India Ratings Affirms TVS Supply Chain Solutions at 'IND AA'/Stable & CP at 'IND A1+'

Ind-Ra-Mumbai-XX July 2024: India Ratings and Research (Ind-Ra) has taken the following rating actions on TVS Supply Chain Solutions Limited and its debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Issuer rating	-	-	-	-	IND AA/Stable	Affirmed
Commercial paper	-	-	365 days	INR2,000	IND A1+	Affirmed
Term loan	-	-	30 June 2025	INR1,600	WD	Withdrawn*
Fund-based working capital limits	-	-	-	INR6,720	IND AA/Stable/ IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR150	IND A1+	Affirmed

* INR100 million was paid in full and for the balance the company did not proceed as envisaged

Analytical Approach: Ind-Ra continues to fully consolidate TVS SCS and its subsidiaries, due to the strong operational and strategic linkages among them.

DETAILED RATIONALE OF THE RATING ACTION

The affirmation reflects TVS SCS's strong business profile and an improvement in the consolidated financial profile, led by debt reduction undertaken during FY24. The strong business profile is underpinned by its end-to-end product offerings, strong customer-connect and diversified operations. This is further strengthened by the company's focus on large customers additions reflected by a gradual increase in fortune 500 customers to 78 in FY24 from 54 in FY21. The consolidated financial profile has improved in FY24, given it has substantially reduced its external financial debt to INR7.9 billion at FYE24 (FYE23: INR17.0 billion) while repaying majority of its term debt. This has led to an improvement in the net leverage (net debt including lease liabilities/EBITDA) to 2.3x in FY24 (FY23: 2.7x). The ratings also reflect TVS SCS's modest EBITDA margin with a return on capital employed (ROCE) remaining below 10%, the improvement of which will remain key rating monitorable.

List of Key Rating Drivers

Strengths
- Improvement in financial profile in FY24
- Strong business profile
- Strong customer connect
- Moderation in acquisition-led strategy

Weaknesses
- Modest EBITDA margins and ROCE
- Susceptible to macro-economic headwinds

KEY RATING DRIVERS

Improvement in Financial Profile in FY24: During FY24, on a consolidated basis, TVS SCS's revenue declined 7.9% yoy to INR92.0 billion due to a 26.7% yoy decline in network solutions (NS) segment revenue to about

INR40.0 billion, mainly impacted by normalisation of global freight rates and moderation in global trade volume amid macro-economic headwinds. This was partially offset by strong revenue growth of 14.5% yoy to about INR52.0 billion in the integrated supply chain solutions (ISCS) segment led by growth across geographies and new business development initiatives.

Despite the decline in revenue, the consolidated EBITDA improved to INR6.9 billion (FY23 restated: INR6.6 billion) leading to an improvement in the EBITDA margin to 7.5% (6.6%). The improvement in profitability during FY24 was supported by an improvement in ISCS segment margins on the back of increased revenue and operational efficiency, while the NS segment faced headwinds due to a decline in revenue and high inflationary environment impacting the Integrated Final Mile business. Ind-Ra expects the revenue to grow high single-digit to low double-digit over the near-to-medium term, led by business development initiatives and strong outstanding order pipeline, while the profitability will be supported by operating leverage, repricing of contracts in Integrated Final Mile business and cost-rationalisation efforts.

The company's financial profile has improved, given it has substantially reduced its external financial debt to INR7.9 billion at FYE24 (FYE23: INR17.0 billion) while repaying majority of its entire term debt. This has led to an improvement in the net leverage (net debt including lease liabilities to EBITDA) to 2.3x in FY24 (FY23: 2.7x). The gross interest coverage (EBITDA to gross interest) moderated to 3.4x in FY24 (FY23: 3.6x) due to higher interest expense. However, Ind-Ra believes the reduction in finance cost led by reduction in debt will lead to an improvement in the interest coverage above 4.0x over FY25-FY26. Ind-Ra also expects a marginal improvement in the net leverage over the same period supported by higher EBITDA.

Strong Business Profile: TVS SCS is among India's largest fully-integrated supply chain management player with offerings across the value chain. TVS SCS's business profile is supported by its diversified revenue mix across key geographies (Asia, Europe, India, and the US), end-to-end service offerings (as per Ind-Ra's assessment) and a sticky client base, which gives strong revenue visibility and cushioning against systemic headwind in a particular business line. The company operates on an asset-light business model, which enables it to keep its balance sheet light and scale down operations during economic downturns. In the contract logistics industry, the understanding of international regulatory processes, proprietary technology solutions, and developing deep customer domain knowledge require significant time and resources, and hence, are the main entry barriers.

Strong Customer Connect: TVS SCS has strong, longstanding customer relationships with the company servicing about 8,788 customers globally and about 902 customers in India as of FY23, which provides adequate revenue visibility. Furthermore, TVS SCS is focused on large customers additions reflected by the gradual increase in fortune 500 customers to 78 in FY24 from 54 in FY21. The company's average length of relationship with its top 10 customers ranges between 10 and 14 years, implying customer stickiness. The customer base is diversified across auto, beverages, manufacturing, electronics and defence sectors with no customer contributing over 5% to the total consolidated revenue, which de-risks TVS SCS's revenue from possible sector-specific/customer-specific downturns.

The company also benefits from the supply chain integration with erstwhile TVS group companies including TVS Motor Company Limited, TVS Srichakra Limited (debt rated: 'IND AA-'/Stable) with a sizeable portion of their freight handling requirement being offered by TVS SCS; albeit at arm's length basis. Moreover, the brand sharing would help TVS SCS in terms of access to capital market and customer acquisition in the international market.

Moderation in Acquisition-led Strategy: TVS SCS has made more than 20 acquisitions in the last 17 years for growth across Europe, the UK, the US and Asia Pacific (including India). These acquisitions were done for gaining capabilities and securing customers or territories, which has led to the sharp rise in its revenue over the years. However, the acquisition-led strategy also led to high debt levels and impacted profitability due to the associated integration costs. However, during FY20-FY24, the pace of acquisitions slowed down as the company is focused on stabilising the business, achieving sustainable organic growth and working capital management, while improving the ROCE profile. Ind-Ra has not projected any major acquisition in the near term in its base case. Any large debt-funded acquisition without a commensurate improvement in profitability or business profile, could put downward pressure on the ratings.

Modest EBITDA Margins and ROCE: On a consolidated basis, the EBITDA margins and ROCE have remained in single digit historically. Despite the asset-light business model and improvement in profitability, the ROCE remained below 10% in FY24. Ind-Ra expects the margin expansion in the future to be supported by increased fixed cost absorption on the back of revenue growth. Moreover, initiatives such as pricing negotiation to pass on the inflation to end customers in developed markets and discontinuation of margin dilutive business, would further improve the company's margin. The ability of the company to improve its profitability margins and thereby, achieving double-digit ROCE in near-to-medium term, will remain a key rating monitorable.

Susceptible to Macro-Economic Headwinds: TVS SCS's business is cyclical in nature, and fears of an impending recession could impact the volumes handled by the company. Furthermore, the company's global forwarding solutions business is dependent on the global EXIM volumes and freight rates. A slowdown in global growth amidst macro-economic headwinds, and consequently, EXIM volumes coupled with moderation in freight rates could impact the company's operating performance.

Liquidity

Adequate: TVS SCS's cash and cash equivalent stood at about INR6.0 billion at FYE24, against minimal principal repayment obligations in FY25 and FY26. The company's utilisation of domestic fund-based and non-fund-based lines remained moderate as evident from the average utilisation of about 26% and 39%, respectively, over the 12 months ended March 2024. Ind-Ra expects the utilisation levels to have been on similar lines since then. The cash flow of company was impacted during FY24 because of increase in the working capital cycle to 32 days (FY23: 16 days), largely because the company reduced the utilisation of high-cost non-recourse receivable factoring facilities. The company has shown strong financial flexibility in terms of access to capital markets with the net proceeds (net of issue expenses) of about INR16.3 billion through a mix of initial public offering, pre-initial public offering placement, compulsorily convertible preference shares, private equity and exercise of share warrants during FY22-FY24.

RATING SENSITIVITIES

Positive: Sustained growth in the revenue and profitability, leading to an improvement in the ROCE, and the net leverage reducing below 2.0x, all on a consolidated and sustained basis, will lead to a positive rating action.

Negative: Developments that could, individually or collectively, lead to a negative rating action include:

- muted revenue growth and/or weakness in the overall margin profile, leading to the consolidated net leverage exceeding 3.0x on a sustained basis,
- any significantly large debt-funded acquisition without a commensurate improvement in the profitability or the business profile.

ANY OTHER INFORMATION

Standalone Performance: TVS SCS's revenue grew 6.6% yoy to INR19.4 billion in FY24 on the back new customer acquisition and growth in volumes from existing customers. The EBITDA was INR1.7 billion in FY24 (FY23: INR0.9 billion) with EBITDA margins of 8.8% (5.2%). The net leverage and interest coverage stood at about 2.3x in FY24 (FY23: 6.3x) and 2.8x (1.4x), respectively.

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 TVS SCS, 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.

RATING CRITERIA

Corporate Rating Methodology, Short-Term Ratings Criteria for Non-Financial Corporates, Evaluating Corporate Governance, The Rating Process

COMPANY PROFILE

TVS SCS is a part of TVS Mobility Private Limited, the parent company of the TS Rajam family-owned assets. The company provides integrated supply chain solution services and network solution with operations across 26 countries including India, the UK, the US, Spain, Germany, Singapore and Thailand. Post the listing of its shares in August 2023, the promoter group owns a 43.13% equity stake in the company.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	**FY24**	**FY23 (Restated)**
Revenue (INR billion)	92.0	99.9
EBITDA (INR billion)	6.9	6.6
Cash & equivalents (INR billion)	6.0	11.7
Net leverage (x)	2.3	2.7
Interest coverage (x)	3.4	3.6
Source: TVS SCS, Ind-Ra		

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**			
	Rating Type	**Rated Limits (million)**	**Rating**	**8 August 2023**	**22 June 2023**	**23 June 2022**	**24 June 2021**
Issuer rating	Long-term	-	IND AA/ Stable	IND AA/Stable	IND AA/Stable	IND AA-/Stable	IND AA-/Stable
Fund-based working capital limits	Long-term/Short-term	INR6,720	IND AA/Stable/IND A1+	IND AA/Stable/ IND A1+	IND AA/Stable/ IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+
Non-fund-based limits	Short-term	INR150	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Commercial paper	Short-term	INR2,000	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Term loan	Long-term	INR1,600	WD	IND AA/Stable	IND AA/Stable	IND AA-/Stable	IND AA-/Stable

COMPLEXITY LEVEL OF THE INSTRUMENTS

Instrument Type	**Complexity Indicator**
Fund-based limits	Low
Non-fund-based limits	Low
Term loan	Low
Commercial paper	Low

For details on the complexity level of the instruments, visit www.indiaratings.co.in/complexity-indicators.

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