Rating Rationale **12 July 2022**

TVS Electronics Limited

Brickwork Ratings upgrades/assigns ratings with a revision in outlook for the Bank Loan Facilities of Rs 77.00 Crores of TVS Electronics Limited

Particulars:

Facility	Amount (Rs Crs)		Tenure	Recommendation	
	Previous	Present		Previous (22 Feb 2022)	Present
Fund Based (FB)					
Cash Credit-Sanctioned	25.00	**31.00**	Long Term	BWR A-/Positive Reaffirmation with revision in outlook from Stable to positive	**BWR A/Stable Upgrade with revision in outlook from Positive to Stable**
Term Loans -Sanctioned	0.00	**25.00**	Long Term	-	**BWR A/Stable Assignment**
Non Fund Based					
CEL-Sanctioned	1.00	**1.00**	Short Term	BWR A2+ Reaffirmation	**BWR A1 Upgrade**
ILC/FLC/BG-Sanctioned	20.00	**20.00**	Short Term	BWR A2+ Reaffirmation	**BWR A1 Upgrade**
BG/LC (sublimit of FB)	(10.00)	**(20.50)**	Short Term	BWR A2+ Reaffirmation	**BWR A1 Upgrade**
Total	46.00	**77.00**	**Rupees Seventy Seven Crores Only**		

Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings;
Details of bank facilities are provided in Annexure-I

Rating Action/Outlook

The rating action for TVS Electronics Limited (TVSE or the company) reflects the better-than-expected performance in fiscal 2022, driven by demand recovery and cost efficiency measures. Brickwork Ratings (BWR) believes that the business and financial profile shall continue to be maintained over the medium term, supported by steady demand for its products and new tie-ups with premium lifestyle brands. The improvement in business performance is reflected in significant growth in revenue and the EBITDA margin to Rs.307.92 Crs and 8.64%, respectively, during FY22 as against Rs.224.60 Crs and 4.16% during FY21. The margins have improved on account of increased demand, diversified folio aided by new product lines and several cost-saving measures adopted by the company during FY22. Furthermore, the profitability metrics are expected to gradually improve due to better scale and the company's focus on premium brands under its service segment. The rating action also factors the on-going modernisation of its Tumkur facility and the company's focus on improving the productivity of its current workforce, which is expected to augment the margin.

The ratings continue to draw strength from the strong parentage and brand equity of TVS, experienced and professional management, and robust financial and risk management practices, along with growing market demand for newly introduced products, coupled with the company's plans to further diversify its revenue streams. The rating strengths remain constrained by the exposure to intense industry competition, technological obsolescence and forex risks.

BWR also takes note of the implementation of the group restructuring as approved by the National Company Law Tribunal vide order dated 09 December 2021 and with an effective date of 06 January 2022. Pursuant to the scheme, on the first appointed date of 06 January 2022, T V Sundram Iyengar & Sons Private Limited (TVSS) held an ~85% share in TVS Investments Pvt Ltd (TVSI), the majority shareholder in TVSE and then, w.ef. second appointed date of 04 February 2022, TVSI amalgamated with Geeyes Family Holdings Pvt Ltd (GFHPL) (Mr. Gopal Srinivasan holds majority stake in GFHPL) and was renamed as TVSI. As on date, the majority shareholding of 59.84% in the company continues to be in the name of TVSI (Formerly known as GFHPL in which Mr.Gopal Srinivasan holds the majority stake).

BWR believes TVSE's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term. The outlook may be revised to Positive in case of substantial growth in revenue and profitability which would strengthen the financial risk profile along with the accretion of further premium brands in its portfolio, thereby strengthening the business profile. The outlook may be revised downwards with lower-than-expected revenue/cash accruals or a deterioration in the profitability/gearing indicators and/or a significant increase in the operating cycle, and/or a deterioration in the capital structure due to debt-financed capital expenditure, thus weakening the company's financial risk profile.

Key rating drivers

Credit Strengths-:

- **Experienced management and established market position -**
  TVSE has an operational track record of over three decades and has been a part of the TVS group, an established and reputed business group. The company has an experienced and professional management team, and the robust internal control and risk management systems of the company are expected to mitigate possible risks on price movements and technological obsolescence. TVSE has demonstrated the management's agility and awareness through the addition of new products that are in demand. The company is expected to continue to explore fresh opportunities.

- **Long-term agreements with reputed brands -** The company has entered into long-term agreements with reputed clientele such as Dell, HP and Samsung for their various product lines. The company has also onboarded Bose into its lifestyle portfolio, along with reputed clientele such as Harman and Asus.

- **Stable performance of the product and customer service segments, supported by business plans and initiatives:**
The company currently has two segments, namely Product and Solutions, and Customer Service. The Product and Solutions segment continues to be the major revenue contributor with ~68% (PY:62%) contribution towards revenue, followed by the Customer Services segment which contributed to ~34% (PY:31%) of revenue. The company has also recorded a profit at the EBIT level to the extent of ~ Rs.0.56 Crs (PY: Loss of ~Rs.8 Crs) in the customer services segment after losses for the past 2 years. During FY22, the company extended its product lines with the launch of 14 products across the printers and scanner lines, along with new additions to the surveillance camera and recorders portfolio. The company has also improved its B2C services by the launch of TVS-E 'Assure', which would provide services directly to the end consumer through a common platform. With the company's increased focus on the 'Make in India' initiative, imports were reduced from ~35% during FY21 to ~10% during FY22, Additionally, the company aims to bring in more regional repair centres to reduce the company's logistics and transportation costs alongside ensuring faster customer service. The company has also launched an in-house Web application, which is expected to help the company add partners and move towards an asset light model of operating without incurring further costs.

- **Stable financial risk profile** - The company recorded a TOI of Rs.307.92 Crs for FY 22 as against Rs.224.60 Crs recorded during FY21. The company also recorded an improvement in the EBITDA from Rs.9.35 Crs during FY21 to Rs.26.61 Crs during FY22. The PAT improved in line with the EBITDA at Rs.15.10 Crs during FY22 as against Rs.0.77 Crs during FY21. The company's TNW position improved from Rs.63.79 Crs as on 31 March 2021 to Rs.78.70 Crs as on 31 March 2022 due to the retention of profits. Considering the intangible assets in the form of business rights related to the servicetec business, having an indefinite useful life, with a carrying value of Rs.11.87 Crs as on 31 March 2022 as part of the networth, the adjusted TNW worked out to be Rs.90.57 Crs as on 31 March 2022 as against Rs.78.97 Crs as on 31 March 2021. The company's TOL/TNW position remained stable at 1.40 times as on 31 March 2022 as against 1.38 times as on 31 March 2021. The total Debt/TNW remained comfortable at 0.05 times as on 31 March 2022 (PY: Nil). The ISCR and DSCR were comfortable at 27.72 times and 23.32 times during FY22 as against 4.92 times and 5.49 times during FY21, respectively.

Credit Constraints-:

- **Intense competition:**
The company operates in an intensely competitive and fragmented electronics industry. The company's revenue stream is vulnerable to a certain extent to the periodic, regular renewal of its agreements with various clients. However, TVSE benefits on account of its strong brand presence and long-term relation with reputed clients.

- **Exposure to technological obsolescence and forex risks:**
  The company deals in technology-related products and services, which requires frequent upgradation and calls for additional investment. A significant portion of purchases would be through direct/indirect imports, resulting in margin susceptibility to forex fluctuations. However, BWR takes note of the decline in the imports from 35% in FY21 to 10% in FY22 and the availability of hedging limits from its lenders.

Analytical Approach-Standalone
BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries.

Rating sensitivities:
The company's ability to successfully stabilise its fresh business initiatives, improve its revenue and profitability through the newly added products, and strengthen its business profile would be key rating sensitivities.

Upward
- Substantial growth in revenue and profitability, strengthening the financial risk profile
- Stabilisation of new product lines with an increased scale of operations resulting in higher contribution to revenue and profitability on a sustained basis

Downward
- Deterioration in key credit metrics owing to pressure on operating profits due to competition, sharp rise in receivables levels, or fresh capex.
- Specific credit metrics that may result in a downward rating action include total Debt/TNW exceeding unity, EBITDA margin less than 5%, DSCR declining to below 5 and ISCR below 2 times on a sustained basis

Liquidity - Adequate:
The company’s liquidity indicators are considered to be adequate as the EBITDA of Rs.26.61 Crs was sufficient to cover the interest and finance charges of Rs.0.96 Crs during FY22. The average utilisation of working capital limits remained below 50% over the past six months. Cash and cash equivalents improved to Rs.10.36 Crs as on 31 March 2022 when compared to Rs.8.08 Crs as on 31 March 2021. The liquidity position is further supported by short-term investments, which amounted to Rs.33.63 Crs as on 31 March 2022 as against Rs.15.94 Crs as on 31 March 2021. The current ratio improved to 1.39 times as on 31 March 2022 when compared to 1.29 times as on 31 March 2021.

About the Company
TVS Electronics Limited (‘TVSE’ or ‘the company’), Chennai, founded in 1986 as an IT peripheral manufacturer, is currently a leading transaction automation IT product manufacturer and service provider. TVSE has its production/repair facilities in Dehradun (Uttarakhand) and Tumkur (Karnataka). The company is listed on the BSE and NSE. TVSE’s business consists of two revenue segments, viz., (a) Products and Solutions and (b) Customer Support Services. The

products cater to seven broad sectors, viz., Retail – SME, Government, BFSI, Hospitality, Healthcare, E-commerce and Transport, Large Format Retail (LFR) Stores and Quick Service Restaurants (QSRs). Currently, the company operates through 40 owned centres and caters to over 25 brand partners covering more than 19000 pin codes across India with a service footprint across 490 districts for onsite services and retail network for customer walk-in services through 300 centres.
Mr. Gopal Srinivasan is the company's chairman, and Mrs.Srilalitha Gopal is the managing director.

Key Financial Indicators

Particulars	31 Mar 2021	31 Mar 2022
Result Type	**Audited**	**Audited**
Total Operating Income (Rs Crs)	224.60	307.92
EBITDA (Rs Crs)	9.35	26.61
PAT (Rs Crs)	0.77	15.10
Tangible Net Worth (TNW) (Rs Crs)	63.79	78.70
Total Debt/TNW (Times)	0.00	0.05
Current ratio (Times)	1.29	1.39

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.
Status of non-cooperation with previous CRA - NA

Rating history for the previous three years [including withdrawal and suspended] :

Facilities	Current Rating (2022)			2022# (History)		2021		2020*		2019	
Type	Tenure	Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based	LT	31.00	BWR A/ Stable (Upgrade and revision in outlook)	22 Feb 2022	BWR A-/Positive Reaffirmation and change in outlook)	23 June 2021	BWR A-/Stable (Reaffirmation)	19 June 2020	BWR A-/Stable (Reaffirmation)	02 May 2019	BWR A-/stable (Upgrade)
Fund Based	LT	25.00	BWR A/Stable (Assignment)	NA	NA	NA	NA	NA	NA	NA	NA
Non Fund Based	ST	21.00	BWR A1 (Upgrade)	22 Feb 2022	BWR A2+ (Reaffirmation)	23 June 2021	BWR A2+ (Reaffirmation)	19 June 2020	BWR A2+ (Reaffirmation)	02 May 2019	BWR A2+ (Upgrade)
Non Fund Based Sublimit	ST	(20.50)	BWR A1 (Upgrade)	22 Feb 2022	BWR A2+ (Reaffirmation)	23 June 2021	BWR A2+ (Reaffirmation)	NA	NA	NA	NA
Grand Total		**77.00**	**Rupees Seventy Seven Crores Only**								

*Advisory issued on 02 June 2020 for the delay in review

Complexity Levels of the Instruments: Simple
For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Rating Criteria

General Criteria	Approach to Financial Ratios
Manufacturing Companies	Short Term Debt

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TVS Electronics Limited

Annexure I: Details of the bank facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	IDFC First Bank	Cash Credit-Sanctioned	15.00	-	15.00
		ILC/FLC/BG-Sanctioned	-	20.00	20.00
2	RBL Bank	Cash Credit-Sanctioned	10.00	-	10.00
		BG/LC-Sub limit of FB	-	(10.00)	(10.00)
		CEL-Sanctioned	-	1.00	1.00
3	Axis Bank	Cash Credit-Sanctioned	6.00	-	6.00
		Term Loan-Sanctioned	25.00	-	25.00
		BG/LC-Sub limit of FB	-	(10.50)	(10.50)
Total - Rupees Seventy Seven Crores Only			**56.00**	**21.00**	**77.00**

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