

**TMF Holdings Limited**  
**(Formerly known as Tata Motors Finance Limited)**

July 16, 2020

**Ratings**

| <b>Instruments/Facilities</b> | <b>Amount<br/>(Rs. crore)</b>                                   | <b>Rating<sup>2</sup></b>                                                                    | <b>Rating Action</b> |
|-------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------|----------------------|
| Non-Convertible Debentures    | 1,250<br>(Rupees One Thousand Two Hundred and Fifty crore only) | <b>CARE AA-; Negative<br/>(Double A Minus;<br/>Outlook: Negative)</b>                        | <b>Reaffirmed</b>    |
| LT/ST Bank Facilities         | 300<br>(Rupees Three Hundred crore only)                        | <b>CARE AA-; Negative / CARE A1+<br/>(Double A Minus; Outlook:<br/>Negative/ A One Plus)</b> | <b>Reaffirmed</b>    |
| Commercial Paper              | 2,500<br>(Rupees Two Thousand Five Hundred crore only)          | <b>CARE A1+<br/>(A One Plus)</b>                                                             | <b>Reaffirmed</b>    |

*Details of instruments/facilities in Annexure-1*

The reaffirmation of the ratings assigned to the various debt instruments and Commercial paper issue of TMF Holdings Limited (TMFHL) primarily factors in the parentage of Tata Motors Limited (TML), being a Tata group company and the strategic importance of TMFHL for the parent being the holding company of the captive finance arms of TML, strong operational linkages and demonstrated capital and management support as well as shared brand name.

The ratings further continues to take into account TMFHL's well diversified resource profile, adequate liquidity profile supported by the group's resource raising ability and adequate capitalization levels. The ratings remain constrained due to moderation in asset quality of the group 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 TMFHL 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 TMFHL.

**Impact of Covid-19**

Due to weak demand in CV segment in FY20 and the country-wide lockdown announced in March 2020, the overall asset quality and earnings profile of the company is likely to remain under pressure.

In the month of June, 2020, around 75% of the consolidated loan book was under moratorium, which had a material impact on the collections of the company. However, during the second moratorium, the company has extended the facility on a case by case basis which is expected to help in ramping up the collection efforts.

**Outlook: Negative**

The negative outlook is in line with the negative outlook on ultimate parent i.e TML. As a captive financier of TML, the company's growth prospects are closely linked with that of its parent. The negative outlook also reflects CARE's belief that due to the economic slowdown on account of Covid-19, growth prospects in the commercial vehicle financing segment shall remain challenging for FY2021.

**Rating Sensitivities**

**Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Upward revision in rating of the ultimate parent entity-Tata Motors Limited.

**Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade:**

- Any negative rating action on the ultimate parent entity, TML.
- Deterioration in consolidated asset quality parameters with Gross NPA exceeding 8%.
- Significant deterioration in the overall profitability and business profile from existing levels.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

## Detailed description of the key rating drivers

### Key Rating Strengths

#### Strong parentage and strategic importance for the parent

TMF Holdings Limited (TMFHL) is a TATA Group company being 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 manufacturer in India. It is the leading player in the CV segment, with a market share of 43% during FY20 (FY19: 45%). 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 (Tata Motors Finance Solutions Limited (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.

#### Strong management and board of directors

The Company's Board of Directors comprise of eminent personalities Viz., Mr. Nasser Munjee, Mrs. Vedika Bhandarkar, Mr. P. S. Jayakumar, Mr. P.B. Balaji and Mr. Shyam Mani. Mr. Munjee appointed as an Independent Chairman of the Company since June 2020. He has played an instrumental role in setting up of institutions like HDFC and IDFC. Mrs. Vedika Bhandarkar, Independent Director is also on the Board of Tata Motors Limited (TML). Mrs. Bhandarkar held various leadership positions in financial institutions. In June 2020, the Board underwent some changes, the Board appointed Mr. P. S Jayakumar as Independent Additional Director of the Company subject to the approval of Government. Mr. Jayakumar was the MD & CEO of Bank of Baroda and the Co-founder and CEO of VBHC Value Budget Housing (VBHC), a leader in housing for low and moderate income household from 2009 onwards. Mr. P. B. Balaji is the Group CFO of TML. Mr. Shyam Mani is Non-Executive Director on the Board, he is also the Managing Director of TMF Holdings Limited, managing TMF Group since inception. Mr. Mani is an eminent professional and has rich experience across various functions, including manufacturing, procurement, finance and sales and marketing. Before his stint with the TMF Group, Mr. Mani was handling Sales & Marketing for the Commercial Vehicles Business Unit of Tata Motors Limited as Vice President.

#### 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). Also, the company enjoys common management, as Mrs. Vedika Bhandarkar who is the Non-executive Independent Director on the board of TML, is also an Independent Director on the Board of TMFL, TMFSL and TMFHL.

#### 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 has also subscribed to Rs.370 crore of CCPS issued by TMFL and Rs.150 crore of subordinate debt in FY19. TMFHL further infused Rs.150 crore as equity in June 2019 and it also subscribed to Rs.300 crore of subordinated debt in TMFL during the same period

On a standalone basis, TMFHL reported adjusted net worth ratio of 64.55 % (PY: 62.20%) as on March 31, 2020 against minimum regulatory requirement of 30% for a Core Investment Company (CIC).

#### Diversified funding profile

On a consolidated basis TMFHL'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. Consolidated gearing of the company stood at 16.29x as on March 31, 2020 as compared to 23.74x as on March 31, 2019, owing to reduction in debt, coupled with equity infusion of Rs.150 crore in Q1FY20. TMFHL's standalone leverage ratio of TMF Holdings stood at 0.60x as on March 31, 2020 (P.Y: 0.67x) against regulatory cap of 2.5x. Further, comfort is drawn from the parent group which has been providing capital and liquidity support to TMHFL and its subsidiaries.

## Key Rating Weaknesses

### Moderate asset quality

At March 31, 2020, the company reported a consolidated Gross NPA ratio and Net NPA ratio (as per regulatory norms) at 5.68% [P.Y.: 2.6%] and 4.9% [P.Y.: 1.38%], respectively, mainly due to higher slippages during the year.

The asset quality was impacted due to an overall slowdown in the pace of infrastructure projects, weak demand in the CV and PV segment; (industry sales for which registered a y-o-y decline of 29.7% and 14.8% respectively during FY20 as compared to y-o-y growth of 16.1% and 0.5% during FY19), projects being put on hold due to change in government in certain states and to some extent excess capacity with truckers due to change in axle load norms. The asset quality is likely to get impacted further for short to medium term amidst the COVID related uncertainties, however adequate provisioning, regulatory support for MSME loans and improved collections shall provide some comfort. CARE believes that the asset quality parameters remain a challenge amidst weak economic environment and shall be the key monitorables in the coming quarters.

### Moderate profitability

Profitability of the TMFHL group has been moderating during the last two years. During FY20, TMFHL on consolidated basis, reported Profit After Tax (PAT) of Rs.139 against PAT of Rs.164 in FY19. Consolidated Return on Total Assets (RoTA) for FY20 was 0.36% [P.Y.: 0.48%]. On a standalone basis, TMFHL reported a profit of Rs.11 crore on a Total Income of Rs.298 crore during FY20 as compared to profit of Rs.4 crore on Total Income of Rs.288 crore during FY19. At the consolidated level, profitability may remain suppressed for FY21 as credit costs are likely to remain elevated in next few quarters and therefore remains a key monitorable.

### Moderate liquidity profile

As on June 30, 2020 TMFHL's standalone borrowing mix of the company primarily consisted of 72% of NCDs and 12% Commercial Paper. The company has been able to mobilise funds worth Rs.1,510 crore during April, May and June 2020, out of which Rs.660 crore was in the form of ICDs and Rs.850 crore of Commercial Paper. TMFHL's asset liability maturity (ALM) profile as on May 31, 2020, considering committed lines of credit from TML, had no negative cumulative mismatches across any of the time brackets upto 1 year. The company has been able to generally roll over its commercial papers considering its parentage. TMFHL, being a subsidiary of TML, is expected to receive support from the parent on a continuous basis and be able 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: Adequate

TMFHL's asset liability maturity (ALM) profile as on May 31, 2020, considering committed lines of credit from TML, had no negative cumulative mismatches across any of the time brackets upto 1 year. The company has been able to generally roll over its commercial papers considering its parentage. As on May 31, 2020, the company had Rs.108 crore of Cash and Liquid Investments and Rs.1000 crore of ICD line from ultimate parent i.e TML. TMFHL, being a subsidiary of TML, 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:

[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 of TMFHL (Rs. crore)* | Standalone |          | Consolidated |          |
|----------------------------------------|------------|----------|--------------|----------|
|                                        | FY19 (A)   | FY20 (A) | FY19 (A)     | FY20 (A) |
| Total income                           | 288        | 298      | 3,975        | 4,671    |
| PAT                                    | 4          | 11       | 164          | 139      |
| Total Tangible Assets <sup>^</sup>     | 7,083      | 6,920    | 40,117       | 37,570   |
| Net NPA (%)                            | NA         | NA       | 1.38         | 4.9      |
| ROTA (%)                               | 0.05       | 0.16     | 0.48         | 0.36     |

A: Audited

\* As per IndAS

<sup>^</sup>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 as on June 30, 2020

| Name of the Instrument                           | ISIN         | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--------------------------------------------------|--------------|------------------|-------------|---------------|-------------------------------|-------------------------------------------|
| Fund-based - LT/ ST-Term loan                    | NA           | -                | -           | -             | 300.00                        | CARE AA-; Negative / CARE A1+             |
| Debentures-Non Convertible Debentures – Proposed | NA           | -                | -           | -             | 1250.00                       | CARE AA-; Negative                        |
| Commercial Paper                                 | INE909H14OM8 | 15-06-20         | 5.3000%     | 14-09-20      | 200.0                         | CARE A1+                                  |
| Commercial Paper                                 | INE909H14ON6 | 22-06-20         | 5.3000%     | 21-09-20      | 150.0                         | CARE A1+                                  |
| Commercial Paper-Proposed                        | -            | -                | -           | 7-365 days    | 2150.0                        | CARE A1+                                  |

## 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020                         | Date(s) & Rating(s) assigned in 2018-2019                       | Date(s) & Rating(s) assigned in 2017-2018                                                            |
| 1.      | Commercial Paper                       | ST              | 2500.00                        | CARE A1+           | -                                         | 1)CARE A1+ (27-Aug-19)<br>2)CARE A1+ (05-Jul-19)                  | 1)CARE A1+ (25-Feb-19)<br>2)CARE A1+ (08-Oct-18)                | 1)CARE A1+ (08-Jan-18)<br>2)CARE A1+ (04-Dec-17)<br>3)CARE A1+ (11-Jul-17)<br>4)CARE A1+ (13-Apr-17) |
| 2.      | Debentures-Non Convertible Debentures  | LT              | -                              | -                  | -                                         | -                                                                 | -                                                               | 1)Withdrawn (07-Jul-17)<br>2)CARE AA+; Stable (13-Apr-17)                                            |
| 3.      | Debt-Subordinate Debt                  | LT              | -                              | -                  | -                                         | -                                                                 | -                                                               | 1)Withdrawn (07-Jul-17)<br>2)CARE AA+; Stable (13-Apr-17)                                            |
| 4.      | Bonds-Perpetual Bonds                  | LT              | -                              | -                  | -                                         | -                                                                 | -                                                               | 1)Withdrawn (11-Jul-17)<br>2)CARE AA-; Stable (13-Apr-17)                                            |
| 5.      | Debentures-Non Convertible Debentures  | LT              | 1250.00                        | CARE AA-; Negative | -                                         | 1)CARE AA-; Negative (27-Aug-19)<br>2)CARE AA; Stable (05-Jul-19) | 1)CARE AA; Stable (25-Feb-19)<br>2)CARE AA+; Stable (08-Oct-18) | 1)CARE AA+; Stable (08-Jan-18)<br>2)CARE AA+; Stable (11-Jul-17)                                     |
| 6.      | Fund-based - LT/ ST-Term               | LT/ST           | 300.00                         | CARE AA-;          | -                                         | 1)CARE AA-;                                                       | 1)CARE AA;                                                      | 1)CARE AA+; Stable                                                                                   |

|      |  |  |  |                     |  |                                                                             |                                                                                                                         |                                                                     |
|------|--|--|--|---------------------|--|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| loan |  |  |  | Negative / CARE A1+ |  | Negative / CARE A1+ (27-Aug-19)<br>2)CARE AA; Stable / CARE A1+ (05-Jul-19) | Stable / CARE A1+ (25-Feb-19)<br>2)CARE AA+; Stable / CARE A1+ (08-Oct-18)<br>3)CARE AA+; Stable / CARE A1+ (27-Apr-18) | / CARE A1+ (08-Jan-18)<br>2)CARE AA+; Stable / CARE A1+ (11-Jul-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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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