March 20, 2020

Tube Investments of India Limited: [ICRA]AA+ (Stable)/[ICRA]A1+ reaffirmed

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)	[ICRA]A1+; reaffirmed
Short-term non-fund based	500.00	500.00	
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 well-entrenched market position across all its operating segments and products, and its strong debt metrics. TIIL is the market leader in cold drawn welded (CDW) tubes in India and is one of the two key players in automotive chains. It has also maintained its ~26% market share in the retail segment for cycles, supported by its popular brands *BSA, Hercules, Roadeo and Montra*. Aided by its healthy accruals in the last few years and effective working capital management, TIIL's consolidated[1] debt levels have gradually reduced over the years, with net debt of Rs. 92.0 crore as on Dec 31, 2019. The low debt levels compared to its net worth and profits have resulted in strong capital structure and coverage metrics. The company's consolidated net gearing stood at 0.1x while its net debt/OPBDITA was 0.2x as on Dec 31, 2019. The company's interest coverage metrics stood at a strong 18.2x on a consolidated basis for 9M FY2020 (9M FY2019: 10.2x).

TIIL derives about 58% of its revenues from auto (2W and passenger cars), while the remaining 42% is from the non-auto segments like railway products, industrial chains and cycles. Despite its diversified revenue base, TIIL's operating income declined by 16.0% YoY in 9M FY2020 to Rs. 3,719.4 crore impacted by the ongoing domestic auto slowdown, subdued commodity prices and exit from the institutional cycles business. Its operating profit margin (OPM) and net profit margin (NPM) stood at 12.1% and 6.8% respectively for 9M FY2020 dragged down by the lower margins in the cycle division, while its RoCE was 20.6% on consolidated basis for FY2019 (FY2018: 13.2%).

TIIL is exploring various new products and deeper market penetration in several geographies to drive revenues going forward. Given its negligible imports and less than 10% of its revenues from overseas markets, the company is relatively insulated to supply chain disruption and revenue impact because of the Covid-19 pandemic. However, its revenue growth would be dependent on recovery in domestic auto demand to a large extent. On the margin front, the company is undertaking various cost-saving and consolidation initiatives to aid profit improvement. Also, while TIIL's margins are vulnerable to unfavourable commodity price movements (mainly steel), its demonstrated ability to pass on raw material price increases to its customers mitigates the risk to a large extent. The company has capex plans to the tune of Rs. 585 crore for the three-year period FY2020-FY2022 for capacity enhancements (in tubes, doorframes and railway products)

[1] TIIL consolidated includes 4 subsidiaries and 1 joint venture, apart from the standalone entity. Details of the same are provided in Annexure-2.

and for upgradation/maintenance. These are significant as a proportion of anticipated accruals, although broadly in line with the capex incurred in the last few years. Nevertheless, no incremental debt is envisaged for funding the same and TIIL's capital structure, coverage metrics and cash flows are likely to remain strong going forward. ICRA also notes that TIIL is open to acquisitions in related verticals. The acquisitions, upon materialization, would be evaluated on case-by-case basis.

Key rating drivers and their description

Credit strengths

Well established market position in all operating segments – The company remains one of the leading players in 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' and 'Razor' are well known in India and continue to have high brand pull. In the cycles business, with a market share of ~26% in the retail segment, the company remains one of the four largest organized players in India. 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.

Strong capital structure and coverage metrics – By virtue of its healthy accruals compared to capex in the last few years and effective working capital management, TIIL's debt levels have been gradually reducing over the years. As on Dec 31, 2019, the company's consolidated net debt[2] stood at Rs. 92.0 crore, significantly lower than the Rs. 595.9 crore as on March 31, 2018 and Rs. 458.3 crore as on March 31, 2019. The low net debt levels have resulted in strong capital structure and coverage metrics with net gearing of 0.1x and net debt/OPBDITA of 0.2x as on Dec 31, 2019. ICRA expects the company's debt metrics to remain comfortable over the medium term, despite the capex plans being sizeable as a proportion of anticipated accruals.

Credit challenges

Exposed to volatility in demand from 2W/passenger car industries – TIIL continues to derive 58% of its revenues from the auto segment. Of this, about 58% comes from the 2W and the remaining is largely from the passenger car segment. The non-auto revenues (~42% in 9M FY2020) are predominantly from railway products, industrial chains and cycles. Despite its diversified revenue base, TIIL's operating income declined by 16.0% YoY in 9M FY2020 to Rs. 3,719.4 crore impacted by the ongoing domestic auto slowdown and exit from the institutional cycles business.

Moderate profit margins and RoCE – TIIL's consolidated operating profit margin (OPM) stood at 9.9% for FY2019 and 12.1% respectively for 9M FY2020, while its net margins were 4.3% and 6.8% respectively for the same periods. Despite substantial improvement in YTD FY2020, the margins continue to be moderate. While the operating margins in the engineering and metal formed products divisions were at 14.4% and 13.6% respectively for 9M FY2020, the sub 5% OPM from the cycles division has been dragging down the overall margins. Exit from the low-margin institutional cycles

[2] Net debt = Total debt minus cash and cash equivalents

segment would, however, improve cycle margins going forward. TIIL's RoCE also remained moderate at 20.6% on consolidated basis for FY2019, although it improved significantly from the 13.2% in FY2018, aided by the cost-saving initiatives and lower debt.

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, TIIL'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 both in engineering and metal forming divisions.

Significant capex plans over FY2020-FY2022 – TIIL has capex plans to the tune of Rs. 585 crore for the three year period FY2020-FY2022 for capacity enhancements (in tubes, doorframes and railway products) and upgradation/maintenance. These are significant as a proportion of anticipated accruals, although broadly in line with the capex incurred in the last few years. Nevertheless, the company's capital structure, coverage metrics and cash flows are likely to remain strong going forward and no incremental debt is envisaged for funding capex.

Liquidity Position: Strong

TIIL's liquidity is strong with positive free cash flows in FY2019; consolidated cash and bank balances and liquid investments of Rs. 378.0 crore as on December 31, 2019; and undrawn fund based working capital limits of Rs. 358.0 crore (as on December 31, 2019). Its average working capital utilisation was ~51.5% of sanctioned limits and 66.2% of drawing power as on month ends for the 12-month period ended January 2020. In relation to these sources of cash, TIIL has capex commitment of Rs. 185.0 crore for FY2020 and ~Rs. 200.0 crore each for FY2021 and FY2022 (funded/to be funded through internal accruals), and NCD repayments of Rs. 100.0 crore each in FY2020[3] and FY2021. Overall, ICRA expects TIIL to be able to meet its medium-term commitments through internal sources of cash and yet be left with cash/liquid investments surplus. Further, TIIL enjoys strong financial flexibility and lender/investor comfort, and this is expected to continue going forward as well.

Rating sensitivities

Positive triggers – ICRA could upgrade TIIL's ratings if it achieves material improvement in its scale of operations and its RoCE improves to over 25% on sustained basis, while maintaining its strong debt metrics.

Negative triggers – Downward pressure on TIIL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt, with net debt/OPBDITA greater than 1.5 times on sustained basis. TIIL is open to acquisitions in related verticals; the acquisitions, upon materialization, would be evaluated on case-by-case basis.

[3] Repaid in February 2020

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidated/Standalone	The ratings are based on the consolidated financial profile of the company. Details of subsidiaries/joint ventures provided in Annexure-2

About the company:

TIIL 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 TIIL's consolidated revenues from FY2019), 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 ~21%, ~47% and ~32% of net sales in 9M FY2020 respectively. TIIL has 16 plants as on date across the three divisions.

TIIL has five subsidiaries/joint ventures (JV) as on date. Shanthi Gears Limited (70.5% subsidiary of TIIL) 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 used to do large sheet metal stampings die design and engineering in its factory near Chennai; the company has been non-operational since April 2019. 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 (Negative)) 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	FY2018	FY2019
Operating Income (Rs. crore)	5,027.2	5,795.5
PAT (Rs. crore)	155.5	250.8
OPBDIT/ OI (%)	8.3%	9.9%
RoCE (%)	13.2%	20.6%
Total Outside Liabilities/ TNW (times)	1.4	1.2
Total Debt/ OPBDIT (times)	1.9	1.1
Interest coverage (times)	6.8	10.2
Debt Service Coverage Ratio (times)	1.0	1.5

Source: Company's Annual Report, 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:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Mar 20, 2020	Date & Rating in FY2019 Feb 28, 2019	Date & Rating in FY2018 Jan 10, 2018	Date & Rating in FY2017 -
1	Long-term fund based	Long Term	525.00		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
2	Short-term fund based - sublimit	Short Term	(525.00)					-
3	Short-term non-fund based	Short Term	500.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Commercial paper	Short Term	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)	**[ICRA]A1+**
LC/BG				500.00	
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	70.5%	Full consolidation
Financiere C10 SAS (FC 10)	100.0%	
Great Cycles (Private) Limited	80.0%	
Creative Cycles (Private) Limited	80.0%	
TI Tsubamex Private Limited	78.3%	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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