Rating Rationale **19 Jun 2020**

TVS Electronics Limited (TVS-E)

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs 46.00 Crores of TVS Electronics Limited

Particulars:

Facility	Amount (Rs Crs)		Tenure	Recommendation	
	Previous	Present		Previous^ (May 2019)	Present
Fund Based Cash Credit/OCC/ ODBD/WCDL	26.00	25.00	Long Term	BWR A-/Stable	**BWR A-/Stable Reaffirmed**
Non Fund Based Bank Guarantee/Letter of Credit/ILC/FLC/LER	21.00	21.00	Short Term	BWR A2+	**BWR A2+ Reaffirmed**
Total	**47.00**	**46.00**	**Rupees Forty Six Crores only**		

Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings; ^Advisory for delay in Rating Review was published on 02 Jun 2020**; Details of bank facilities are provided in Annexure-I*

Rating Action/Outlook

The reaffirmation of the ratings continues to factor in the overall business and financial performance of TVS Electronics Limited (TVSE or the company), comfortable credit profile marked by strong debt protection metrics and the low gearing, and derisking strategy adopted for the distribution business model FY19 onwards. The ratings continue to draw strength from the strong parentage and brand equity of the TVS group, experienced and professional management, robust financial and risk management practices and various new business initiatives proposed, which are expected to improve the revenue and profitability and consequently strengthen the financial risk profile further. During FY19, the company took a strategic decision to shift from a large-volume and highly volatile, but low-margin online sales model (distribution business) to good-volume/value and risk-insulated offline sales. This was expected to result in the tapering of revenue growth FY20 onwards, but the margins were expected to improve from focus on value-added sales and services. Although during FY20, the expected benefits were not fully realised due to deferment in the launch of the Electronic Data Capturing (EDC) terminal business and Value-Added Services (VAS) products, revenue generation from these new products/services is expected to commence during the current year, thereby improving profitability margins. The rating strengths remain constrained by the lower-than-expected performance, exposure to intense industry competition and technological obsolescence risks.

Brickwork Ratings (BWR) takes note of the potential impact of the Covid-19 pandemic on the business and financial profiles of TVSE. The Covid-19-imposed shutdown and adverse impact on economic growth is likely to weigh on the sector, given the slowdown in various user industries. In view of the COVID-19 pandemic, the company halted operations at all its manufacturing plants and its offices from 24 March 2020 until 3 May 2020. The pandemic has affected supply of components to manufacturing facilities and the volume of business in the servicetec segment. The company partially resumed its operations at its manufacturing plants and offices from 4 May 2020 in accordance with guidelines issued by the central/state government and local authorities. The company has not opted for the Covid-19-related RBI moratorium package in view of sufficient liquidity to carry out business operations with undrawn working capital bank lines and adequate cash and cash equivalents.

BWR believes TVSE's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to Negative with lower-than-expected revenue/cash accruals or a deterioration in profitability/debt indicators and/or significant increase in operating cycle, especially in view of Covid-19-related disruptions, a deterioration in the capital structure due to debt-financed capital expenditure and the high utilisation of working capital funding, thus weakening the company's financial risk profile. BWR is actively engaging in discussions with the management for updates on the impact of the pandemic on the operations and liquidity and shall assess the impact on the credit risk profile at the appropriate time.

Key rating drivers

Credit Strengths:

Experienced management and established market position - TVSE has an operational track record of over three decades and is a part of TVS Group, an established and reputed business group. The company has an experienced and professional management team with the support of TVS Group, managed by Mr Gopal Srinivasan. The company's robust internal control and risk management systems are expected to mitigate possible risks on price movements and technological obsolescence.

Long-term agreements with reputed brands - The company has entered long-term agreements with various reputed mobile phone (HTC, Samsung, Xiaomi) and laptop (HP, Dell, Samsung) brands for their service and distribution networks. This gives revenue visibility for their services and distribution businesses.

IT products and technical services - The IT products and technical services business lines have been delivering consistent revenue growth and margin improvement. The company has bagged new enterprise orders to install and service EDC terminals. TVSE had earlier planned to execute the B2C model under the EMI scheme for selling EDC terminals during FY20. However, as the EMI scheme did not appear beneficial, the company is exploring alternate options to execute this, which is expected to materialise during FY21. The services business unit is adding new B2B partnerships, including global and national brands, besides expanding the company's existing alliances. It is also penetrating into new device categories such as consumer electronics (air conditioners, television sets, washing machines, refrigerators) and expanding the reach significantly through partner service networks.. By exit Mar 20, TVSE was operating out of 86 own service centres and 145 partner centres. Besides directly/indirectly operating over 200 service centres for servicing third-party brands, TVSE aims to enhance its focus on B2C services by launching value-added services directly to the end consumer under the name TVS-E Assure. VAS covers service offerings such as extended warranty, accidental damage protection and one-time screen replacement. TVSE has also forayed into e-waste management through setting-up the new repair facility in Tumkur (Karnataka) and leveraging it to carry out L3 & L4 repairs and e-refurbishment. The take-off in consumer electronics is expected to generate growth for the technical services business as there are a very few national players in this segment.

Distribution business partnership with Xiaomi - Although in July 2018, the company exited the online distribution agreement with Xiaomi, the relationship continues with Xiaomi for offline distribution through retail outlets and providing warranty and repair management services for their products. The company had planned to commence its offline distribution retail outlets business by opening around five branded mobile sales stores under Franchisee Owned Company Operated (FOCO) model during FY20. Of this, three branded mobile sales stores have been opened and the opening of the remaining two did not happen as planned due to strategic decisions of the brand. However TVSE expects the store opening during H2FY21. This decision of shifting from online to offline was taken by the company in due consideration of various market and technology risks.

Business plans and new initiatives - As a part of various government initiatives such as Make in India and National Policy on Electronics 2019 (NPE 2019), the company plans to tie-up with OEMs for the expansion of both products and services. TVSE also plans to strengthen the scanner products portfolio with RFID scanning capabilities and its related solutions for manufacturing, logistics and warehousing. Orders for large projects of Life Insurance Corporation of India and Indian Railways are expected to continue in the coming years. In addition, projects are being signed up with leading brands for Infra Managed Services. TVSE is also targeting the medical devices market and has started to explore opportunities in the medical devices segment for repair and maintenance services in a phased manner. TVSE is discovering opportunities in the security and surveillance industry. In view of the Covid-19 outbreak, TVSE is exploring opportunities for adding new product lines such as temperature screening devices and sanitizing devices. Additionally, the company aims to bring in more regional repair centres, aiming to reduce the company's logistics and transportation costs alongside ensuring faster customer service.

Consistent financial risk profile - As estimated, the company's strategic decision to shift from the large-volume low-margin online distribution business to offline sales, resulted in the tapering of revenue growth from FY20. The total operating income for FY20 was Rs. 258.72 Cr, against Rs. 2756.84 Cr for FY19. During FY19, 92% of the total revenue was from the distribution business (~Rs. 2536 Cr). EBITDA margin (4.22% for FY20, against 0.66% for FY19) and cash profit have improved post the change in business model, taken in FY19. EBITDA and PAT were Rs. 10.91 Cr and Rs. 0.39 Cr, respectively, for FY20, against Rs. 18.16 Cr and Rs. 7.44 Cr, respectively, for FY19. The company’s financial risk profile is comfortable, marked by comfortable debt protection metrics and low gearing levels. ISCR and DSCR were comfortable at 4.62 times and 5.57 times, respectively, for FY20. The tangible networth (TNW) was Rs. 63.90 Cr as on 31 March 2020, against Rs. 67.65 Cr as on 31 March 2019. The reduction in networth as on 31 March 2020 was on account of the payment of dividend and interim dividend (~Rs 3.30 Cr each) during the year. Considering intangible assets in the form of business rights related to the servicetec business, having an indefinite useful life, with a carrying value of Rs. 15.18 Crs as on 31 March 2020 as part of the networth, the adjusted TNW was Rs. 79.08 Cr as on 31 March 2020. Total debt/Tangible net worth and Total debt/Adj TNW were healthy, at 0.32 times and 0.26 times, respectively as on 31 March 2020. The company does not have any long-term debt.

Credit Constraints

Lower-than-expected performance in terms of revenue and net profitability during FY20 - The company has achieved Rs. 258.72 Cr for FY20 which was lower-than-expected, due to the deferment in the launch of certain products/services and the Covid-19 impact. EBITDA of Rs. 10.91 Cr for FY20 was also lower due to the dip in revenue and incurrence of additional expenses towards future expansion and new business that is expected to take-off in FY21. The servicetec segment, which contributes ~30% of the revenue and around 6-7% of the operating level profit, suffered a loss during Q4FY20 due to the Covid-19 impact. The company hired service engineers, anticipating the increase in service call volumes, under the fixed cost model for the payment. Due to this, in view of the call drop during Q4FY20, the cost per call has gone up significantly. However, subsequently, the company has shifted to a variable cost model, which is expected to save expenses to a significant extent. Additionally, the company presently uses freelancers as a cost cutting measure. These steps are expected to improve profitability in the services segment, going forward. Furthermore, as per IndAS, lease expenses were accounted for as depreciation, and the depreciation for FY20 was Rs. 10.40 Cr, against Rs. 3.68 Cr for FY19. In addition, there was a non-cash non-operating expense of Rs. 3.50 Cr in the form of the impairment of intangible assets (business rights), resulting in low PAT for FY20 at Rs. 0.39 Cr. Over the long term, the increasing share of value-added segments is expected to support margin expansions.

Intense competition – The company operates in an intensely competitive and fragmented electronics industry. However, TVSE benefits on account of its strong brand presence and long-term relationship with reputed clients.

Exposure to technological obsolescence risks - The company deals in the technology products and services, which require frequent updations and calls for additional investment.

Impact of COVID-19 and general market slowdown - The entire economy across various sectors is witnessing an ongoing slowdown due to the Covid-19 impact. Muted demand from end-user industries is expected to have a direct impact on TVSE's business profile. During the lockdown period, service call volumes dropped significantly and additional expenses were incurred on account of hiring new service engineers on account of anticipated business growth, which did not materialise, leading to revenue loss during Q4FY20. The impact on planned production and volume of business is likely to continue for a short term. However, in the post-Covid scenario, demand for IT/ITES products and services is expected to grow, which will be beneficial for the company.

Analytical approach and Applicable Rating Criteria
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 subsidiaries.

Rating sensitivities:

The ability of the company to successfully implement and stabilise its revised distribution business model, improve its profitability and strengthen its business profile despite the impact of COVD-19-related disruptions would be key rating sensitivities.

Positive

- Substantial growth in revenue and profitability, strengthening the financial risk profile
- Materialisation of new business initiatives with an increase in revenue and profitability as planned

Negative

- Prolonged impact of Covid-19, affecting revenues and cash flows due to a disruption in production and demand, leading to material deterioration in its financial risk profile and liquidity
- Significant deterioration in profitability margins and/or significant debt-funded capex

Liquidity - Adequate: The company's liquidity position is adequate, as seen in the average working capital utilisation of below 50% during the last 12 months. The company has a drawing power of Rs. 45 Cr, of which Rs. 25 Cr is fund-based, with a current utilisation of 68%, thereby providing adequate buffer in the form of undrawn banklines. Cash and cash equivalents were around Rs 14 Cr as on 31 May 2020 (including FD and mutual fund). The Current Ratio was 1.21 times, and Net Cash Accruals/Total Debt was 0.44 times as on 31 May 2020. A significant reduction in trade payables from ~Rs 930 Cr as on 31 March 2018 to ~Rs. 58 Cr (31 March 2019) and ~Rs. 53 Cr (31 March 2020), on account of the change in distribution business model, helped in maintaining the TOL/TNW at comfortable levels. The TOL/TNW was 1.21 times as on 31 March 2020 as against 0.89 times as on 31 March 2019 (11.34 times as on 31 March 2018). The cash conversion cycle was (43) days as on 31 March 2020 due to high days payables and low days receivables. The company does not have long-term borrowings as on date. In view of the adequate liquidity position, the company has not opted for the RBI moratorium relief package.

About the Company

TVS Electronics Limited (TVS-E), Chennai, is a part of the TVS group, managed by Mr Gopal Srinivasan, who also heads TVS Capital Funds Ltd. Founded in 1986 as an IT peripheral manufacturer, it is now a leading Transaction Automation IT Product manufacturer and service provider. TVSE has its production/repair facilities based at Dehradun (Uttarakhand), Chennai (TN) and Tumkur (Karnataka). The company is listed on the BSE and NSE. TVS-E's business consists of three revenue segments viz., (a) Products & Solutions (b) Customer Support Services and (c) Distribution & Fulfillment 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 (QSR). The company has entered long-term agreements with various reputed mobile phone (HTC, Samsung, Xiaomi) and laptop (HP, Dell, Samsung) brands, for their service and distribution networks.

Mr. Gopal Srinivasan is the Chairman, and Mrs. Srilalitha Gopal is the Managing Director. Mr. D Sundaram, Mr. M Lakshminarayan, Mr. M F Farooqui, Mr. R S Raghavan, Mr. K Balakrishnan, Dr. V Sumantran and Mrs. Subhasri Sriram are the other directors.

Key Financial Indicators

Particulars	**31 Mar 2019**	**31 Mar 2020**
Result Type	**Audited**	**Audited**
Total Operating Income (Rs Crs)	2756.84	258.72
EBITDA (Rs Crs)	18.16	10.91
PAT (Rs Crs)	7.44	0.39
Tangible Net Worth (TNW) (Rs Crs)	67.65	63.90
Adjusted TNW	86.98	79.08
Total Debt/TNW (Times)	0.00	0.32
Total Debt/Adj TNW (Times)	0.00	0.26
Current ratio (Times)	1.36	1.21

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] :

Sl. No.	**Facility**	**Current Rating (June 2020)**			**Rating History***		
		Tenure	**Amount (Rs Crs)**	**Rating**	**02May2019^**	**02 Mar 2018^^**	**01-Feb-2017^^^**
1.	**Fund based** OCC/ ODBD/ WCDL	Long term	25.00	BWR A-/ Stable Reaffirmed	BWR A-/Stable	BWR BBB+/ Positive	BWR BBB+/ Stable
2.	**Non Fund based** BG/LC	Short term	21.00	BWR A2+ Reaffirmed	BWR A2+	BWR A3+	BWR A3+
	Total		**46.00**	**Rupees Forty Six Crores Only**			

*Initial ratings of BWR BBB-/Stable/A3 were assigned on 04 Feb 2013 for the bank loan facilities of Rs. 121.60 crs, Subsequently the ratings was upgraded to BWR BBB/Stable/A3 on 10 Sep 2014 (Rs. 108.24 crs) and to BWR BBB+/Stable/A3+ on 10 Dec 2015 (Rs. 103.60 crs)

^Amount rated: Rs 47.00 Crs; ^^Amount rated: Rs 101.60 Crs; ^^^ Amount rated: Rs 106.60 Crs

Complexity Levels of the Instruments
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 (TVS-E)

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 Bank	Cash Credit/WCDL	15.00	-	15.00
		BG/LC/LCBD	-	20.00	20.00
2	RBL Bank	Cash Credit/WCDL	10.00	-	10.00
		BG/LC-Sub limit	-	(10.00)	(10.00)
		LER	-	1.00	1.00
Total - Rupees Forty Six Crores Only					**46.00**

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