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India Ratings Affirms TVS Srichakra at 'IND AA-'/Stable; Rates Additional Loans

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India Ratings and Research (Ind-Ra) has affirmed TVS Srichakra Limited's (TVSSC) debt instruments as follows:

Instrument Type	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Commercial paper (CP)*	-	Up to 365 days	INR3.0	IND A1+	Affirmed
Fund-based working capital limits	-	-	INR4.25	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	INR1.10	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	INR1.0	IND AA-/Stable/IND A1+	Assigned
Term loans	-	FY30	INR 3.35 (reduced from INR4.35)	IND AA-/Stable	Affirmed
Term loans	-	FY31	INR1.7	IND AA-/Stable	Assigned

*Carved out of fund-based working capital limits

ANALYTICAL APPROACH: Ind-Ra continues to take a consolidated view of TVSSC and its wholly-owned subsidiaries, TVS Srichakra Investments Limited and TVS Sensing Solutions Private Limited, to review the ratings on account of a commonality in management, similar lines of business activity and operational interlinkages among the companies.

Key Rating Drivers

Strong Market Position; Diversified Customer Base: TVSSC is a strong two-wheeler (2W) tyre manufacturer for auto original equipment manufacturers (OEM) and is improving its presence in the aftermarket 2W tyre segment. The company's OEM segment revenue is diversified with the top five customers contributing 40-50% to the consolidated revenue over FY21-FY23. The company is also focusing on improving its market position in the less volatile and higher-margin aftermarket segment, through a wider distribution channel and advertisement spend. This has enabled TVSSC in increasing its market position in the aftermarket segment which contributed about 34% to the revenue during FY23 (FY22: 33%, FY21: 34%). The revenue contribution from aftermarket increased to 37% during 1QFY24. The company's exports have also increased over the past few years with both 2Ws and off highway tyres (OHT) segments together contributing 14% to the overall revenue in FY23 (FY22: 15%, FY21: 13%). The same improved to 16% during 1QFY24.

Capacity Enhancement for Further Diversification: Over FY22-FY26, the company has a capex plan of INR10 billion, which aims at doubling its capacity in OHT segment and increasing capacities in 2W as well as new opportunities in the 2W/OHT space. One-third of the total capex was planned towards the OHT space which has been almost completed. The OHT expansion was planned over FY22-FY24 with the first phase being completed in December 2022 and the second phase likely to be completed by FYE24.The company plans to expand mainly in the higher-margin OHT segment, to diversify its revenue base both in terms of product and geography, as it would cater to the export market through this expansion. Ind-Ra takes comfort from the planned capex being aimed at achieving increased capacity, better product diversification and higher margins. The revenue contribution from the OHT segment will also double once the facility is fully functional, according to the management. TVSSC also increased the sales volume in the 2W exports segment in FY23. This has come from investments in setting a research and development centre in Milan, Italy. Moreover, as OHT is a margin-accretive segment, its higher contribution is also likely to increase EBITDA margins gradually. The agency will monitor growth and diversification aided by the capex underway.

Revenue Growth Supported by Volume and Value: The consolidated revenue increased 17.4% to INR29.9 billion in FY23, led by both volume and realisation. The volume growth was witnessed in all the segments-OEM, aftermarkets and export markets. The higher realisation during the year was enabled by the stabilised raw material prices. The revenue continued to grow qoq to INR7.0 billion in 1QFY24; however, it was marginally lower on a yoy basis (4QFY23: INR6.8 billion, 1QFY23: INR7.4 billion).

Ind-Ra expects the consolidated revenue to be INR28 billion-30 billion in FY24, backed by a continued replacement demand, healthy export demand, as well as the likely double-digit growth in the 2W OEM volumes although same will be partly offset by the moderation in raw material cost and selling prices.

Favourable Raw Material Price Likely to Improve Margins Further in FY24: The consolidated EBITDA margin improved to 7.8% in FY23 (FY22: 6.7%, FY21:11.9%), mainly on account of the stabilisation of the raw material prices and a better recovery in all the segments In 1QFY24, the EBITDA margin improved further to 8.6% (4QFY23: 8.1%, 1QFY23: 4.2%). The company is able to partly offset the increase in raw material prices through price hikes in the replacement and export markets.

Ind-Ra expects the EBITDA margin to recover to double-digits (10%-10.5%) in FY24, supported by the improved raw material prices coupled with improved operating leverage. The EBITDA margins are likely to benefit over the medium term, due to the increased proportion of margin-accretive replacement and export market sales, multiple cost-reduction initiatives, and improved operating leverage. The EBITDA margin, however, remains sensitive to any volatility in natural rubber and Brent crude, considering raw material costs represent 55%-60% of the revenue. Historically, tyre industry margins have reduced to single digits during times of elevated raw material prices.

Liquidity Indicator - Adequate: Ind-Ra expects the consolidated unencumbered cash balance, unutilised fund-based limits, positive free cash flows and the ability to raise debt through banks/capital markets to be sufficient to fund the scheduled debt repayments. The consolidated unencumbered cash and cash equivalent balance was INR0.12 billion at FYE23 (FYE22: INR0.09 billion). The average month-end utilisation of its fund-based working capital facilities (including CP) on a standalone basis was around 68% during the 12 months ended August 2023. The utilisation is likely to have remained at the same level in September 2023. The cash flow from operations turned positive at INR1.7 billion in FY23 (FY22: negative INR0.9 billion, FY21: INR2.8 billion) due to better operating profitability, coupled with an improvement in the working capital. The company's free cash flow remained negative at INR0.5 billion in FY23 (FY22: negative INR4.0 billion), mainly on account of continued high capex (FY23: INR2.1 billion, FY22: INR2.9 billion), partially offset by better EBITDA (INR2.3 billion, INR1.7 billion) as well as lower working capital requirement. The company maintained higher inventory levels amid fluctuating raw material prices as well as higher valuation. However, with the stabilising raw material prices, the working capital improved in FY23 and is likely to remain at the same level over the near-to-medium term (FY23: 97 days, FY22: 121 days).

Ind-Ra expects the company's free cash flow to turn marginally positive in FY24, on account of improved profitability and a shorter working capital cycle as year-end prices of some of the key raw materials have started to ease. However, a large capex plan of INR1.5 billion-2.0 billion annually in FY24-FY25 could limit free cash generation. The company has scheduled debt repayments of INR0.44 billion in FY24 and INR0.56 billion in FY25. TVSSC enjoys financial flexibility on account of it being part of the TVS group and well-diversified funding sources.

Leverage to Improve over Medium Term Due to Continued Capex Spend: The consolidated net leverage (net debt/EBITDA) improved to around 2.8x in FYE23 (FYE22: 3.5x; FYE21: 0.9x) on the back of improved EBITDA margins partially offset by increased debt-funded capex. The net leverage improved to 2.5x during 1QFY24 (basis the trailing 12 months ended June 2023). Of the INR10 billion capex over FY22-FY26, INR3.2 billion (pertaining to the OHT facility) was planned over FY22-FY24, and was funded by a term loan of INR 2.4 billion. Around INR1.0 billion is planned towards a new 2W facility in Uttarakhand which will help reduce TVSSC's operational cost, and 70%-80% of this capex is likely to be funded through debt. The remaining capex could be aimed towards 2W expansion/other opportunities in 2W/OHT space; however, the same could be extended/deferred in case the demand revival is not in line with the management's expectations, given its modular nature. Of the total INR10 billion capex planned, around INR5 billion was already completed by FYE23. Around INR2.0 billion is likely to be spent in FY24 and the rest will be spread over FY25-FY26. The agency expects the deleveraging post capex to be gradual with the net leverage reducing below 2.0x from FY24, as the benefits to scale and profitability are likely to start accruing partially FY24 onwards from the OHT facility. Any cost overruns, delays in deriving the expected benefits and/or a further sharp rise in the raw material prices could lead to higher-than-expected deterioration in the credit metrics. Also, TVSSC remains exposed to the risks related to the timely execution of projects and favourable demand scenario for successfully operationalising the new facilities.

The consolidated interest coverage (EBITDA/interest expense) improved to 5.3x in FY23 (FY22: 4.9x, FY21: 6.9x), due to better profitability. The interest coverage remained at 5.2x during 1QFY24. It is likely to increase above 6.0x in FY24, and improve henceforth.

Lower Scale than Market Leaders: While TVSSC's revenue grew in double digits historically, excluding over FY20-FY21, the overall scale has been lower than that of peers in the 2W tyre segment, MRF Ltd and CEAT Limited ('IND AA'/Stable), which have a major share of the 2W aftermarket, largely driven by their entrenched market position in the aftermarket segment. The company's ability to gain a meaningful market share in the 2W aftermarket segment depends on the success of its brand-building strategies and efficient channel management.

Standalone Performance: TVSSC's standalone operations continue to account for a major share (FY23: over 96%; FY22: over 97%) of the consolidated revenue, EBITDA and debt. TVSSC recorded a revenue of INR28.7 billion (FY22: INR24.6 billion), EBITDA of INR2.2 billion (INR1.6 billion), interest coverage of 5.1x (4.9x) and net leverage of 2.9x (3.6x) in FY23.

Rating Sensitivities

Positive: Maintaining strong cash flows, which will enable the company to meet a substantial portion of its capex requirements, even while the input costs continue to rise, indicating a significant strengthening of the business profile in terms of a substantially higher proportion of revenue from the aftermarket segment and lower volatility in the EBITDA margins, all on a sustained and consolidated basis, could result in a positive rating action.

Negative: A continued and substantial erosion of the profitability margins due to a further increase in the price of inputs, prolonged periods of demand slowdown or increased competition, leading to the consolidated net leverage remaining above 2x, on a sustained basis, could be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on TVSSC, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

TVSSC belongs to the TVS group of companies. The company is a leading manufacturer of 2W tyres in India and caters to both OEMs and aftermarket segments, and also manufactures OHT for the domestic and export markets. The company has two manufacturing plants, one each in Madurai in Tamil Nadu and Rudrapur in Uttarakhand.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR billion)	29.9	25.3
EBITDA (INR billion)	2.3	1.7
EBITDA margins (%)	7.8	6.7
Interest coverage (x)	5.3	4.9
Net leverage (x)	2.8	3.5
Source: TVSSC, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	20 October 2023	10 November 2022	11 November 2021	12 November 2020
Issuer rating	Long-term	-	-	WD	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable
Fund-based limits	Long-term/ Short-term	INR4.25	IND AA-/Stable/IND A1+	-	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+
Non-fund-based limits	Long-term/ Short-term	INR2.1	IND AA-/Stable/IND A1+	-	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+
Term loan limits	Long-term	INR5.05	IND AA-/Stable	-	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable
CP	Short-term	INR3.0	IND A1+	-	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low
CP	Low
Fund-based limits	Low
Non-fund based limits	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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