Rating Rationale

TVS Electronics Limited (TVS-E)

02 May 2019

Brickwork Ratings upgrades ratings to BWR A-/A2+ for the bank loan facilities of Rs 47.00 Crs of TVS Electronics Limited ('TVS-E' or the 'Company')

Particulars:

Facilities #	Amount (Rs Crs) Previous	Amount (Rs Crs) Present #	Tenure	Rating[1] Previous	Rating[1] Present
Fund Based: Cash Credit/ OCC/ODBD/WCDL	45.00	26.00	Long term	BWR BBB+ (Pronounced as BWR Triple B Plus) (Outlook: Positive)	BWR A- (Pronounced as BWR Single A Minus) Outlook: Stable **Upgraded**
Non-fund Based: Bank Guarantee/ LC/ILC/FLC	56.60	21.00	Short term	BWR A3+ (Pronounced as BWR A Three Plus)	BWR A2+ (Pronounced as BWR A Two Plus) **Upgraded**
Total	**101.60**	**47.00**	**Rupees Forty Seven Crores Only**		

#Annexure I shows details of bank loan facilities
[1]*For definitions of the rating symbol please visit our website* www.brickworkratings.com

Ratings upgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18, 9MFY19 unaudited financials, publicly available information and information/ clarifications provided by the Company's management.

The ratings upgrade reflects the consistent overall business and financial performance of the company, comfortable credit profile marked by strong debt protection metrics and low gearing and the derisking strategy adopted for the distribution business model from FY19 onwards. The ratings continue to factor the strong parentage of the TVS group, brand equity of the company, experienced and professional management and robust financial and risk management practices. During FY19, the company has taken a strategic decision to shift from large volume, highly volatile but low margin online sales model (distribution business) to good volume / value and risk insulated offline sales. Though this is expected to result in tapering of revenue growth from FY20 onwards, the margins are expected to gather momentum from focus on value added sales & services. The rating strengths are partially offset by the exposure to intense industry competition and technological obsolescence risks.

Going forward, the ability of the company to successfully implement and stabilise its revised distribution business model, improve its profitability and strengthen its business profile would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes **TVS Electronics Limited'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 profitability and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative with lower-than-expected revenue/cash accruals or deterioration in profitability/debt indicators arising from any major debt-funded capital expenditure or significant increase in operating cycle.

Key rating drivers

Credit Strengths:

Experienced management and established market position: TVS-E has an operational track record of over three decades and is a part of the 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 the possible risks on price movements, technological obsolescence etc.

Strong credit profile: The Company's credit profile is strong marked by comfortable debt protection metrics and low gearing levels. ISCR and DSCR were comfortable at 17.57 times and 5.64 times respectively for FY18. Total debt/ Tangible net worth was healthy at 0.04 times as on March 31 2018. The Company does not have any term loans and has also significantly decreased its external borrowings over the last 3-4 years. Total operating income and PAT improved to Rs 4177.98 Crs and Rs 16.24 Crs for FY18 respectively as against Rs 2523.16 Crs and Rs 6.33 Crs for FY17. The company has reported a Revenue of Rs 2,703 Crs and EBITDA of Rs 14.01 Crs for 9MFY19 (unaudited). Over the long term, the increasing share of value-added segments is expected to support margin expansions.

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

Strong distribution business- Although, in July 2018, the Company has exited the online distribution agreement with Xiaomi, the relationship continues with Xiaomi for offline distribution through retail outlets and providing the warranty and repair management services for their products. The Company plans to commence its offline distribution retail outlets business by opening around 5 branded mobile sales stores under Franchisee Owned Company Operated (FOCO) model during Q1FY20. Of this, 3 branded mobile sales stores have been opened and the process of opening 2 more stores is underway. This decision of shifting from online to offline was taken by the company, duly considering various market & technology risks.

IT Products and Technical Services: The IT Products and Technical Services business lines have been delivering good revenue growth and margin improvement. The company has bagged new enterprise orders to install and service EDC terminals, Air Conditioners, TVs and IT assets. The Products line has introduced over 5 new devices in the last year. 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 like Consumer Electronics (AirConditioners, Television sets, Washing Machines, Refrigerators) and expanding the reach significantly through partner service network. This unit is powered with advanced cloud based mobile technology that automates allocation of service calls over 15,000 pincodes (out of India's 19,000 pincodes) after identifying availability of nearest service agent and empowers them to track every call, its part requirement, servicing tips, collection of service charge and final closure from their mobile phones. As there are very few national service providers in India who have such IT capabilities, TVS-E is gaining faster traction in this space. The service call volumes have grown from 100,000 pm last year to 150,000 pm and is estimated to grow further over 200,000 pm in the forthcoming year. By exit Mar 19, TVS -E Services was operating out of 81 own service centres and 130 partners centres. The expansion plan during FY20 includes adding own service centres and partner centers in FY20. Besides directly/indirectly operating over 200 service centres for servicing 3rd party brands, TVS-E will also enhance its focus on B2C services by launching Value Added Services directly to end consumers. VAS covers service offerings like Extended Warranty, Accidental Damage Protection, One time screen replacement etc. TVE-e is also planning to foray into eWaste management in FY20, whereby it can help bulk electronic goods consuming enterprises and OEMs to effectively discard their eWaste and meet the new regulations imposed by the Central Pollution Control Board. This proposed business line will require moderate investment in setting up eWaste segregation and refurbishment. The take-off in consumer electronics is expected to generate considerable growth potential for the technical services business, as there are a very few national players in this segment

Credit Constraints

Low profitability - PAT and operating margins were low at 0.39% and 0.60% respectively for FY18, inherent to the nature of business. Going forward, the margins are expected to expand with the scaling up of the margin-accretive new product & services segments.

Intense competition – The Company operates in an intensely competitive and fragmented electronics industry. However, TVS-E benefits on account of its strong brand presence.

Liquidity - Comfortable: The Company's liquidity position is comfortable as seen in the moderate working capital utilization of around 50% during the last 12 months, thereby providing adequate buffer in the form of undrawn bank lines. The stocking requirements are high given the company's wide reach and credit sales as inherent in the distribution business, nevertheless, with tighter control on credit terms and inventory holdings, the working capital cycle remains comfortable. Trade payables were high (around

Rs 930Crs) as on Mar 31 2018, due to the high volume online distribution business - this had resulted in a high TOL/TNW ratio and a relatively low Current Ratio of around 1.02 times as on March 31 2018. However, the change in distribution business model is expected to significantly reduce the trade payables position going forward (around Rs 60 Crs). The company estimates a reduction in TOL : TNW ratio from ~ 11 times by exit FY18 to ~0.5 times by exit FY19E and an improvement in Current Ratio to around 1.35 times as on March 31 2019. Cash and cash equivalents were around Rs 39.50 Crs as on March 31 2018 and ~ Rs 16.40 crs as on Dec 31 2018 (unaudited). Borrowings are low and the cash accruals are expected to comfortably service the debt obligations.

Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). In March 2019, the company has entered into a Share Purchase Agreement for disposing off its entire shareholding in its subsidiary M/s Benani Foods Pvt ltd and hence, presently the company does not have any subsidiaries.

About the Company

TVS Electronics Limited (TVS-E), Chennai, is a part of TVS group managed by Mr Gopal Srinivasan who also heads the TVS Capital Funds Ltd. Founded in 1986 as an IT peripheral manufacturer, it is now a leading Transaction Automation IT Product manufacturer & service provider. The production facilities are at Uttarakhand and Tumkur. The Company is listed on BSE & NSE. TVS-E's business comprises of three revenue segments viz., (a) Manufacturing and sale of IT Products, (b) Technical Services including associated sale of spares and (c) Distribution of smart mobile phones and accessories. During FY18, the Company's major revenue was generated through its Distribution business (94%) and the balance 6% was derived from sale of IT products and Technical services business. However, in July 2018, the Company has exited its agreement with Xiaomi, for online distribution of phones, and instead it has entered into an agreement with Xiaomi, for offline distribution of phones through retail outlets, starting from FY20. This shift in business model has resulted in fall of revenues from FY19. TVS-E has about 80 centers in India for their Technical Services business segment. During the year, as part of consolidation exercise, the Company shifted its small PoS products manufacturing facility from Oragadam, Chennai to its main facility at Dehradun.

During FY18, Hon'ble National Company Law Tribunal (NCLT), vide its order dated 27th March 2018 has sanctioned the Scheme of Amalgamation of Prime Property Holdings Limited (PPHL), its wholly owned subsidiary with the Company. The Scheme came into effect from 29 March 2018. During FY19 (March 2019, the company has sold its investments in its subsidiary, M/s Benani Foods Pvt Ltd.

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. Narayan K Seshadri, Mr. R S Raghavan, Mr. K Balakrishnan, Dr. V Sumantran and Mrs. Subhasri Sriram are the other Directors on the Board of the company.

Standalone Financial Performance

Revenue from operations improved to Rs 4177.98 Crs in FY18 as against Rs 2523.16 Crs in FY17 mainly due to higher revenues from scanners & PoS machines and online distribution business. Profit after tax improved to Rs 16.24 Crs in FY18 from Rs 6.33 Crs in FY17. Tangible net worth improved to Rs 83.44 Crs as on March 31 2018, as against Rs 67.28 Crs as on March 31, 2017. On an unaudited basis, the Company has achieved net revenue of around Rs 2700 Crs for 9MFY19. Key financial indicators are summarized in Annexure II.

Consolidated Financial Performance (FY18)

The Company has disposed of its investments in its subsidiary Benani Foods Pvt Ltd [a manufacturer of food products such as idly/ Dosa batter, vada batter, Idiyappam, and cooked idly (Ready to eat)], on 22 Mar 2019, at consideration of Rs. 1.63 crs. The revenue contribution from the subsidiary was only 0.1% (Rs 4.44 Crs) and it was loss making. Hence, at consolidated level, revenue from operations and PAT stood at Rs 4180.98 Crs and Rs 15.00 Crs respectively for FY18.

Status of non-cooperation with other CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (May 2019)			Rating History*			
		Tenure	Amount (Rs Crs)	Rating	02-Mar-2018^	01-Feb-2017^^	2016	10-Dec-2015#
1.	Fund based	Long term	26.00	BWR A- [Pronounced as BWR Single A Minus] Outlook: Stable Upgraded	BWR BBB+ [Pronounced as BWR Triple B Plus] Outlook: Positive Reaffirmed & Outlook revised to Positive	BWR BBB+ [Pronounced as BWR Triple B Plus] (Outlook: Stable) Reaffirmed	-	BWR BBB+ [Pronounced as BWR Triple B Plus] (Outlook: Stable) Upgraded
2.	Non Fund based	Short term	21.00	BWR A2+ [Pronounced as BWR A Two Plus] Upgraded	BWR A3+ [Pronounced as BWR A Three Plus] Reaffirmed	BWR A3+ [Pronounced as BWR A Three Plus] Reaffirmed	-	BWR A3+ [Pronounced as BWR A Three Plus] Upgraded
	Total		**47.00**	**Rupees Forty Seven Crores Only**				

*Initial ratings of BWR BBB-(Outlook: 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(Outlook: Stable)/A3 on 10 Sep 2014 for the bank loan facilities of Rs. 108.24 crs.
^Amount rated: Rs 101.60 Crs; ^^Amount rated: Rs 106.60 Crs; # Amount rated: Rs 103.60 Crs

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

Facilities	IDFC Bank	Canara Bank	RBL Bank	Total (Rs Crs)
Fund Based: Cash Credit/OCC/ODBD/WCDL	15.00	1.00	10.00	**26.00**
Non-fund Based: Bank Guarantee/LC/ ILC/FLC	20.00	-	1.00	**21.00**
Total (Rs Crs)	**35.00**	**1.00**	**11.00**	**47.00**

TVS Electronics Limited (TVS-E)
Annexure II
Key Financial Indicators

Particulars	**31/Mar/2017**	**31/Mar/2018**
Result Type	**Audited**	**Audited**
Total Operating Income (Rs Crs)	2523.16	4177.98
EBITDA (Rs Crs)	15.38	24.95
PAT (Rs Crs)	6.33	16.24
Tangible Net Worth (Rs Crs)	67.28	83.44
Total Debt/TNW (Times)	0.35	0.04
Current ratio (Times)	0.97	1.02

For print and digital media
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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings
Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the

Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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