Ratings

CRISIL
An S&P Global Company

Rating Rationale

November 30, 2017 | Mumbai

Tata Motors Finance Solutions Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.3500 Crore**
Long Term Rating	**CRISIL AA/Positive (Reaffirmed)**

Rs.2000 Crore Non Convertible Debentures	**CRISIL AA/Positive (Reaffirmed)**
Rs.200 Crore Subordinated Debt	**CRISIL AA/Positive (Reaffirmed)**
Rs.2000 Crore Commercial Paper Programme	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has reaffirmed its ratings on the debt instruments and bank facilities of Tata Motors Finance Solutions Ltd (TMFSL) at 'CRISIL AA/Positive/CRISIL A1+'**.** The ratings continue to be based on the expectation of strong support from ultimate parent company Tata Motors Limited (TML; rated CRISIL AA/Positive/CRISIL A1+) to TMF Holdings Limited (TMFHL; rated CRISIL AA/Positive/CRISIL A1+) and TMFHL's two subsidiaries Tata Motors Finance Limited (TMFL; rated 'CRISIL AA/CRISIL A+[1]/Positive/CRISIL A1+') and TMFSL. This is because of their high strategic importance to TML.

As per the scheme of arrangement which became effective on January 31, 2017, the new vehicle financing business (NVF) of TMFHL (formerly TMFL) was transferred to TMFL (formerly Sheba Properties Limited). The transfer included the entire assets and liabilities of NVF business undertaking. On the other hand, the existing dealer/vendor financing business of TMFHL was transferred to TMFSL. Subsequently, TMFHL was reconstituted as a Core Investment Company (CIC) that is now the parent company of TMFL and TMFSL. On 11th October 2017, the Reserve Bank of India issued a Certificate of Registration of NBFC-Non-Deposit Taking-Systemically Important'Core Investment Company (NBFC-CIC-ND-SI) to TMFHL. As a CIC, TMFHL is responsible for granting loans, guarantees and other forms of financing to and making investments in securities of group companies.

The rating centrally factors in the high strategic importance to, and expectation of strong support from TML and the group's strong position in commercial vehicle (CV) finance segment. However these rating strengths are partially offset by the expectation of continued pressure on asset quality, which in turn adversely affect the earnings.

Analytical Approach
For arriving at its ratings of TMFSL, CRISIL has combined the business and financial risk profiles of TMFHL and its subsidiaries TMFL and TMFSL, given the integration of operations and commonality of management. The two subsidiaries finance vehicles of TML and the TML ecosystem and have significant business, operational and management linkages with each other and with the ultimate parent, TML.

Key Rating Drivers & Detailed Description
Strengths
*** High strategic importance to and expectation of strong support from TML**
CRISIL's ratings on debt instruments and bank facilities of TMFSL continue to be based on the expectation of strong support from TML. This is because of TMFSL's strong strategic importance to TML and the latter's ownership via TMFHL.

Post the restructuring in FY 16-17, TMFL will undertake the new vehicle financing business and will be the captive financier for TML's vehicles. On the other hand, TMFSL will be engaged in pre-owned vehicle financing business that has strong operational linkages with TML's pre-owned vehicles. TMFSL has also started doing dealer/vendor financing which was earlier done by TMFHL. Accordingly, the three companies are expected to receive significant business, financial and managerial support from TML

TMFSL benefits from the representation of TML's senior management on its board. Additionally, both TMFHL and TMFSL have a common managing director. TMFHL will support TMFSL's capitalisation, enabling the latter to maintain its capital adequacy ratio (CAR) above the regulatory minimum over the medium term. TMFHL has infused initial equity capital of Rs.

1,500 crore in March 2015 in TMFSL. In a distress scenario, TML is expected to provide support to TMFSL through TMFHL. Furthermore, TMFSL benefits from on-going operational and strategic linkages with TMFL in the form of shared usage of TMFL's branch and dealer network, and common treasury and risk management functions. The significant majority ownership, business and operational integration and shared brand, makes TML (through TMFHL) morally obligated to support TMFSL.

With the objective of reducing gross non-performing assets, TMFSL has, during the quarter ended September 30, 2017, written off the entire manufacturer guaranteed business (MGB) portfolio; this will be recovered from TML.

*** Leading position in CV finance**
While TMFSL has a small portfolio on a standalone basis, the TMFHL group is one of the largest players in the CV financing space. As on September 30, 2017, TMFSL had a standalone portfolio of Rs 2464 crores; this has come down from Rs 4814 crores as on March 31, 2017 due to the write-off of the entire MGB portfolio. However, consolidated AUM stood at Rs 20,129 crore as on September 30, 2017 as TMFL has an AUM of Rs 17,665 crore on the same date.

Weakness
*** Asset quality remains under pressure, impacting earnings profile**
TMFSL's asset quality has traditionally been reflective of the nature of its loan book, which predominantly used to constitute MGB, with full loss cover from TML. These customers were generally not catered to traditional CV financiers, given the inherently high credit risk in some segments. However, post the settlement of the entire MGB portfolio, gross non-performing assets (NPA) and net NPAs as a percentage to total advances have reduced to 1.9% and 1.5% respectively as on September 30, 2017 from 47.2% and 39.3% respectively as on March 31, 2017. Going forward, the ability of the company to manage asset quality in the dealer and vendor financing and used vehicle portfolios needs to be monitored. Consolidated gross and net NPAs stood at 6.80% and 5.12% respectively as on September 30, 2017 (18.05% and 13.67% as on March 31, 2017).

For the year ending March 31, 2017, the company incurred a loss of Rs 491 crore (as against profit of Rs 7.72 crore reported in fiscal 2016) that was largely underpinned by goodwill impairment charges of Rs 402 crore. This translated into a negative return on average assets (RoAA) of 9.2% for FY 2017.

Outlook: Positive
CRISIL believes TMFSL will remain strategically important to TML and will continue to benefit from financial, operational, and management support from TMFHL and TML, over the medium term. The ratings may be upgraded or the outlook revised to 'Stable' in case of a similar action on TML's ratings. The outlook may also be revised to 'Stable' in case of any significant weakening in TMFSL's asset quality and earnings profile. Any material change in TMFSL's strategic importance to, or the extent of support from, TML (through TMFHL) would also have an impact on the rating.

About the Company
TMFSL, a non-deposit-taking systematically important, non-banking finance and asset finance company (NBFC, AFC), is a wholly owned subsidiary of TMFHL. As on March 31, 2015, TMFL had transferred its existing manufacturer-guaranteed (AUM of Rs. 5,680 crore) and pre-owned vehicle financing (AUM of Rs.84 crore) businesses to TMFSL.

For fiscal 2017, TMFSL reported a net loss of Rs 491 crore on total income (net of interest expenses) of Rs 95 crore as against PAT of Rs 7.7 crore on a total income (net of interest expenses) of Rs 176 crore fiscal 2016.

For half year ended September 30, 2017, the company reported a net loss of Rs 60 crore on total revenue (net of interest expenses) of Rs 39.5 crore as against a loss of Rs 15.1 crore on total revenue (net of interest expenses) of Rs 58.5 crore for the corresponding period last year. With the write-off of the MGB portfolio, the company's AUM almost halved to Rs 2,464 crore as on September 30, 2017 from Rs 4814 crore as on March 31, 2017, which mainly consists of dealer and vendor financing business and used vehicle finance business.

[1]*For perpetual bonds*

Key Financial Indicators

As on / for the half year ended Sept		2017	2016
Total Assets	Rs crore	4732	4881
Total income (net of interest expenses)	Rs crore	39.5	58.5
Profit after tax	Rs crore	(60.0)	(15.1)
Capitalization	%	21.94	21.14
Gross NPA (as a percentage to total exposure)	%	1.9	61.7
Return on average assets (annualized)	%	-2.29	-0.58

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available

on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. 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	Issue Size (Rs. cr)	Rating assigned with Outlook
INE477S08043	Debenture^	10-Mar-16	9.99%	10-Mar-18	500	CRISIL AA/Positive
INE477S08035	Debenture^	30-Mar-16	9.8388%	30-Jul-18	500	CRISIL AA/Positive
NA	Debenture@	NA	NA	NA	1000	CRISIL AA/Positive
NA	Subordinate Debt@	NA	NA	NA	200	CRISIL AA/Positive
NA	Commercial Paper	NA	NA	7-365 days	2000	CRISIL A1+
NA	Long-Term Bank Facility#	NA	NA	NA	1300	CRISIL AA/Positive
NA	Cash Credit and Working Capital Demand Loan#	NA	NA	NA	200	CRISIL AA/Positive
NA	Proposed Long-Term Bank Loan Facility* %	NA	NA	NA	2000	CRISIL AA/Positive

^Rated and outstanding
@Rated but unutilised
#Sanctioned bank facilities as on 30th Sept 2017 (net of repayments)
** Interchangeable with short-term facilities*
% Rated and proposed limits as on Sept 30, 2017

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014		Start of 2014
Instrument	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	2000	CRISIL A1+		No Rating Change		No Rating Change	13-03-15	CRISIL A1+		--	--
Non Convertible Debentures	LT	2000	CRISIL AA/Positive		No Rating Change	05-10-16	CRISIL AA/Positive	13-03-15	CRISIL AA/Stable		--	--
Subordinated Debt	LT	200	CRISIL AA/Positive		No Rating Change	05-10-16	CRISIL AA/Positive	13-05-15	CRISIL AA/Stable		--	--
Fund-based Bank Facilities	LT/ST	3500	CRISIL AA/Positive		No Rating Change	05-10-16	CRISIL AA/Positive	13-03-15	CRISIL AA/Stable		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com **Jyoti Parmar** Media Relations	**Krishnan Sitaraman** Senior Director - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 8070 krishnan.sitaraman@crisil.com **Ajit Velonie** Director - CRISIL Ratings **CRISIL Limited** D:+91 22 4097 8209 ajit.velonie@crisil.com **Shubha Bhanu** Rating Analyst - CRISIL Ratings **CRISIL Limited**	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

CRISIL Limited D: +91 22 3342 1835 B: +91 22 3342 3000 jyoti.parmar@crisil.com	D:+91 22 4254 4058 Shubha.Bhanu@crisil.com	

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