

## FOR IMMEDIATE RELEASE

August 05, 2019

### Tata Motors Finance Solutions Limited: Long-term rating downgraded; short-term ratings reaffirmed

#### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt Programme	200.00	200.00	[ICRA]AA-(negative); downgraded from [ICRA]AA(negative)
Perpetual Debt Programme	100.00	100.00	[ICRA]A(negative); downgraded from [ICRA]A+(negative)
Commercial Paper	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>2,800.00</b>	<b>2,800.00</b>	

#### Rationale

ICRA's ratings for Tata Motors Finance Solutions Limited (TMFSL). are based on its parentage in the form of TMFHL (rated [ICRA]AA-(Negative)/[ICRA]A1+), a subsidiary of Tata Motors Limited (TML, rated [ICRA]AA-(Negative)/[ICRA]A1+) and the demonstrated support from the parent in the form of equity infusion, management and systems. The revision in long-term ratings for TMFL follows the revision in the long-term ratings of TML to [ICRA]AA-(negative) from [ICRA]AA(negative). TMFSL's operations benefit from the strong board oversight by TML, common treasury with Tata Motors Finance Limited (TMFL, rated [ICRA]AA-(Negative)/[ICRA]A1+) and a shared brand name. ICRA notes that TMFSL is strategically important to TML given its role in dealer financing, vendor financing, channel finance business (collectively called as Corporate Lending Business) and used vehicle financing and thus expects TML to continue to support TMFSL through TMFHL to enable it to maintain a prudent capital structure, while maintaining its majority ownership. TMFSL has adequate net worth and comfortable gearing, for its current scale of operations. While arriving at the ratings, ICRA has considered the consolidated performance of TMF Holdings Limited (TMFHL) and its subsidiaries (TMFSL and Tata Motors Finance Limited (TMFL)) given the strong operational and financial synergies between the companies. Going forward, the company is expected to further leverage TMFL's branch and customer network, and the group's management and systems as it increases its business volumes.

#### Outlook: Negative

The rating for TMFSL draws significant strength from its ultimate parent Tata Motors Limited (rated at [ICRA]AA-(negative) and [ICRA]A1+). The outlook may be revised to 'Stable' if there is any change in TML's credit profile and hence the likelihood of support to TMFSL. Ability to grow the loan book while maintaining the asset quality and solvency indicators will remain a key rating sensitivity.

#### Key rating drivers

#### Credit strengths

**Strategic importance to TML and the demonstrated support from the parent in the form of regular capital infusion** – ICRA's ratings for TMFSL are based on its strong parentage, with TMFHL (rated at [ICRA]AA-(negative)/[ICRA]A1+) being the holding company and the demonstrated support from the parent in the form of equity infusion, management and systems. ICRA notes that TMFSL is strategically important to TML given that its role in dealer financing, vendor financing,

channel finance business and used vehicle financing ICRA expects TMFHL to continue to support TMFSL to enable it to maintain a prudent capital structure, while maintaining its majority ownership.

**Adequate capitalisation and financial flexibility by virtue of being a part of the TML group-** As on March 31, 2018, TMFSL had a net worth of Rs. 1,165 crore under iGAAP. The net worth as per Ind-AS as on March 2018, is reported at ~Rs. 1,060 crore primarily on account of adjustments for impairment provision as per Expected Credit Loss (ECL) model to the amount of Rs. 101 crore. As on March 31, 2019, TMFSL had a net worth of Rs. 1,158 crore as per Ind AS with a moderate gearing of 4.93 times and a reported capital adequacy ratio of 17.93% (Tier-I of 15.05%) as on March 31, 2019, which is adequate in relation to regulatory requirements. By virtue of being a part of the Tata Group, the company enjoys considerable financial flexibility to raise long term funding at competitive rates. As on March 31, 2019, the company's borrowing profile comprised a mix of bank facilities, commercial paper and Others. As for liquidity profile, the company has sufficient bank lines to bridge the gaps in the short-term buckets Further, ICRA also expects support from the parent to be forthcoming, as and when need arises.

**Access to business volumes in the used Commercial Vehicle (CV) segment through financing of TMFL's repossessed stock-** TMFSL has been focusing a large share of the incremental business in the used CV segment, including providing a market for TMFL repossessed stock in order to improve realizations. This will help in improving the consolidated group level profitability.

## Credit challenges

**Ability to profitably grow business in used CV and corporate lending (CLG) segments -** During FY2018, the manufacturer guaranteed portfolio of TMFSL wherein the contracts were backed by 100% loss cover arrangement with TML were written off and the outstanding amount was receivable from TML, which was subsequently bought by TMFHL. With entire manufacturer guaranteed book written off, the portfolio declined substantially from Rs. 4,814 crore as on March 31, 2017 to Rs. 2,464 crore as on September 30, 2017 with used vehicles and CLG forms major part of the book. The portfolio increased to Rs. 5,805 crore as on March 31, 2019 with strong growth in used vehicle and corporate lending business which accounted for 56% and 44% of the portfolio respectively as on March 31, 2019. Going forward, ICRA expects the TMFSL to continue to grow the business volumes by leveraging on the market position of TML in commercial vehicles market in India.

**Moderate profitability impacted by high credit costs; improvement in profitability expected over medium term -** During FY2019, TMFSL reported a net profit of Rs. 99.43 crore on a total income of Rs. 604.73 crore as against net loss of Rs. 64.48 crore on a total income of Rs. 412.28 crore during FY2018. The Return on Assets (ROA) and Return on Equity (ROE) stood moderate at 1.68% and 8.97% respectively for the FY2019. Going forward, the profitability is expected to improve over a medium term with improved business volumes and hence better operating efficiencies, provided the credit costs remain under control.

**Moderate asset quality indicators; improvement in delinquency following write-offs-** During FY2018, the manufacturer guaranteed portfolio of TMFSL wherein the contracts were backed by 100% loss cover arrangement with TML were written off and the outstanding amount was receivable from TML. In addition to write-off, the expansion of loan book has led to improvement in TMFSL's asset quality indicators with gross and net NPAs of 0.96% and 0.67% respectively as on March 31, 2019 as compared to 1.37% and 0.87% respectively as on March 31, 2018 (47.20% and 39.32% respectively as on March 31, 2017). Going forward, the company's ability to manage its asset quality and improve its earnings would remain a key rating sensitivity.

## Liquidity Position:

The liquidity profile of the group is comfortable at a consolidated level. The asset liability maturity profile of TMFSL on standalone basis as on March 31, 2019 reflects positive mismatches across buckets after utilising lines of credit. As on March 31, 2019, outflows, over the next six months stood at ~Rs. 2,783 crore, while collections expected from loan assets inflows were ~Rs. 1,989 crore. However, the liquidity of the company is supported by cash and liquid investments of Rs. 1,593 crore upto 6 months, unutilised bank lines of ~Rs. 495 crore as at March 31, 2019 to meet the funding gaps and future funding requirements. Also, ICRA expects the support from TML to be forthcoming as and when required.

## Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Ultimate Parent/Investor: Tata Motors Limited TMFSL's rating is strongly linked to the expectation of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board.
Consolidation / Standalone	Consolidation. <i>Details mentioned in Annexure 2</i>

## About the company:

Tata Motors Finance Solutions Ltd (TMFSL, formerly Rajasthan Leasing Private Limited) is a non-banking financial company and a 100% subsidiary of TMF Holdings Limited. TMFSL is currently in the business of doing used vehicle financing of TML's vehicles and corporate lending business.

As on March 31, 2019 the company had a total portfolio of Rs. 5,805 crore (Rs. 3,928 crore as on March 31, 2018) which majorly comprises of used vehicles and corporate lending business. During FY2019, the company reported a net profit of Rs. 99.43 crore on a total income of Rs. 604.73 crore. March 31, 2019, the company had a net worth of Rs. 1,158 crore and reported gross and net NPAs of 0.96% and 0.67% respectively.

### TMF Holdings Limited

TMF Holdings Limited (TMFHL), a Core Investment Company, is the parent company of Tata Motors Finance Limited (TMFL) and Tata Motors Finance Solutions Limited (TMFSL). TMFHL is responsible for lending and investing in the Tata Motors Group companies. Following a restructuring of the TMF Group in FY2017, the new vehicle financing business of the Group is housed in TMFL (Formerly known as Sheba Properties Limited). The existing Corporate Lending Business and used vehicle financing business is housed in TMFSL.

During FY2019, TMFHL (standalone) reported PAT of Rs. 4 crore on an asset base of Rs. 7,100 crore as against a net loss of Rs. 26 crore on an asset base of Rs. 6,699 crore in FY2018 as per Ind-AS.

During FY2019, TMFHL (consolidated) reported a PAT of Rs. 164 crore on an asset base of Rs. 40,540 crore as against a PAT of Rs. 76 crore on an asset base of Rs. 28,971 crore in FY2018 as per Ind-AS.

### Tata Motors Limited

Incorporated in 1945, Tata Motors Limited (TML) is India's largest automobile company and the market leader in the domestic CV industry and one of the top five manufacturers of PVs in India. In the domestic CV industry, TML has one of the most diversified product portfolios with a presence spanning the light, medium and heavy-duty segments of the CV

industry. The company's product portfolio in the PV segment also spans the passenger car, utility vehicle (UV) and multi-purpose vehicle (MPV) segments.

In June 2008, TML acquired Jaguar Land Rover (JLR) from Ford Motor Company for \$2.3 billion. Following the acquisition, TML's business profile underwent a significant change from being a predominantly India-centric OEM to one with a presence in the premium and luxury car and SUV segments and across multiple markets in Europe, North America, China, Russia and Brazil. Apart from JLR, which is wholly-owned by TML and contributed ~80% to its consolidated turnover in FY2017, the company has also historically expanded both in India and overseas through strategic alliances and mergers and acquisitions. Some of its key subsidiaries include TMFL (vehicle financing subsidiary), Tata Technologies Limited (a software firm that provides IT solutions to the automotive industry), Tata Daewoo Commercial Vehicles Company Limited (CV operations in South Korea) and TML Drivelines Limited (its captive auto component manufacturer). The company also operates joint ventures (JVs) with Marcopolo (for building bodies for buses and coaches) and Fiat (for PVs, engines and transmissions).

TML has six manufacturing plants in India - Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pantnagar (Uttaranchal), Dharwad (Karnataka) and Sanand (Gujarat). In addition, the company's key subsidiary, JLR, operates three manufacturing facilities and two design centres in the UK. In FY2013, JLR also formed a 50-50 JV with China-based Chery Automobiles to set up a manufacturing facility in China, which commenced operations in H2 FY2015. JLR has also announced its plans of setting up a manufacturing unit in Slovakia, which will gradually expand JLR's total production capacity over the medium term. Apart from these locations, as a Group, TML operates assembly operations at multiple global locations through its subsidiaries/JVs.

For FY2019, TML (standalone) reported a PAT of Rs. 2,021 crore on an asset base of Rs. 60,910 crore, against a net loss of Rs. 1,035 crore on an asset base of Rs. 59,212 crore for FY2018.

For FY2019, TML (consolidated) reported net loss of Rs. 28,724 crore on an asset base of Rs. 307,194 crore against PAT of Rs. 9,091 crore on an asset base of Rs. 331,350 crore for FY2018.

### Key financial indicators (Audited) - Tata Motors Finance Solutions Limited (Standalone)

Particulars	FY2018	FY2019
Total Income (Rs. crore)	412.28	604.73
PAT (Rs. crore)	(64.47)	99.43
Net worth (Rs. crore)	1058.26	1158.21
Total Loan book	3,928	5,805
Total Assets (Rs. crore)	4864.26	6948.87
Return on Assets (%)	NA	0.73%
Return on Equity (%)	NA	8.28%
Gross NPA (%)	1.37%	0.96%
Net NPA%	0.87%	0.67%
Net NPA/Net worth (%)	3.23%	3.50%
CAR (%)	22.05%	17.93%

Source: Company; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Aug-19	FY2019			FY2018		FY2017
						Feb-19	Oct-18	May-18	Dec-17	Feb-17	Dec-16
1	Long-term Perpetual Debt	Long Term	100.00	0.00	[ICRA]A (negative)	[ICRA]A+ (negative)	[ICRA]A+ (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (stable)
2	Long Term-Subordinated Bonds	Long Term	200.00	0.00	[ICRA]AA- (negative)	[ICRA]AA (negative)	[ICRA]AA (stable)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (stable)
3	Commercial Paper	Short Term	2,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Subordinate Debt*	NA	NA	NA	200.00	[ICRA]AA- (negative)
NA	Perpetual Debt*	NA	NA	NA	100.00	[ICRA]A (negative)
NA	Commercial Paper	NA	NA	7-365 days	2,500.00	[ICRA]A1+

\*Unutilised

Source: Tata Motors Finance Solutions Limited

## Annexure-2: List of entities considered for consolidated analysis:

Tata Motors Finance Limited  
Tata Motors Finance Solutions Limited  
TMF Holdings Limited

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