Tata Motors Finance Solutions Limited

June 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12,500.00	CARE AA; Stable	Revised from CARE AA-; Stable
Subordinate Debt	200.00	CARE AA; Stable	Revised from CARE AA-; Stable
Non-Convertible Debentures	610.00 (Reduced from 1,000.00)	CARE AA; Stable	Revised from CARE AA-; Stable
Perpetual Bonds	100.00	CARE A+; Stable	Revised from CARE A; Stable
Commercial Paper	2,500.00	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 Solutions Limited (TMFSL), follows a similar revision in the ratings assigned to the ultimate parent company i.e., Tata Motors Limited (TML) given the significant improvement in the overall credit profile of TML on account of the improved operating performance in FY23 attributed to improved volumes and product mix and higher realisations in both Jaguar and Land Rover (JLR) and India. The short-term rating assigned to the commercial paper (CP) has been re-affirmed.

The ratings factor in the ultimate parentage of TML and the strategic importance of Tata Motors Finance Ltd (TMFL) 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 TMFSL's adequate capitalisation 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 weak asset quality and the moderate profitability parameters of the company.

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 TMFSL 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 TMFSL.

CARE Ratings Limited (CARE Ratings) has taken cognizance of the scheme of arrangement between TMFSL and TMFL approved by the board of directors on October 03, 2022 wherein the non-banking financing business (NBFC business) of TMFL will be merged with the business operation of TMFSL and TMFL will surrender its non-banking financial company (NBFC) license. Thus, TMFL will continue only with its operating lease business and TMFSL will be renamed to TMFL.

This transaction is expected to have minimal or no impact on the business operation of the group as both the entities are in similar line of business. Also, while arriving at the ratings, CARE Ratings follows a consolidated approach given the strong linkages between the companies of the TMF group which take into account both the businesses of the group.

The NCLT approval is already in place and it will become effective once the approval is filed with Registrar of Companies (ROC) which is expected to happen in near term.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could lead to positive rating action/upgrade:

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

Negative factors: Factors that could lead to negative rating action/downgrade:

- 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 TMFSL and TMFL 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 improving operational and financial position with no further deterioration in profitability along with comfortable capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Strong parentage and strategically-important subsidiary for the parent

TMFSL 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.

The auto finance companies TMFSL and TMFL and the holding company TMFHL are critical to TML for achieving their growth projections and in creating demand in newer markets. TMFL being the captive financier for TML's vehicle and during FY23 around 17% of TML's total CV sales was funded by TMFL. Also, TMFSL will be critical in expanding into newer business areas like used vehicle financing and dealer or vendor financing. Furthermore, the Tata group has shared its brand with its auto financing companies (TMFL and TMFSL), 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 TMFSL. 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, compulsory convertible preference shares (CCPS) worth ₹371 crore were 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 inter corporate deposits (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 TMFL and infused funds worth ₹700 crore to support its capital needs. There was no infusion by TMFHL in TMFSL during FY23 since it is well-capitalized.

Strong management and board of directors

The company's board of directors consist of eminent personalities, viz., Nasser Munjee, Vedika Bhandarkar, Varsha Purandare, Alok Chadha, P.B. Balaji, Shyam Mani and Dhiman Gupta. Naseer Munjee was appointed as an Independent Chairman of the company in June 2020. He has played an instrumental role in setting up institutions like HDFC and IDFC in the past. Vedika Bhandarkar, Independent Director is also on the board of TML. She held various leadership positions in financial institutions. 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). 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. Alok Chadha , Whole-Time Director and Key Managerial Personnel has held various positions like Business Head and Chief Operating Officer at TMFL. P. B. Balaji is the Group CFO of TML. Shyam Mani- Non-Executive Director , has rich experience across various functions, including manufacturing, procurement, finance and sales and marketing. Before his stint with the TMF group, Shyam Mani was handling sales and marketing for the CV business unit of TML as Vice President. Dhiman Gupta -Non-Executive Director, has over 15 years of experience in corporate finance and Mergers and Acquisitions (M&A) across various industry verticals.

Adequate capitalization levels

As on March 31, 2023, capital to risk weighted assets ratio (CRAR) under TMFSL 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.

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. The merged entity is expected to have adequate capitalization as TMFL and TMFSL both are well capitalized with CRAR of above 20% and hence the gearing is expected to improve from current levels assuming no significant write-offs happen.

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

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.

Key weaknesses

Weak 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 TMFSL (Standalone), 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%).

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, 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, TMFSL on a standalone level, reported profit of ₹76 crore during FY23; however, the profitability declined over FY22 given the increase in credit cost from Rs.167 crore in FY22 to Rs.347 crore in FY23. Consequently, the ROTA stood at 0.69% (FY22: 2.06%).

Going ahead, the profitability for FY24 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 March 31, 2023, the asset and liability management (ALM) of TMFSL 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 May 31, 2023, the company had cash and liquid investments of Rs.848 crore, ₹1,500 crore of unutilized cash credit (CC) or working capital demand loan (WCDL) lines against debt repayments of ₹1,273 crore for the next three months. The company also has Investments in G Se/ T Bill of ₹385 crore kept for liquidity coverage ratio (LCR) requirement. TMFSL, 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
Policy on Withdrawal of Ratings

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 NBFC, is a wholly-owned subsidiary of TML (rated 'CARE AA; Stable').

As per the scheme of arrangement (approved by the board of TMFHL during FY17 and the National Company Law Tribunal (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 or vendor financing business has been transferred to TMFSL. TMFHL has been converted into a core investment company (CIC) post the requisite approvals from the RBI vide the 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 a 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 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 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-; Stable'). 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 or vendor financing.

TMFL

TMFL is a majority-owned subsidiary of TMFHL and is a systemically important NBFC. As per the scheme of arrangement approved by the board of both companies, accepted and approved by the 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 of TMFSL (Rs. crore) *	Standalone (TMFSL)		Consolidated (TMFHL)	
	FY22 (A)	FY23 (A)	FY22 (A)	FY23 (A)
Total income	1,048	1,343	4,984	5,057
PAT	192	76	156	-1013
Total assets (net of intangible and deferred tax assets)	10,655	11,609	45,671	42,707
ROTA (%)	2.06	0.69	0.34	-2.29

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

Status of non-cooperation with previous CRA: Not applicable

Any other information:

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	-	-	-	-	9,156	CARE AA; Stable
Fund-based/Non-fund-based-Long term-Proposed	-	-	-	-	3,344	CARE AA; Stable
Non-convertible debentures	INE477S08068	17-02-2020	9.45%	17-02-2023	-	Withdrawn
Non-convertible debentures	INE477S08076	14-10-2020	7.85%	14-10-2022	-	Withdrawn
Non-convertible debentures	INE477S08084	18-01-2021	7.97%	27-12-2023	600	CARE AA; Stable
Non-convertible debentures-Proposed	-	-	-	-	10	CARE AA; Stable
Debt-Subordinate debt-Proposed	-	-	-	-	200	CARE AA; Stable
Bonds-Perpetual bonds-Proposed	-	-	-	-	100	CARE A+; Stable
Commercial Paper	INE477S14BI8	15-03-2023	8.65%	28-02-2024	25	CARE A1+
Commercial Paper	INE477S14BI8	15-03-2023	8.65%	28-02-2024	25	CARE A1+
Commercial Paper	INE477S14BJ6	15-03-2023	8.65%	14-03-2024	100	CARE A1+
Commercial Paper	INE477S14BK4	24-03-2023	8.25%	20-03-2024	10	CARE A1+
Commercial Paper	INE477S14BL2	02-06-2023	7.30%	01-09-2023	100	CARE A1+
Commercial Paper	INE477S14BM0	05-06-2023	7.30%	04-09-2023	200	CARE A1+
Commercial Paper	INE477S14BN8	19-06-2023	7.30%	18-09-2023	300	CARE A1+
Commercial Paper (Proposed)					1,740	CARE A1+

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	200.00	CARE AA; Stable	-	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	100.00	CARE A+; Stable	-	1)CARE A; Stable (06-Sep-	1)CARE A; Stable (07-Sep-	1)CARE A; Stable (31-Mar-

						22) 2)CARE A; Stable (06-May-22)	21)	21) 2)CARE A; Negative (16-Jul-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	2500.00	CARE A1+	-	1)CARE A1+ (06-Sep-22) 2)CARE A1+ (06-May-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1+ (31-Mar-21) 2)CARE A1+ (16-Jul-20)
4	Debentures-Non Convertible Debentures	LT	610.00	CARE AA; Stable	-	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	12500.00	CARE AA; Stable	-	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)

*Long term/Short term.

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

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
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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