

## Rating Rationale

June 13, 2024 | Mumbai

### TMF Holdings Limited

*Long-term rating upgraded to 'CRISIL AA+/Stable'; Short-term rating reaffirmed*

#### Rating Action

<b>Rs.1300 Crore Perpetual Bonds</b>	<b>CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')</b>
<b>Rs.195 Crore Perpetual Bonds</b>	<b>CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')</b>
<b>Rs.305 Crore Perpetual Bonds</b>	<b>CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')</b>
<b>Rs.2225 Crore Non Convertible Debentures</b>	<b>CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')</b>
<b>Rs.1250 Crore Non Convertible Debentures</b>	<b>CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')</b>
<b>Rs.2500 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

## **Detailed Rationale**

CRISIL Ratings has upgraded its rating on the long term debt instruments of TMF Holdings Limited (TMFHL) to '**CRISIL AA+/Stable**' from 'CRISIL AA/Positive'; The rating on commercial papers have been reaffirmed at 'CRISIL A1+'.

The rating upgrade is in line with a similar rating action on the debt instruments of the ultimate parent of TMFHL, Tata Motors Ltd (TML, rated CRISIL AA+/Stable/CRISIL A1+). On June 13, 2024, ratings on debt instruments of TML were upgraded to 'CRISIL AA+/Stable' from 'CRISIL AA/Positive' driven by improvement in the consolidated business and financial risk profiles of the company. This was mainly led by improvement in the Jaguar Land Rover (JLR) business.

CRISIL Ratings has taken note of the announcement by TML on June 04, 2024, that the Board of Directors of TML, Tata Capital Limited (TCL, rated CRISIL AAA/CRISIL PPMLD AAA/CRISIL AA+^/Stable/CRISIL A1+) and Tata Motor Finance Limited (TMFL, rated CRISIL AA+/CRISIL PPMLD AA+/CRISIL AA-^/Watch Positive/CRISIL A1+; wholly owned subsidiary of TMF Holdings Ltd) have approved the merger of TMFL with TCL through National Company Law Tribunal (NCLT) scheme of arrangement. The scheme is subject to sanction of the NCLT requisite approvals including those from respective shareholders and creditors of TMFL and TCL, as applicable and as may be directed by the NCLT and other regulatory/statutory approvals.

The merger is expected to take 9 -12 months to complete. As a consideration, TCL will issue its equity shares to the shareholders of TMFL resulting in TML effectively holding a 4.7% stake in the merged entity through TMFHL.

The merger supports the strategic objectives of both TCL and TML. It will also unlock potential synergies between TCL and TMFL. For TCL, the merger will aid in its strategy of higher retailisation and it would also strengthen the company's presence in commercial vehicle/passenger vehicle segments. For TML, the proposed divestment of the non-banking financing company is in line with its stated objective of exiting non-core businesses.

TMFL is a key operating subsidiary of TMFHL, and on completion of the scheme, it will merge with TCL. However, TMFHL will continue to be 100% held by TML and will remain a NBFC-CIC. To support TMFHL in retiring its debt obligations, TML's board of directors have approved adequate support for TMFHL. Further, TMFHL holds debt investments in the Tata Group companies, which will be used as an avenue to maintain ANW above regulatory requirements as well as meet debt repayments, if the need arises.

TMF Business Services Ltd's (TMFBSL) majority holding will continue to be with TML, through TMFHL. While currently there is no market debt in TMFBSL, the company will continue to be supported by TML, in case the need arises.

The ratings on TMFHL also factors in the TMF group's (TMFHL and its subsidiaries) 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<sup>[1]</sup>) prescribes that adjusted net worth (ANW) 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 networkth to risk weighted assets (ANW ratio) of TMFHL stood at~35.82% as on March 31, 2024. The company is expected to maintain adequate cushion above the regulatory requirement of 30% at all points of time.

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.

<sup>[1]</sup> "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 (TMF group), 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 TMFL, till the merger with TCL is complete and to TMFBSL till it remains as a legal entity. TMFL's capital adequacy as on March 31, 2024, remains adequate at 20.92% as on March 31, 2024.

The adjusted net worth ratio (ANW) of TMFHL stood at 35.82% as on March 31, 2024. Further, given that TMFL, which was a key operating subsidiary of TMFHL, will be merged with TCL, TML has taken necessary Board approvals to support TMFHL in retiring its debt obligations. TML is expected to continue to support TMFHL, in maintaining its capital levels above the minimum regulatory capital adequacy requirement and in retiring its debt obligations, in a timely manner, in case required.

- **Leading position in CV finance**

The TMF group is a leading CV financier in India. The AUM of TMFL stood at Rs. 38,353 crore as on March 31, 2024. 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 March 31, 2024, share of new vehicle financing portfolio stood at around 66%, while share of used vehicle financing portfolio stood at around 24%, corporate lending business stood at 8% and others at 2%. Over the last few years, the share of used vehicle financing for the TMF group has increased from 13% as of March 31, 2021 to 24% as of March 31, 2024.

#### **Weakness:**

- **Moderate, though improving, asset quality**

The asset quality metrics of TMFL remained moderate with gross stage III of 6.1% as on March 31, 2024, as against 9.3% as on March 31, 2023. The improvement is driven by reduced restructured book, along with steady collections and write-offs. The restructured book reduced to Rs 1,096 crore as on March 31, 2024 from Rs 3143 crore as on March 31, 2023 and Rs 6,251 crore as on March 31, 2022. Going forward, the company's ability to manage its asset quality and improve profitability will remain key monitorable.

#### **Liquidity: Strong**

On a consolidated basis, the TMF group had on book liquidity of Rs 3719 crore as on May 31, 2024, FDs of Rs 100 crore, Inter-corporate deposits (ICDs) from TML of Rs 1500 crore and unutilised cash credit (CC) and working capital demand loan (WCDL) lines of Rs 2,070 crore. This is sufficient to meet debt obligations of Rs 4,337 crore in June and July 2024. Out of repayment of Rs 4,337 crore, CC/WCDL of Rs 970 crore due in June 2024 and July 2024 is expected to be rolled over. Additionally, TMFL has investments in T-bill/G-securities to the tune of Rs. 1840 crore.

#### **Outlook: Stable**

The rating outlook on TMFHL is closely linked to the rating outlook on 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:**

- Upgrade in the rating of TML by one notch

##### **Downward factors:**

- Downgrade in the rating of TML by one 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 2024, the company on the consolidated basis reported net loss of Rs 117 crore on total income (net of interest expenses) of Rs 2416 crore, as against a net loss of Rs 1013 crore and total income (net of interest expenses) of Rs 2173 crore in fiscal 2023.

### **Key Financial Indicators: (TMF Holdings Limited -consolidated)**

<b>As on /for the year ended</b>		<b>March 31, 2024</b>	<b>March 31, 2023</b>	<b>March 31, 2022</b>
<b>Total assets</b>	<b>Rs crore</b>	<b>39,542</b>	<b>43,083</b>	<b>46,083</b>
<b>Total income</b>	<b>Rs crore</b>	<b>5,135</b>	<b>5057</b>	<b>4984</b>
<b>Profit after tax (PAT)</b>	<b>Rs crore</b>	<b>-117</b>	<b>-1013</b>	<b>156</b>
<b>Gross NPA</b>	<b>%</b>	<b>6.1</b>	<b>9.3</b>	<b>9.7</b>
<b>Net NPA</b>	<b>%</b>	<b>3.4</b>	<b>5.0</b>	<b>5.8</b>

### **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](http://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
INE909H08394	Perpetual Bonds	23-Jun-2021	7.30%	Perpetual	200	Highly Complex	CRISIL AA+/Stable
INE909H08386	Perpetual Bonds	10-Jun-2021	7.30%	Perpetual	250	Highly Complex	CRISIL AA+/Stable
INE909H08378	Perpetual Bonds	10-Mar-2021	7.99%	Perpetual	100	Highly Complex	CRISIL AA+/Stable
INE909H08360	Perpetual Bonds	10-Mar-2021	7.99%	Perpetual	100	Highly Complex	CRISIL AA+/Stable
INE909H08352	Perpetual Bonds	10-Mar-2021	7.99%	Perpetual	150	Highly Complex	CRISIL AA+/Stable
INE909H08329	Perpetual Bonds	30-Dec-2020	7.75%	Perpetual	100	Highly Complex	CRISIL AA+/Stable
INE909H08337	Perpetual Bonds	30-Dec-2020	7.75%	Perpetual	150	Highly Complex	CRISIL AA+/Stable
INE909H08345	Perpetual Bonds	30-Dec-2020	7.75%	Perpetual	100	Highly Complex	CRISIL AA+/Stable
INE909H08311	Perpetual Bonds	30-Dec-2020	7.75%	Perpetual	150	Highly Complex	CRISIL AA+/Stable
INE909H08303	Perpetual Bonds	18-Aug-2020	8.76%	Perpetual	305	Highly Complex	CRISIL AA+/Stable
INE909H08295	Perpetual Bonds	11-Aug-2020	8.76%	Perpetual	195	Highly Complex	CRISIL AA+/Stable
INE909H08402	Non-Convertible Debentures	14-Oct-2021	Zero Interest	14-Oct-2024	165	Simple	CRISIL AA+/Stable
INE909H08410	Non-Convertible Debentures	18-Nov-2021	3M TBILL LINKED	18-Nov-2024	300	Simple	CRISIL AA+/Stable
INE909H08428	Non-Convertible Debentures	30-Nov-2021	3M TBILL LINKED	30-Dec-2024	300	Simple	CRISIL AA+/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	485	Simple	CRISIL AA+/Stable
INE909H08436	Non-Convertible Debentures	25-Feb-2022	Zero Interest	24-Feb-2025	100	Simple	CRISIL AA+/Stable
INE909H08444	Non-Convertible Debentures	25-Feb-2022	7.7	25-Feb-2025	600	Simple	CRISIL AA+/Stable
INE909H08451	Non-Convertible Debentures	22-Mar-2022	Zero Interest	26-Sep-2025	300	Simple	CRISIL AA+/Stable
INE909H08469	Non-Convertible Debentures	30-Aug-2022	Zero Interest	28-Aug-2026	600	Simple	CRISIL AA+/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	625	Simple	CRISIL AA+/Stable
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 Motor Finance Ltd	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+	13-03-24	CRISIL A1+	30-06-23	CRISIL A1+	12-10-22	CRISIL A1+	16-03-21	CRISIL A1+	CRISIL A1+
			--	01-02-24	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+/Stable	13-03-24	CRISIL AA/Positive	30-06-23	CRISIL AA/Stable	12-10-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	CRISIL AA-/Negative
			--	01-02-24	CRISIL AA/Positive	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+/Stable	13-03-24	CRISIL AA/Positive	30-06-23	CRISIL AA/Stable	12-10-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	CRISIL AA-/Negative
			--	01-02-24	CRISIL AA/Positive	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

<b>Links to related criteria</b>
<a href="#">Rating Criteria for Finance Companies</a>
<a href="#">Rating criteria for hybrid debt instruments of NBFCs/HFCs</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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