funds. The company provided exits to KKR and Goldman Sachs in FY2017, and inducted Caisse De Depot Et Placement De Quebec (CDPQ). The company has also recently raised funds from another PE investor. As of Dec 31, 2019, TVS & Sons and the individuals of the TVS family held majority stake in the company while CDPQ, Tata Capital and TVSSCS's employees are the other shareholders.

Over the past few years, TVSSCS has expanded its domestic and global presence through several inorganic acquisitions, using borrowings and PE funds. The larger of these acquisitions are [1] UK based logistics services provider TVS Supply Chain Solutions Limited in Q3 FY2008, [2] Rico Logistics Limited (UK) during Q2 FY2013, [3] Wainwright (USA) in Q3 FY2013, [4] Drive India Enterprise Solution Limited (India) in Q2 FY2016, [5] Transtar International (Australia) in Q2 FY2016, [6] Pan Asia Logistics (Asia) in Q4 FY2018 and [7] Nadal Forwarding S.L (Spain) in Q4 FY2018. India accounted for less than one-third of the company's consolidated revenues in FY2019.

Key Financial Indicators (Audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	5,341.8	6,779.9
PAT (Rs. crore)	51.5	-39.0
OPBDIT/OI (%)	3.7%	2.9%
RoCE (%)	9.5%	4.6%
Total Debt/ TNW (times)	1.6	2.2
Total Debt/ OPBDIT (times)	5.6	7.8
Interest coverage (times)	3.5	2.2

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; NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 21, 2020	Date & Rating in FY2019 Aug 31, 2018	Date & Rating in FY2017		Date & Rating in FY2016	
						Feb 01, 2017	Jul 25, 2016	Dec 16, 2015	
1 Term loans	Long Term	50.00	21.00	[ICRA]A (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Long-term fund based	Long Term	100.00							
3 Short-term fund based	Short Term	-	NA	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+
4 Short-term unallocated	Short Term	10.00		[ICRA]A1	-	-	-	-	-

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	Term loans	FY2018	10.5%	FY2021	50.00	[ICRA]A (Stable)
NA	Cash Credit				100.00	
NA	Short-term unallocated limits	NA			10.00	[ICRA]A1

Source: TVS Supply Chain Solutions Limited (formerly TVS Logistics Services Limited)

Annexure-2: List of entities considered for consolidation*

Company Name	Ownership	Consolidation Approach
TVS Logistics Investment UK Limited	100.00%	Full consolidation
TVS Logistics SIAM Limited	100.00%	
TVS Logistics Investments USA Inc	100.00%	
TVS-Asianics Supply Chain Solutions Pte Limited	93.30%	
SPC International India Private Limited	100.00%	
TVS Dynamic Global Freight Services Limited	85.00%	
FLEXOL Packaging (India) Limited	67.50%	
Drive India Enterprise Solutions Limited	100.00%	
TVS Packaging Solutions Private Limited	100.00%	
TVS Toyota Tsusho Supply Chain Solutions Limited	60.00%	
White Data Systems Private Limited	51.00%	Equity method
TVS America Inc	49.00%	
TVS Industrial & Logistics Parks Private Limited (formerly TVS Infrastructure Private Limited)	50.00%	

Source: TVS Supply Chain Solutions Limited (formerly TVS Logistics Services Limited); * the list above includes only direct subsidiaries and associates/JV. TVSSCS has over 75 entities at the consolidated level including its direct and step-down subsidiaries, joint ventures and associates.

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Pavethra Ponniah

+91 44 4596 4314

pavethrap@icraindia.com

Vinutaa S

+91 44 4596 4305

vinutaa.s@icraindia.com

RELATIONSHIP CONTACT

Shivakumar L

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents