

Rating Rationale

February 01, 2024 | Mumbai

TMF Holdings Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Rs.2225 Crore Non Convertible Debentures	CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.1250 Crore Non Convertible Debentures	CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.195 Crore Perpetual Bonds	CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.305 Crore Perpetual Bonds	CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.1300 Crore Perpetual Bonds	CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.2500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term debt instruments of TMF Holdings Limited (TMFHL) to '**Positive**' from 'Stable' and has reaffirmed the rating at '**CRISIL AA**'. The rating on the commercial paper programme of TMFHL has been reaffirmed at 'CRISIL A1+'.

The revision in outlook is in line with the similar action on the outstanding ratings on the debt instruments of ultimate parent of TMFHL, Tata Motors Limited (TML; CRISIL AA/Positive/CRISIL A1+).

For arriving at the ratings, CRISIL Ratings has considered the consolidated business and financial risk profiles of TMFHL and its subsidiaries, Tata Motors Finance Limited (TMFL; 'CRISIL AA/CRISIL A+/Positive/CRISIL A1+') and TMF Business Services Limited (TMFBSL; 'CRISIL AA/Positive/CRISIL A1+'), given the integration of operations and commonality of management, together referred to as the TMF Group. The ratings continue to reflect the expectation of strong support from the ultimate parent TML to TMFHL and its subsidiaries: TMFL and TMFBSL.

The ratings also factor in the group's strong position in the commercial vehicle (CV) finance segment. However, these strengths are partially offset by moderate, albeit improving, asset quality of the portfolio.

TMFHL is a non-banking financial company core investment company (NBFC-CIC/CIC). RBI's Master Direction - Core Investment Companies (Reserve Bank) Directions 2016 (CIC Directions^[1]) prescribes that adjusted net worth of a CIC shall at no point of time be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year. Also, CIC Directions require that the outside liabilities of a CIC shall at no point of time exceed 2.5 times its adjusted net worth as on the date of the last audited balance sheet as at the end of the financial year.

With respect to perpetual debt instruments to be issued by a CIC, there are no specific regulations issued by RBI unlike that for a NBFC. Therefore, in order to analyse the critical aspects of this issuance, CRISIL Ratings has analysed the term sheet in order to ascertain the differences between the perpetual and other debt instruments of the company. The key difference between normal debt and perpetual debt for TMFHL are the lock-in features which allow coupon deferability if:

1. The ratio of its adjusted net worth to its aggregate risk weighted assets ("ANW Ratio") is below the minimum regulatory requirement under the CIC Directions; or the impact of such payment results in its ANW Ratio falling below or remaining below the minimum regulatory requirement prescribed under the CIC Directions
2. In the event that making of any Coupon payment by the Issuer may result in net loss or increase the net loss of the Issuer, the making of such of Coupon payment by the Issuer shall be subject to the prior approval of such governmental authority/ regulator, if applicable and such payment shall be made subject to such terms and conditions as may be prescribed by such authority/ regulator.

As per CIC Directions, TMFHL cannot consider the perpetual debt as part of Networth for the purpose of ANW Ratio, while it would be considered as part of Total Outside Liabilities for the purpose of Leverage Ratio. The adjusted networth to risk weighted assets (ANW ratio) of TMFHL is expected to be above 50% on steady state basis, although it stood at ~37.49% as on December 31, 2023.

With respect to the condition on net loss, there are no regulations currently applicable and hence this clause is not applicable as on date. Additionally, in the current term sheet, there is a coupon discretion clause. The clause provides that the payment of any coupon in respect of the perpetual bonds may be cancelled or suspended at the discretion of the Board of Directors of TMFHL. CRISIL Ratings does not expect TMFHL to exercise this discretion as it would have a direct bearing on the other debt instruments of the company and the TMF group's ability to raise future borrowings in the market.

Further, the rated perpetual bond issuances have an additional layer of comfort for investors with an option provider clause linked to parent, TML. If the investors decide to exercise the put option at pre-defined dates, there is an obligation on TML to purchase the perpetual bonds from the investor. However, from a rating perspective, the exercise of option only results in change of the holder of bonds from existing investor to TML and would not result in redemption/ extinguishment of the bonds.

Any change in regulations or guidelines governing perpetual debt instruments which may have an adverse impact on the instrument features will be a rating sensitivity factor.

^[1] "CIC Directions" shall mean the Master Direction - Core Investment Companies (Reserve Bank) Directions 2016 issued by the Reserve Bank of India, as the same may be amended, modified and replaced from time to time.

Analytical Approach

CRISIL Ratings has considered the consolidated business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFBSL, given the integration of operations and commonality of management. Furthermore, CRISIL Ratings has factored in expectation of strong support to TMF group from TML, because of TMF group's strategic importance to TML, being its captive financing arm.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

High strategic importance to and expectation of strong support from TML

The ratings on the debt instruments of TMF group are based upon the expectation of strong support from the ultimate parent TML. This is because of the high strategic importance of TMF group to its parent, given the group being captive financing arm of parent. TMFHL and its subsidiaries have a high level of managerial and operational integration, where the parent extends management support through representation of its senior management on the boards of TMFL and TMFBSL.

In the past, TML has infused equity capital into TMFHL at regular intervals. TML infused Rs 300 crore in fiscal 2018, Rs 600 crore in fiscal 2019 and Rs 150 crore in fiscal 2020. CRISIL Ratings believes TML will continue to provide similar support to the group through TMFHL, enabling the companies to maintain their capital adequacy above the minimum requirement.

The ANW of TMFHL is comfortable at 37.49% as on December 31, 2023, while capital adequacy ratio of TMFL is also comfortable at 22.05% as on December 31, 2023. CRISIL Ratings believes TMFL and TMFBSL will continue to receive need-based support from TML through TMFHL, to maintain their capital adequacy above the minimum requirement.

CRISIL Ratings has also taken note of the recent measures by Reserve Bank of India (RBI) covering the Banking and NBFC sector. Firstly, on the asset side for NBFCs, there is an increase in risk weights for unsecured consumer loans (including credit card receivables), by 25 percentage points to 125% from 100% earlier. This regulation applies to all retail loans except housing loans, vehicle loans, educational loans, loans against gold and microfinance/SHG loans. The increase in risk-weighted assets is unlikely to have any material impact on the capitalisation of the TMF group, given the nature of loans being provided by them.

Secondly, there is an increase in risk weights for Bank's exposure to NBFCs by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100%. Herein, loans to HFCs, and loans to NBFCs which are eligible for classification as priority sector are excluded. This development may potentially lead to an increase in the cost of bank borrowings for NBFC sector. This could lead to diversification in the borrowings mix with higher share of capital market instruments and ECBs, amongst others. The ability of NBFCs to pass on the potentially higher borrowing costs will be monitored.

Further, the recent circular by the Reserve Bank of India (RBI) pertaining to the investments made by regulated entities including non-banking financial companies (NBFCs) in Alternative Investment Funds (AIFs) is not expected to have any material impact.

Moreover, CRISIL Ratings also believes TML will continue to have majority ownership in TMFL through the holding company structure. This, along with operational integration and a shared brand name, makes TML morally obligated to support TMF group.

Leading position in commercial vehicle financing sector

TMF group is a leading commercial vehicle financier in India. Post demerger, the entire NBFC lending activities in TMF group is carried out under TMFL. The AUM of TMFL stood at Rs. 40,069 crore as on September 30, 2023. Given the captive nature of the business, TMF has a strong partnership with dealers of TML and provide them financing support as

well. Of the total AUM as on Sep 30, 2023, share of new vehicle financing portfolio stood at around 69%, while share of used vehicle financing portfolio stood at around 21% and corporate lending business portfolio stood at 10%. Over the last few years, the share of used vehicle financing for TMF group has increased from 13% in March 2021 to 21% as of Sep 30, 2023.

Weakness:

Moderate, though improving, asset quality

The asset quality metrics for TMF group were impacted owing to implementation of IRACP norms from October 2022 onwards. In first nine months of fiscal 2024, the asset quality metrics have improved although, remained elevated with GNPA and NNPA of NBFC business stood at 7.18% and 3.95% respectively as on December 31, 2023 (9.26% and 5.02% respectively as on March 31, 2023). The improvement is majorly on the account of continued strong collections and write offs (Rs. 762 crore (net of recoveries) in first nine months of fiscal 2024).

Going forward company's ability to manage its asset quality and improve profitability will remain key monitorable. CRISIL Ratings understands that the group is committed to bringing in additional equity capital to provide cushion against the asset side risk and maintain capitalisation metrics well within the regulatory thresholds. The overall rating continues to factor in expectation of timely financial and capital support from TML in case of any exigency.

Liquidity: Strong

TMFHL's asset liability maturity (ALM) profile shows cumulative positive mismatches up to 1 year maturity buckets as on December 31, 2023. On a consolidated basis for TMF group, as on December 31, 2023, the group had repayments of Rs 8,365 crore for the three months till March 2024 (of which Rs 1960 crore of CC/WCDL limits are expected to be rolled over). Against the same, the group had cash and liquid investments of Rs. 2255 crore and unutilised bank lines of Rs. 4389 (excluding cc/WCDL rollover) crore. TMFHL also has unutilised ICD lines of Rs 1,000 crore from TML on December 31, 2023. Apart from these company has G Sec and T Bill Investments of Rs 1090 crore kept for LCR requirements.

Outlook: Positive

The rating outlook on TMFHL is closely linked to the rating outlook on TML. CRISIL Ratings believes TMF Group will be strategically important to TML, being captive financiers, and will benefit from the financial and management support extended by TML. CRISIL Ratings will continue to closely monitor any development that can significantly alter the extent of support by TML to TMF group.

Rating Sensitivity Factors

Upward factors:

- Changes in the rating outlook or ratings on TML by 1 notch or higher may lead to similar changes in the rating outlook or ratings on TMF Group

Downward factors:

- Downgrade in the rating of TML by 1 notch or higher
- Any change in the support philosophy of TML, resulting in reduced support to the TMF group
- Sharp deterioration in the consolidated asset quality, impacting the profitability and capital level of the TMF group
- Any change in regulations or guidelines governing perpetual debt instruments which may have an adverse impact on the features of such instruments

About the Company

In March 2016, TMFHL acquired 100% stake in erstwhile TMFL (earlier Sheba Properties Ltd), a non-banking finance company registered with RBI, for Rs 405 crore from TML. As on March 31, 2016, erstwhile TMFL had total assets of Rs 205 crore, of which the investment portfolio constituted 94% of the assets or Rs 193 crore. With the implementation of the scheme of arrangement effective January 2017, the entire new vehicle finance business has been transferred from TMFHL to erstwhile TMFL.

Now with the demerger as on June 30, 2023, the entire NBFC business is carried out under TMFL. In fiscal 2023, the company on the consolidated basis reported net loss of Rs 1013 crore on total income (net of interest expenses) of Rs 2173 crore, as against a net profit of Rs 156 crore and total income (net of interest expenses) of Rs 2265 crore in fiscal 2022. On standalone basis the company reported net loss of Rs. 79 crore in first nine months of fiscal 2024 as against Ts. 52 crore loss in fiscal 2023.

Key Financial Indicators: (TMF Holdings Limited -standalone)

As on /for the year ended	Unit	December 31, 2023	March 31, 2023	March 31, 2022
Total assets	Rs crore	8651	9408	8307
Total income	Rs crore	139.2	199	315
Profit after tax (PAT)	Rs crore	-79	-62	54
ANW / Risk Weighted Assets	%	37.49	41.7	55.2

Key Financial Indicators (TMF Holdings Limited - Consolidated)

As on /for the year ended	Unit	March 31, 2023	March 31, 2022
Total assets	Rs crore	43,082	46,083
Total income	Rs crore	5057	4984
Profit after tax (PAT)	Rs crore	-1013	156
Gross NPA	%	9.3	9.7
Net NPA	%	5.0	5.8

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Amount (Rs.Crore)	Complexity Levels	Rating assigned with Outlook
INE909H08394	Perpetual Bonds	23-Jun-21	7.3029%	Perpetual	200	Highly Complex	CRISIL AA/Positive
INE909H08386	Perpetual Bonds	10-Jun-21	7.2962%	Perpetual	250	Highly Complex	CRISIL AA/Positive
INE909H08378	Perpetual Bonds	10-Mar-21	7.9926%	Perpetual	100	Highly Complex	CRISIL AA/Positive
INE909H08360	Perpetual Bonds	10-Mar-21	7.9944%	Perpetual	100	Highly Complex	CRISIL AA/Positive
INE909H08352	Perpetual Bonds	10-Mar-21	7.9947%	Perpetual	150	Highly Complex	CRISIL AA/Positive
INE909H08329	Perpetual Bonds	30-Dec-20	7.7499%	Perpetual	100	Highly Complex	CRISIL AA/Positive
INE909H08337	Perpetual Bonds	30-Dec-20	7.7505%	Perpetual	150	Highly Complex	CRISIL AA/Positive
INE909H08345	Perpetual Bonds	30-Dec-20	7.7475%	Perpetual	100	Highly Complex	CRISIL AA/Positive
INE909H08311	Perpetual Bonds	30-Dec-20	7.7541%	Perpetual	150	Highly Complex	CRISIL AA/Positive
INE909H08303	Perpetual Bonds	18-Aug-20	8.7551%	Perpetual	305	Highly Complex	CRISIL AA/Positive
INE909H08295	Perpetual Bonds	11-Aug-20	8.7551%	Perpetual	195	Highly Complex	CRISIL AA/Positive
INE909H08402	Non-Convertible Debentures	14-Oct-21	Zero Interest	14-Oct-2024	165	Simple	CRISIL AA/Positive
INE909H08410	Non-Convertible Debentures	18-Nov-21	3M TBILL LINKED	18-Nov-2024	300	Simple	CRISIL AA/Positive
INE909H08428	Non-Convertible Debentures	30-Nov-21	3M TBILL LINKED	30-Dec-2024	300	Simple	CRISIL AA/Positive
NA	Non- Convertible Debentures*	NA	NA	NA	485	Simple	CRISIL AA/Positive
INE909H08436	Non-Convertible Debentures	25-Feb-22	Zero Interest	24-Feb-25	100	Simple	CRISIL AA/Positive
INE909H08444	Non-Convertible Debentures	25-Feb-22	7.7	25-Feb-25	600	Simple	CRISIL AA/Positive
INE909H08451	Non-Convertible Debentures	22-Mar-22	Zero Interest	26-Sep-25	300	Simple	CRISIL AA/Positive
INE909H08469	Non-Convertible Debentures	30-Aug-22	Zero Interest	28-Aug-26	600	Simple	CRISIL AA/Positive
NA	Non- Convertible Debentures*	NA	NA	NA	625	Simple	CRISIL AA/Positive
NA	Commercial Paper*	NA	NA	7-365 days	2500	Simple	CRISIL A1+

*Rated but unutilized

For Perpetual Debt, maturity date is call option date

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Tata Motors Finance Limited	Full	Subsidiary
TMF Business Services Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

Commercial Paper	ST	2500.0	CRISIL A1+		--	30-06-23	CRISIL A1+	12-10-22	CRISIL A1+	16-03-21	CRISIL A1+	CRISIL A1+
			--		--	19-05-23	CRISIL A1+	17-02-22	CRISIL A1+		--	--
			--		--	14-02-23	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	3475.0	CRISIL AA/Positive		--	30-06-23	CRISIL AA/Stable	12-10-22	CRISIL AA/Stable	16-03-21	CRISIL AA/Stable	CRISIL AA-Negative
			--		--	19-05-23	CRISIL AA/Stable	17-02-22	CRISIL AA/Stable		--	--
			--		--	14-02-23	CRISIL AA/Stable		--		--	--
Perpetual Bonds	LT	1800.0	CRISIL AA/Positive		--	30-06-23	CRISIL AA/Stable	12-10-22	CRISIL AA/Stable	16-03-21	CRISIL AA/Stable	CRISIL AA-Negative
			--		--	19-05-23	CRISIL AA/Stable	17-02-22	CRISIL AA/Stable		--	--
			--		--	14-02-23	CRISIL AA/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Banks and Financial Institutions
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation
Criteria for Notching up Stand Alone Ratings of Companies based on Group Support

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Ajit Velonie Senior Director CRISIL Ratings Limited B: +91 22 3342 3000 ajit.velonie@crisil.com Malvika Bhotika Director CRISIL Ratings Limited B: +91 22 3342 3000 malvika.bhotika@crisil.com Shaunak Samirbhai Shah Rating Analyst CRISIL Ratings Limited B: +91 22 3342 3000 Shaunak.Shah@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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