Tata Motors Finance Limited

March 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37,500.00	CARE AA+; Stable	Revised from CARE AA; Stable
Long Term Long Term Instruments	1,280.00	CARE AA+; Stable	Revised from CARE AA; Stable
Non Convertible Debentures	5,512.00	CARE AA+; Stable	Revised from CARE AA; Stable
Perpetual Bonds	139.70	CARE AA-; Stable	Revised from CARE A+; Stable
Commercial Paper	10,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the long-term debt instruments and bank facilities of Tata Motors Finance Ltd (TMFL), follows a similar revision in the ratings assigned to the ultimate parent company i.e., Tata Motors Ltd (TML) given its robust business performance during 9MFY24 as reflected from its significant growth across various segments and geographies. Higher volumes and improved realization across the segments have also led to substantial improvement in its profitability which is expected to continue for FY24. Short-term rating assigned to the commercial paper (CP) has been re-affirmed.

Despite the recently announced demerger plan of TML to segregate its commercial vehicle (CV) and passenger vehicle (PV) businesses in to two separately listed companies, CARE Ratings expects the significant de-leveraging to be reflected in both these companies. Furthermore, the strong business profile of its CV and PV segments are expected to support the credit profile of the two independent companies as well.

The ratings continue to factor in the ultimate parentage of TML and the strategic importance of the company for the parent TMF Holdings Ltd (TMFHL), being the holding company of the captive finance arms of TML, the strong operational linkages and the demonstrated capital and management support as well as shared brand name.

The rating continues to consider adequate capitalisation at consolidated levels along with the well-diversified resource profile, supported by the group's strong resource-raising ability. The ratings, however, continue to remain constrained due to the moderate albeit improving asset quality and the moderate profitability parameters.

The continued support from the ultimate parent (TML) and the improvement in the asset quality, profitability and capitalisation parameters continue to be the key rating sensitivities. The ratings of TMFL draw significant strength from the ratings of TML. Any change in the credit profile, resulting in a rating change of TML, will necessitate a similar rating action on the ratings of TMFL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Upward revision in the rating of the ultimate parent entity – TML.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors

- Any negative rating action on the ultimate parent entity, TML.
- Deterioration in the consolidated asset quality parameters on a sustained basis.
- Significant deterioration in the overall profitability and business profile from the existing levels.

Analytical approach:

Since TMFL and TMFBSL are subsidiaries of TMFHL, CARE Ratings has taken a consolidated approach for assigning the ratings. Furthermore, TMFHL's ratings derive significant support from the company's parentage of TML.

Outlook: Stable

The stable outlook reflects expectation of sustenance of its operational and financial position with improving profitability along with comfortable capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Strong parentage and strategically-important subsidiary for the parent

TMFL is a wholly-owned subsidiary of TMFHL which in turn is a wholly-owned subsidiary of TML (rated 'CARE AA+; Stable'). TML is the largest automobile manufacturer in Asia as well as the largest commercial vehicle manufacturer in India. It has a well-diversified product portfolio consisting of presence in both, commercial vehicle (CV) and passenger vehicle (PV) segments in India.

TMFHL is critical to TML for achieving their growth projections and in creating demand in newer markets. Post the scheme of arrangement, TMFL is the captive financier for TML's vehicle and, during FY23 around 17% of TML's total CV sales was funded by TMFBSL (before demerger). Also, the used vehicle financing segment will be critical in expanding into newer business areas. The new business segment under TMFBSL, of operating lease will help to diversify the business operations of TMF Group as a whole from financing to leasing. However, the company is at a nascent stage of operations and hence its criticality to the group's business will be a key monitorable.

Furthermore, the Tata group has shared its brand with TMFL and TMFBSL and therefore, continued financial, operational and management support from TML is expected and is a key rating sensitivity.

TML has been supporting TMFHL by way of equity infusion to in turn support the business and capital requirement of TMFL and TMFBSL. In the last two years, TMFHL has raised perpetual debt worth ₹1,800 crore where TML has written a 'Put' option to purchase the debentures from the debenture holder at the respective exercise dates. In FY23, compulsorily convertible preference shares (CCPS) worth ₹371 crore was converted into equity which was 100% held by TML. Also, TMFHL has ₹1,000 crore of credit line available from TML in the form of ICDs. During FY21 and FY22, there was no equity infusion by TMFHL in any of its subsidiaries. However, during FY23, TMFHL subscribed to the rights issue by erstwhile TMFL and infused funds worth ₹700 crore to support its capital needs.

Strong management and board of directors

The company's board of directors consist of eminent personalities, viz., Nasser Munjee, P. S Jayakumar, Vedika Bhandarkar, Varsha Purandare, N. V. Sivakumar, P.B. Balaji, Dhiman Gupta and Samrat Gupta. Naseer Munjee was appointed as an Independent Director designated as Chairman of the company. He has played an instrumental role in setting up institutions like HDFC and IDFC in the past. P.S Jayakumar- Independent Director, was the MD & CEO of Bank of Baroda and the Co-founder and CEO of VBHC Value Budget Housing (VBHC). Vedika Bhandarkar, Independent Director is also on the board of TML. She held various leadership positions in financial institutions. Varsha Purandare- Independent Director, has varied experience of 36 years in the areas of Credit, Forex, Risk, Treasury, Capital Markets, Investment Banking and Private Equity. She was the Managing Director and Chief Executive Officer of SBI Capital Markets Limited ("SBI Caps") from November 2015 up to December 2018. Besides the above, she has held several positions in SBI, in India and abroad. N. V. Sivakumar was appointed as an Independent Director and had been with PwC for over 40 years within the Advisory and Audit Service lines, working across multiple PwC offices in India, Middle East and the UK and serving a diverse set of domestic and international clients. P. B. Balaji is the Group CFO of TML. Dhiman Gupta -Non-Executive Director, has over 15 years of experience in corporate finance and Mergers and Acquisitions (M&A) across various industry verticals. Samrat Gupta has over 20 years of experience in the Tata Group companies and other MNCs. He is carrying rich experience in Finance, Sales and Corporate restructuring.

Adequate capitalization levels

As on March 31, 2023, capital to risk weighted assets ratio (CRAR) under TMFL stood at 23.16% (Tier 1: 19.90%) as against the regulatory requirement of 15% (tier 1: 10%) as on March 31, 2023. Leverage on standalone basis improved to 3.96 times as on March 31, 2023 as against 4.99 times as on March 31, 2022 as it raised hybrid perpetual debt worth ₹360 crore. Post the implementation of scheme of arrangement, TMFL reported a CRAR of 22.05% as on December 31, 2023.

On a consolidated level, the gearing of the company stood at 7.69 times as on March 31, 2023 as against the gearing of 6.94 times as on March 31, 2022 since the net-worth got hit due to losses during FY23.

Furthermore, comfort is drawn from the ultimate parent group, which has been providing capital and liquidity support to TMHFL and its subsidiaries.

Diversified funding profile

As on March 31, 2023, on a consolidated basis, the funding profile is well diversified with resources being raised from various avenues like banks, debt instruments and commercial paper (CP). The company also raises funds through direct assignments (DA) and during FY23, funds worth ₹4,163 crore was raised. Within term loans, the borrowings are well diversified across numerous lenders including an ECB borrowing of USD 200 Mn which the company raised in 2024.

Key weaknesses

Moderate albeit improving asset quality metrics

As on March 31, 2023, the gross non-performing assets (GNPA) on a consolidated basis stood at 9.26% (net NPA: 5.02%), as against the gross NPA of 9.66% (net NPA: 5.75%) as on March 31, 2022. This marginal improvement was on account of improved collections coupled with write-offs. Earlier, the major deterioration of the asset quality was due to lower collections in the period of the pandemic. Along with this, the new Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP) norms on NPA recognition and upgradation issued by the Reserve Bank of India (RBI) on November 12, 2021 added to increased delinquencies.

Under TMFL (Standalone) (erstwhile TMFSL), gross NPA improved to 4.08% as on March 31, 2023 from 7.38% as on March 31, 2022 as collections improved coupled with write-offs. The Net NPA stood at 2.82% as on March 31, 2023 (as on March 31, 2022- 4.94%). Post the implementation of scheme of arrangement, the Gross NPA and Net NPA stood at 7.18% and 3.95%, respectively, as on December 31, 2023, as against March 31, 2023, the gross non-performing assets (GNPA) on a consolidated basis stood at 9.26% (net NPA: 5.02%).

Given the product and customer segment that the company operates in as well as the historical asset quality trend, the company's ability to improve the same will remain a key monitorable.

Moderate profitability parameters

On a consolidated level, the company reported loss of ₹1,013 crore during FY23 as against the profit of ₹156 crore, on account of increase in credit cost from ₹1,278 crore in FY22 to ₹2,039 crore in FY23. This was mainly due to write-offs of ₹2,032 crore (net of recoveries). As a result the return on average total assets (ROTA) stood at -2.29% in FY23 as against 0.34% in FY22. The total income stood similar with marginal growth to ₹5,057 crore in FY23.

On the other hand, TMFL post the implementation of scheme of arrangement, reported profit of ₹261 crores during 9MFY24. Consequently, the ROTA stood at 0.9% as on December 31, 2023.

Going ahead, the profitability is expected to improve from the current levels given that the credit cost is expected to improve coupled with better margins.

Liquidity: Strong

As on January 31, 2024, the asset and liability management (ALM) of TMFL had no negative cumulative mismatches in any of the short-term buckets up to one year. Being part of the Tata group, the company has the financial flexibility to mobilise the funds to meet any funding requirements.

As on December 31, 2023, the company had cash and liquid investments of Rs. 1,980 crore, ₹4389 crore of unutilized cash credit (CC) or working capital demand loan (WCDL) lines against debt repayments of ₹7,454 crore for the next three months, out of which Rs. 1,960 crore is towards repayment of CC/WCDL, which is expected to be rolled over. The company also has Investments in G Sec/ T Bill of ₹1,090 crore kept for liquidity coverage ratio (LCR) requirement. TMFL, being a subsidiary of TMFHL, is expected to receive support from the parent on a continuous basis and be able to mobilise funds to meet any liquidity requirements.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

TMFHL

TMFHL, an erstwhile asset finance company and a systemically important non-banking financial company, is a wholly-owned subsidiary of TML (rated 'CARE AA+; Stable'). The company is registered as a core investment company (CIC) with the RBI vide the certificate of registration dated October 11, 2017. The CIC acts as a holding company of two of its subsidiaries i.,e TMFL and TMFBSL.

TML

Incorporated in 1945, TML is one of the leading automotive manufacturers in India. Essentially a CV manufacturer, TML forayed into the 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 the acquisition of JLR in June 2008, which has a presence across various geographies such as Europe, the 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 centres in the UK.

CARE Ratings has noted the recent announcement of demerger by TML of its operations into two separate listed companies' commercial vehicles and passenger vehicles, subject to NCLT and shareholder approvals which is likely to be completed over 12-15 months. Post demerger, TML will continue to hold the CV business which enjoys a strong market share of close to 40% in CV industry and is likely to be net auto debt free by March 2024 driven by the strong cashflow generation. Furthermore, PV business will house the existing domestic PV, JLR and EV which is expected to continue its growth trajectory and deleveraging plan and expected to be net debt free in FY25. CARE Ratings expects that despite the de-merger, both PV and CV businesses will continue its growth trajectory while maintaining their respective strong market position and improving their cashflow generation to maintain a deleveraged balance sheet. Both CV and PV businesses post the demerger are expected to maintain net auto debt/PBILDT lower than 0.5x inline with the deleveraging plans, which is expected to support their independent credit profiles.

TMFL (erstwhile TMFSL)

TMFL is a wholly owned subsidiary of TMFHL, which in turn, is a wholly owned subsidiary of TML (rated 'CARE AA; Stable'). In the meeting held on October 03, 2022, the board of directors of TMFL and TMFSL had approved a scheme of arrangement between the two companies in relation to an internal re-alignment of its business involving de-merger of TMFBSL's non-banking finance business undertaking into TMFL. The said scheme of arrangement is completed and became effective from June 30, 2023. It will continue with the used vehicle financing business, corporate lending business and also carry on the captive financing business for TML vehicles.

TMFBSL (erstwhile TMFL)

TMFBSL is a majority-owned subsidiary of TMFHL. Post the new scheme of arrangement approved by board of directors on October 03, 2022, and approval by NCLT on May 12, 2023, TMFBSL's NBFC business was transferred to TMFL and TMFBSL conducts its business operation under the operating lease business segment. This company will support the financing arm of the group.

Brief Financials (Rs. crore)	Standalone (TMFL)		
	#FY22 (A)	#FY23 (A)	9MFY24(UA)*
Total income	1,048	1,343	4,019
PAT	192	76	261
Total assets (net of intangible and deferred tax assets)	10,655	11,609	35,825
ROTA (%)	2.06	0.69	0.9

A: Audited; Note: 'the above results are latest financial results available'
#Pre-merger number of erstwhile TMFSL.
*Combined entity post scheme of arrangement.

Brief Financials (Rs. crore)	Consolidated (TMFHL)	
	FY22 (A)	FY23 (A)
Total income	4,984	5,057
PAT	156	-1013
Total assets (net of intangible and deferred tax assets)	45,671	42,707
ROTA (%)	0.34	-2.29

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-Long term	-	-	-	-	25,904.62	CARE AA+;Stable
Fund-based/Non-fund-based-Long term-Proposed	-	-	-	-	11,595.38	CARE AA+;Stable
Non-convertible debentures*	INE477S08084	18-01-2021	7.97%	27-12-2023	600	CARE AA+;Stable
Non-convertible debentures-Proposed	-	-	-	-	5,512	CARE AA+;Stable
Subordinate debt	INE601U08010	13-11-2017	8.35%	13-11-2027	50	CARE AA+;Stable
Subordinate debt	INE601U08028	28-03-2018	9.00%	28-03-2028	200	CARE AA+;Stable
Subordinate debt	INE601U08036	31-08-2018	10.00%	31-08-2028	100	CARE AA+;Stable
Subordinate debt	INE601U08051	29-03-2019	10.00%	29-03-2029	150	CARE AA+;Stable
Subordinate debt	INE601U08069	30-04-2019	10.25%	30-04-2029	100	CARE AA+;Stable
Subordinate debt	INE601U08077	31-05-2019	9.95%	31-05-2029	200	CARE AA+;Stable
Debt-Subordinate debt-Proposed	-	-	-	-	480	CARE AA+;Stable
Bonds-Perpetual bonds-Proposed	-	-	-	-	139.70	CARE AA-; Stable
Commercial paper	INE601U14JE1	08-Mar-23	8.60%	06-Mar-24	400	CARE A1+
Commercial paper	INE601U14JF8	10-Mar-23	8.60%	08-Mar-24	150	CARE A1+
Commercial paper	INE601U14JF8	10-Mar-23	8.60%	08-Mar-24	50	CARE A1+
Commercial paper	INE601U14JG6	13-Mar-23	8.60%	11-Mar-24	100	CARE A1+
Commercial paper	INE601U14JF8	13-Mar-23	8.60%	08-Mar-24	50	CARE A1+
Commercial paper	INE601U14JH4	14-Mar-23	8.60%	12-Mar-24	50	CARE A1+
Commercial paper	INE601U14JI2	24-Mar-23	8.20%	20-Mar-24	10	CARE A1+
Commercial paper	INE477S14BJ6	15-Mar-23	8.65%	14-Mar-24	100	CARE A1+
Commercial paper	INE477S14BK4	24-Mar-23	8.25%	20-Mar-24	10	CARE A1+
Commercial paper	INE477S14BX7	12-Dec-23	7.95%	11-Mar-24	150	CARE A1+
Commercial paper	INE477S14BY5	14-Dec-23	7.95%	13-Mar-24	50	CARE A1+
Commercial paper	INE477S14BZ2	05-Jan-24	7.97%	26-Mar-24	100	CARE A1+
Commercial paper	INE477S14BZ2	04-Jan-24	7.97%	26-Mar-24	100	CARE A1+
Commercial paper	INE477S14BZ2	04-Jan-24	7.97%	26-Mar-24	100	CARE A1+
Commercial paper	INE477S14BZ2	05-Jan-24	7.97%	26-Mar-24	200	CARE A1+
Commercial paper	INE477S14CA3	28-Feb-24	8.45%	29-May-24	300	CARE A1+
Commercial paper	INE477S14CA3	28-Feb-24	8.45%	29-May-24	200	CARE A1+
Commercial paper	INE477S14CA3	28-Feb-24	8.45%	29-May-24	100	CARE A1+

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper (Proposed)	-	-	-	-	8,280	CARE A1+

*This ISIN is Matured.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debt-Subordinate Debt	LT	1280.00	CARE AA+; Stable	1)CARE AA; Stable (30-Jun-23) 2)CARE AA; Stable (27-Jun-23)	1)CARE AA-; Stable (06-Sep-22) 2)CARE AA-; Stable (06-May-22)	1)CARE AA-; Stable (07-Sep-21)	1)CARE AA-; Stable (31-Mar-21) 2)CARE AA-; Negative (16-Jul-20)
2	Bonds-Perpetual Bonds	LT	139.70	CARE AA-; Stable	1)CARE A+; Stable (30-Jun-23) 2)CARE A+; Stable (27-Jun-23)	1)CARE A; Stable (06-Sep-22) 2)CARE A; Stable (06-May-22)	1)CARE A; Stable (07-Sep-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Negative (16-Jul-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	10500.00	CARE A1+	1)CARE A1+ (30-Jun-23)	1)CARE A1+ (06-Sep-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1+ (31-Mar-21)

					2)CARE A1+ (27-Jun-23)	2)CARE A1+ (06-May-22)		2)CARE A1+ (16-Jul-20)
4	Debentures-Non Convertible Debentures	LT	5512.00	CARE AA+; Stable	1)CARE AA; Stable (30-Jun-23) 2)CARE AA; Stable (27-Jun-23)	1)CARE AA-; Stable (06-Sep-22) 2)CARE AA-; Stable (06-May-22)	1)CARE AA-; Stable (07-Sep-21)	1)CARE AA-; Stable (31-Mar-21) 2)CARE AA-; Negative (16-Jul-20)
5	Fund-based/Non-fund-based-Long Term	LT	37500.00	CARE AA+; Stable	1)CARE AA; Stable (30-Jun-23) 2)CARE AA; Stable (27-Jun-23)	1)CARE AA-; Stable (06-Sep-22) 2)CARE AA-; Stable (06-May-22)	1)CARE AA-; Stable (07-Sep-21)	1)CARE AA-; Stable (31-Mar-21) 2)CARE AA-; Negative (16-Jul-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Perpetual Bonds	Highly Complex
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Debentures-Non Convertible Debentures	Simple

Sr. No.	Name of the Instrument	Complexity Level
4	Debt-Subordinate Debt	Complex
5	Fund-based/Non-fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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