August 14, 2020

Tube Investments of India Limited: Long-term rating of [ICRA]AA+ for bank lines placed on watch with developing implications; short-term rating of [ICRA]A1+ outstanding on bank lines and commercial paper programme

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+&; rating placed on watch with developing implications
Short-term fund based - sublimit	(525.00)	(525.00)	[ICRA]A1+ outstanding
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

Material Event

Tube Investments of India's (TIIL/the company) Board has approved the company's proposal for making a binding bid for acquiring controlling interest in M/s. CG Power and Industrial Solutions Limited (CG Power) on Aug 07, 2020.

As a first step to the commencement of the bidding process, TIIL and CG Power have entered into a Securities Subscription Agreement on 7th August 2020 for an investment of around Rs.700.0 crore in CG Power for acquiring a controlling stake in the latter company through a combination of (i) investment of around Rs.550.0 crore for primary subscription to the equity shares, and (ii) investment of around Rs.150.0 crore for primary subscription to warrants. The warrants will be convertible into equivalent number of equity shares at the option of TIIL within 18 months from the allotment. Out of the total investment amount for the warrants, 25% will be paid upfront at the time of subscription of the warrants.

The investment/issue and allotment of equity shares and share warrants on preferential basis are subject to TIIL being declared as successful bidder under the Swiss Challenge Process under Stressed Asset Directions to be concluded by Aug 28, 2020, approval of Competition Commission of India, approval of shareholders of CG Power and satisfactory fulfilment of conditions in the securities subscription agreement (SSA). The acquisition would be completed before 120 days from the date of the Securities Subscription Agreement (December 05, 2020), should TIIL win the bid.

Upon TIIL being declared as a successful bidder, TIIL's shareholding in CG Power would be approximately 50.62% of the issued and subscribed share capital of the target company. After the conversion of the warrants into equity shares, TIIL's shareholding will be approximately 56.61% of the issued and subscribed share capital of the target company.

Rationale

ICRA takes note of the development and has placed the long-term rating of [ICRA]AA+ outstanding on the bank lines of the company on watch with developing implications. ICRA has short-term rating of [ICRA]A1+ outstanding on the bank lines and commercial paper programme of the company.

TIIL currently derives about 53% of its consolidated revenues from the auto segment and the acquisition, upon materialization, would help diversify the company's revenue base, reducing its exposure to the inherent cyclicality of the auto industry. TIIL's consolidated debt metrics are likely to weaken from FY2020 levels if the acquisition is debt funded, although ICRA notes that TIIL's consolidated net debt (excluding lease liabilities) has reduced significantly in the last few years, to lower than Rs. 10 crore as on August 10, 2020, as against Rs. 595.9 crore as on March 31, 2018. Further, while ICRA understands that negotiations for one-time settlement of CG Power's operational and financial liabilities are currently ongoing, the extent of liabilities that would be taken over by TIIL, should the acquisition materialize, remains to be seen. ICRA will continue to monitor the developments on this front and will take appropriate rating action as and when further details are available.

Key rating drivers and their description

Please find the link to the previous rationale: Link to rationale dated March 20, 2020

Liquidity Position

Please find the link to the previous rationale: Link to rationale dated March 20, 2020

Rating sensitivities

Please find the link to the previous rationale: Link to rationale dated March 20, 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 constituted ~90% of TIIL's consolidated revenues from FY2020), 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 ~19%, ~47% and ~34% of net sales in FY2020 respectively. TIIL has 18 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.

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. Post demerger arrangement in FY2017, Cholamandalam Investment & Finance Company Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+) and Cholamandalam MS General Insurance Company Limited (rated [ICRA]AA (Negative)) are part of another listed company — Cholamandalam Financial Holdings Limited (erstwhile TI Financial Holdings Limited) wef. April 01, 2016, and TIIL currently holds only the manufacturing investments.

Key financial indicators (Consolidated, audited)

	FY2019	FY2020
Operating Income (Rs. crore)	5,794.2	4,766.9
PAT (Rs. crore)	250.8	313.3
OPBDIT/ OI (%)	9.9%	12.7%
RoCE (%)	20.6%	20.4%
Total Outside Liabilities/ TNW (times)	1.2	0.7
Total Debt/ OPBDIT (times)	1.1	0.7
Interest coverage (times)	10.2	18.0
Debt Service Coverage Ratio (times)	1.5	3.9

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 (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Aug 14, 2020	Date & Rating in FY2020 Mar 20, 2020	Date & Rating in FY2019 Feb 28, 2019	Date & Rating in FY2018 Jan 10, 2018
1	Long-term fund based	Long Term	525.00		[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Short-term fund based - sublimit	Short Term	(525.00)		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short-term non-fund based	Short Term	500.00					
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+&
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

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

L Shivakumar
+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