Tata Motors Finance Solutions Limited
August 27, 2019

Ratings

Instruments/Facilities	Amount (Rs. crore)	Rating[4]	Rating Action
LT Bank Facilities	7,500 (Enhanced from Rs.4,000 crore) (Rupees Seven Thousand Five Hundred crore only)	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	**Revised form CARE AA; Stable (Double A; Outlook: Stable)**
Non-Convertible Debentures	1,000 (Rupees One Thousand crore only)	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	**Revised form CARE AA; Stable (Double A; Outlook: Stable)**
Subordinated Debt	200 (Rupees Two Hundred crore only)	**CARE AA-; Negative (Double A Minus; Outlook: Negative)**	**Revised form CARE AA; Stable (Double A; Outlook: Stable)**
Perpetual Debt	100 (Rupees Hundred crore only)	**CARE A; Negative (Single A; Outlook: Negative)**	**Revised form CARE A+; Stable (Single A Plus; Outlook: Stable)**
Commercial Paper	2,500 (Rupees Two Thousand Five Hundred crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term ratings of Tata Motors Finance Solutions Limited (TMFSL) follows a revision in the long-term ratings of the parent company Tata Motors Limited (TML) from 'CARE AA; Stable' (Double A; Outlook: Stable) to 'CARE AA-; Negative' (Double A Minus; Outlook; Negative).

The ratings assigned to debt instruments / bank facilities of TMFSL primarily factor in the parentage of Tata Motors Limited (TML), being a Tata group company and the strategic importance of TMFSL for the parent being a captive finance arm for TML, strong operational linkages underlined by demonstrated capital and management support as well as common brand name.

The ratings also continue to take into account TMFSL's well diversified resource profile and adequate capitalization levels. The ratings further factor in moderate asset quality of the group, adequate liquidity profile supported by the group's resource raising ability and moderate profitability parameters of the company.

Continued support from the parent (TML), asset quality, profitability and capitalization are the key rating sensitivities. The ratings of TMFSL draw significant strength from the ratings of TML. Any change in the credit profile resulting in a rating change of TML, would necessitate a similar rating action on the ratings of TMFSL.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and strategic importance for the parent

TMFSL is a wholly owned subsidiary of TMFHL which in turn is a wholly owned subsidiary of Tata Motors Limited (rated 'CARE AA-; Negative'). TML is the largest automobile manufacturer in Asia as well as largest commercial vehicle (CV) manufacturer in India. It is the leading player in the CV segment, with a market share of ~45.7% during nine months ended December 31, 2018. TML offers a broad portfolio of automotive products, with CVs ranging from sub-1 ton to 49-ton gross vehicle weight, trucks (including pickup trucks) to small, medium, and large buses and coaches to passenger cars and defense vehicles.

The auto finance companies (TMFSL and TMFL) and the holding company TMFHL are critical for TML for achieving their growth expectations and in creating demand in newer markets. The strategic importance is also underlined by the fact that TML has supported these companies in the past by way of providing limited / total credit loss cover for certain portion of the loan portfolio. The schemes have been discontinued since, with the existing portfolio of loans supported by subvention being a rundown of the loans originated under the scheme initially. TMFSL and TMFL would be critical in expanding into newer business areas like used vehicle financing and dealer/vendor financing and continued financial, operational and management support from TML is expected and is a key rating sensitivity.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Strong management and board of directors
The company's Board of Directors comprise of representatives from TML's senior management. Mr. Shyam Mani is the Managing Director of its parent TMFHL and is a Non-Executive Director in TMFL & TMFSL. Mr. Mani has experience across various functions, including manufacturing, procurement, finance and sales and marketing. Mr. Mani had also been the Vice President – Sales & Marketing for the Commercial Vehicles Business Unit of TML. Mr. P. B. Balaji took over as the non-executive Chairman of the Company in January 2018. Mr. Balaji took over as the Chief Financial Officer of Tata Motors Group from November 2017. Mr. Balaji has over two decades of experience in the corporate sector, having held finance roles across geographical markets in Unilever and Hindustan Unilever.

Strong operational linkages with TML
Being a captive financing arm of TML, it enjoys strong linkages and has relationship with the dealer network and preferred financier for most of its dealer network. Further, the Tata Group has shared its brand with its auto financing companies (TMFL and TMFSL).

Capital support from parent leading to adequate capitalisation
TML has been regularly infusing equity capital in TMFHL to support its business and to maintain adequate capitalization levels. On October 26, 2018, TML infused Rs.300 crore in TMFHL by way of subscription to equity shares allotted on Rights Issue basis and additional Rs.300 crore on January 30, 2019 In turn, TMFHL infused equity capital of Rs.150 crore in TMFL on February 28, 2019, and an additional Rs.150 crore on March 18, 2019. TMFHL further infused Rs.150 crore as equity in June 2019. TMFSL reported CAR of 18.30% and Tier I CAR of 15.42% as on March 31, 2019. The company reported CAR of 19.25% (Tier I CAR: 16.23%) as on June 30, 2019.

Diversified funding profile
TMFL's funding profile is well diversified with resources being raised from various avenues like non-convertible debentures, subordinated debt, perpetual debt, and commercial paper. Also, the company has bank lines from a variety of banks to meet its funding requirements. TMFSL's standalone gearing stood at 5.85x on March 31, 2019 as against 4.16x as on March 31, 2018 (basis IND AS).

Key Rating Weakness
Moderate asset quality
Asset quality parameters of the company have shown sign of improvement over the period. During FY18, TMFSL wrote off its Manufacturer Guaranteed Business (MGB) portfolio. The asset quality parameters improved further in FY19 (refers to period from April 01 to March 31) with the consolidated Gross NPA ratio and Net NPA ratio (as per regulatory norms) at 2.60% [P.Y.: 4.00%] and 1.38% [P.Y.: 2.74%] respectively. On a standalone basis, TMFSL reported Gross NPA ratio of 0.96% [P.Y.: 1.37%] and Net NPA ratio of 0.65% [P.Y.: 0.84%] as on March 31, 2019.
During Q1FY20, the company saw an increase in slippages. As a result, the company's standalone Gross NPA and Net NPA ratios stood at 1.71% and 1.21% respectively. As on June 30, 2019, consolidated Gross NPA and Net NPA ratios stood at 4.06% and 2.61% respectively.

Moderate profitability
There has been improvement in the overall performance of the group since FY18. During FY19, the total income of TMFHL (consolidated) grew 37% to Rs.3,975 crore [P.Y.: Rs.2,908 crore]. The company, on consolidated basis, reported Profit After Tax (PAT) of Rs.164 crore in FY19 as against PAT of Rs.76 in FY18. Consolidated Return on Total Assets (RoTA) for FY19 was 0.48% [P.Y.: 0.29 %].
On a standalone basis, the company reported PAT of Rs.99 crore on a total income of Rs.605 crore in FY19 as against net loss of Rs.64 crore on a total income of Rs.412 crore in FY18(basis IND AS). In Q1FY20 (refers to the period April 01 to June 30), TMFSL reported PAT of Rs.57 crore on a total income of Rs.187 crore on a standalone basis.

Moderate liquidity profile
The liquidity profile of TMFSL has been moderate and supported by back-up lines of credit from banks and refinance of loans as well as funding support from TML and other group companies. TMFSL, being the captive finance arm of TML, is expected to receive support from the parent on a continuous basis. Being part of the Tata Group, TMFSL also has the strength to mobilise funds to meet any liquidity requirements.

Analytical approach: Since TMFSL and TMFL are subsidiaries of TMFHL, CARE has taken a consolidated approach for assigning the ratings. Further, TMFHL's ratings derive significant support from the company's parentage of TML.
Liquidity Profile
TMFSL's asset liability maturity (ALM) profile as on July 31, 2019 has positive cumulative mismatches in up all time brackets to 3 months.

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings]
[CARE Policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Rating]
[Financial ratios - Financial Sector]
[Non-Banking Financial Companies]
[Criteria for Short Term Instruments]

About the Company

TMFHL

TMFHL, an erstwhile asset finance company and systemically important non-banking financial company, is a wholly owned subsidiary of Tata Motors Limited (TML, rated CARE AA-; Negative). Prior to March 2015, TMFHL's (formerly known as TMFL) loan portfolio comprised of financing Tata Motors manufactured vehicles. Being a strategically important subsidiary, TML has been extending support by way of capital from time to time. TML in order to increase its sales in the past has also given guarantee on some of the portfolio originated by TMFHL, wherein TML would bear entire losses in case of non-recovery (manufacturer guaranteed business). In March 2015, the company management initiated business restructuring as part of which its manufacturer guaranteed and used vehicle finance businesses were transferred to a new formed wholly owned subsidiary Tata Motors Finance Solutions Limited (TMFSL).
As per the scheme of arrangement (approved by the board of TMFHL during FY17 and NCLT on April 06, 2017), the new vehicle financing business of TMFHL has been transferred to TMFL (formerly known as Sheba Properties Limited). Its dealer/vendor financing business has been transferred to TMFSL. TMFHL has been converted into a core investment company (CIC) post the requisite approvals from RBI vide certificate of registration dated October 11, 2017. The name of the company has been changed to TMF Holdings Limited with effect from June 17, 2017. The CIC acts as holding company of the lending subsidiaries.

TML

Incorporated in 1945, TML is one of the leading automotive manufacturers in India. Essentially a CV manufacturer, TML forayed into manufacturing of passenger vehicles across all product segments viz compact, mid-size and utility in 1998-99, broadening the business horizon of the company. TML forayed into the premium luxury car segment through acquisition of JLR in June 2008, which has a presence across various geographies such as Europe, US, China, Russia and Brazil. Through its subsidiaries and associates, TML also has a presence in Thailand, South Africa, South Korea and Indonesia. The company's manufacturing base in India is spread across Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka). In addition, JLR has three manufacturing units and two product development centers in the UK.

TMFSL

TMFSL (formerly known as Rajasthan Leasing Pvt. Ltd.) is a wholly owned subsidiary of TMFHL which in turn is a wholly owned subsidiary of TML (rated 'CARE AA-; Negative'). At the end of FY15, TMFSL purchased the manufacturer (TML) guaranteed business and used vehicle finance business from TMFHL, on a slump sale basis. The objective of creating TMFSL was to have a dedicated focus for the manufacturer (TML) guaranteed business and used vehicle financing business and also to de-risk the balance sheet of TMFL. During the quarter ended September 30, 2017 TMFSL wrote off its manufacturer guaranteed business and is currently dedicated to used vehicle financing and dealer/vendor financing.

TMFL

TMFL is a majority owned subsidiary of TMFHL and is a systemically important NBFC classified as an asset financing company registered with RBI. As per the scheme of arrangement approved by the board of both companies, accepted and approved by NCLT, the new vehicle financing business of TMFHL has been transferred to TMFL w.e.f the close of business hours on January 31, 2017. The name of the company was changed from Sheba Properties Limited w.e.f. June 30, 2017.

Brief Financials (Rs. crore)*	Standalone (TMFSL)		Consolidated (TMFHL)	
	FY18 (A)	FY19 (A)	FY18 (A)	FY19 (A)
Total income	412	605	2,908	3,975
PAT	(64)	99	76	164
Total Tangible Assets^	4,682	6,746	28,632	40,117
Net NPA (%)	0.84	0.65	2.74	1.38
ROTA (%)	(1.25)	1.74	0.29	0.48

A: Audited
**As per IndAS*
^ Total assets excludes deferred tax asset and intangible assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities:

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-Long Term	-	-	05-Oct-23	7,500	CARE AA-; Negative
Debentures-Non Convertible Debentures – Proposed	-	-	-	1000.00	CARE AA-; Negative
Debt-Subordinate Debt	29-Mar-19	10.70%	29-Mar-29	100.00	CARE AA-; Negative
Debt-Subordinate Debt – Proposed	-	-	-	100.00*	CARE AA-; Negative
Bonds-Perpetual Bonds – Proposed	-	-	-	100.00	CARE A; Negative
Commercial Paper	-	-	7-365 days	2500.00	CARE A1+

**As on July 31, 2019*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debt-Subordinate Debt	LT	200.00	CARE AA-; Negative	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (25-Feb-19) 2)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (08-Jan-18) 2)CARE AA+; Stable (13-Apr-17)	-
2.	Bonds-Perpetual Bonds	LT	100.00	CARE A; Negative	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (25-Feb-19) 2)CARE AA-; Stable (08-Oct-18)	1)CARE AA-; Stable (08-Jan-18) 2)CARE AA-; Stable (13-Apr-17)	-
3.	Commercial Paper	ST	2500.00	CARE A1+	1)CARE A1+ (05-Jul-19)	1)CARE A1+ (25-Feb-19) 2)CARE A1+ (08-Oct-18) 3)CARE A1+ (01-Jun-18)	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (13-Apr-17)	-
4.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA-; Negative	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (25-Feb-19) 2)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (08-Jan-18) 2)CARE AA+; Stable (13-Apr-17)	-

5.	Fund-based/Non-fund-based-Long Term	LT	7500.00	CARE AA-; Negative	1)CARE AA; Stable (05-Jul-19)	1)CARE AA; Stable (25-Feb-19) 2)CARE AA+; Stable (08-Oct-18)	1)CARE AA+; Stable (08-Jan-18) 2)CARE AA+; Stable (22-May-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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