

TMF Holdings Limited ^(Revised)
 (Formerly known as Tata Motors Finance Limited)
 January 08, 2018

Ratings

Instruments/Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
LT/ST Bank Facilities	100 (Rupees One Hundred crore only)	CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Non-Convertible Debentures	1,250 (Rupees One Thousand Two Hundred and Fifty crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Commercial Paper	2,500 (Rupees Two Thousand Five Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

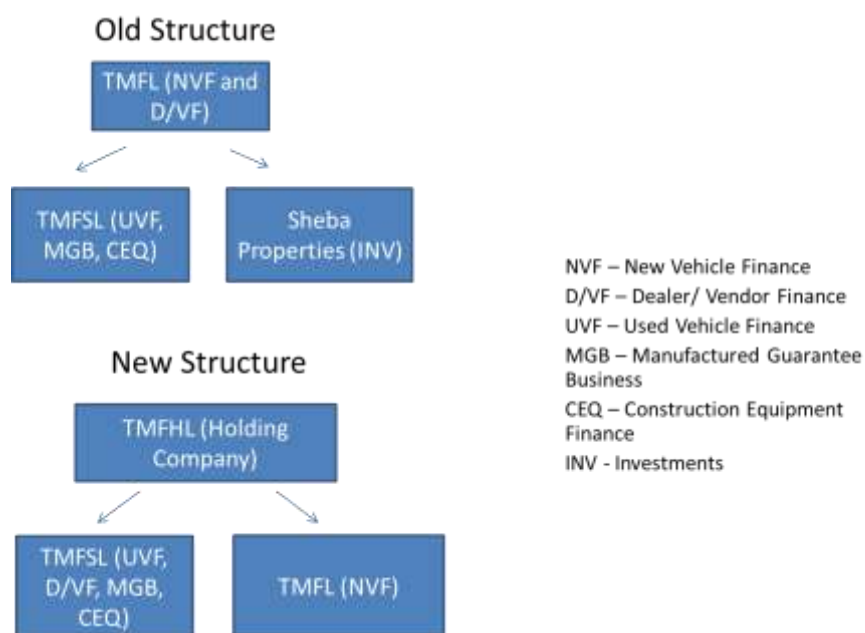
The ratings primarily factor in the parentage of Tata Motors Ltd. (TML, rated 'CARE AA+; Stable') and strategic importance of TMF Holdings Limited (TMFHL) for the parent being the holding company of the captive finance arm of TML, demonstrated capital and management support as well as common brand name. The ratings also continue to take into account TMFHL's strong operational linkages with TML, well diversified resource profile, comfortable liquidity, and adequate capitalization levels. The ratings further factor in stressed asset quality of the group, as well as moderate profitability parameters of the company. Continued support from the parent (TML), asset quality, profitability and capitalization are the key rating sensitivities.

Key Developments

TMFHL (formerly known as Tata Motors Finance Limited, the name of holding company was changed to 'TMF Holdings Limited' as on June 17, 2017) is a core investment company which is a majority owned subsidiary of TML. TMFHL was formerly a systemically important non-banking finance company into asset financing. TMHFL has two subsidiaries viz. Tata Motors Finance Solutions Ltd (TMFSL) and Tata Motors Finance Limited (TMFL; formerly known as Sheba Properties Ltd. - the name has been changed from June 30, 2017). 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. The dealer/vendor financing business of TMHFL 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. TMHFL acts as the holding company of TMFL and TMFSL.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

The structure before and after giving effect to the scheme is as depicted in the diagram below.



During the quarter ended September 30, 2017, TMFSL wrote off the Manufacturer Guaranteed Business (MGB) portfolio. Dues against same have been settled by TMFHL in November 2017, which would further recover the same from TML in a phased manner as agreed between them.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and strategically important subsidiary for the parent

TMFHL is a majority owned subsidiary of Tata Motors Limited (rated 'CARE AA+; Stable') which is the largest automobile manufacturer in Asia as well as the largest commercial vehicle (CV) manufacturer by revenue in India. It is the leading player in the CV segment, with a market share of ~44% for FY17 (refers to the period from April 01 till March 31). 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 (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. TML continues to provide subvention to certain loans of TMFL originated under the respective schemes. TMFSL and TMFL would be critical in expanding into newer business areas like used vehicle financing and dealer/vendor financing.

Strong management and board of directors

The companies' Board of Directors comprise of representatives from TML's senior management. Mr. Shyam Mani is the Managing Director of TMFHL and TMFSL, and is a non-executive director in TMFL. Mr. Mani has experience across various functions, including manufacturing, procurement, finance and sales and marketing. Mr. Mani had also been the Vice President – Sales & Marketing for the Commercial Vehicles Business Unit of TML. Mr. Hoshang Sinor is the Chairman of TMFHL who has been associated with the banking industry for the past three decades and was previously associated with ICICI Bank as the Deputy Managing Director. Apart from senior management from TML, the independent directors on the board of TMFHL include eminent personalities having rich experience in their respective fields.

Strong operational linkages and brand sharing 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).

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. Total and Tier I capital adequacy ratio of TMFHL stood at 65.66% and 65.63% as on March 31, 2017. Further, as on September 30, 2017, the CIC reported adjusted net worth ratio of 73.80%.

Diversified funding profile and comfortable liquidity profile

TMFHL's funding profile is diversified with resources being raised from various avenues like non-convertible debentures and commercial paper. Standalone gearing of the company stood at 0.56x as on March 31, 2017 and 0.39x as on September 30, 2017.

Liquidity profile of the company as on March 31, 2017 is comfortable owing to the transfer of obligations to TMFSL and TMFL as part of the scheme of arrangement. Being part of the Tata Group, TMFHL also has the strength to mobilise funds to meet any liquidity requirements.

Key Rating Weakness**Improvement in asset quality stress; albeit continues to be under pressure**

Asset quality parameters of the company continue to remain stressed owing to TMFL being the captive finance arm of TML. The company, on a consolidated basis, reported Gross NPA Ratio and Net NPA Ratio of 18.05% and 13.67% (based on 90+ dpd) as on March 31, 2017 as against Gross NPA Ratio and Net NPA Ratio of 20.22% and 15.11% (based on 150+ dpd) as on March 31, 2016. Higher NPA ratios in both the companies could be attributed to adoption of the 90 dpd norms by the companies a year ahead of the date stipulated in RBI guidelines. However, excluding the portfolio of TMFSL (since the portfolio of TMFSL has a total loss cover from TML) i.e. considering only TMFL, reported Gross NPA Ratio remained almost stable at 9.84% [P.Y.: 9.81%], while Net NPA Ratio stood at 7.19% [P.Y.: 5.71%] as on March 31, 2017.

During the quarter ended September 30, 2017, TMFSL wrote off its Manufacturer Guaranteed Business (MGB) portfolio. Accordingly, net receivable amount of Rs.1,540.66 crore will be recovered from TML. Consequently, consolidated asset quality parameters improved with reported Gross NPA and Net NPA ratios at 6.80% and 5.12%, respectively at the end of September 30, 2017.

Moderate profitability

Profitability has been under pressure since FY14 due to stress on asset quality. During FY17, the total income of TMFHL (consolidated) declined by 15.7% to Rs.2,721 crore [P.Y.: Rs.3,229 crore]. The company, on consolidated basis, reported loss of Rs.1,182 crore FY17 as against Profit After Tax (PAT) of Rs.267 crore in FY16. The losses which were mainly attributable to the operation of TMFHL and TMFSL, were on account of decline in total income coupled with increase in operating expenditure and increased write-offs. On a standalone basis, the company had an exceptional capital gain of Rs.1,179 crore during FY17 owing to the transfer of business to TMFSL and TMFL, which resulted in PAT of Rs.48 crore. In H1FY18 (refers to the period from April 01 to September 30) TMFHL reported net loss of Rs.6.62 crore on a standalone basis.

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.

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 majority owned subsidiary of Tata Motors Limited (TML, rated CARE AA+; Stable). 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 majority 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/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	
	FY16 (A)	FY17 (A)	FY16 (A)	FY17 (A)
Total income	2,539	1,901	3,229	2,721
PAT	96	48	267	(1,182)
Total Assets	20,205	5,511	23,389	22,713
Reported Net NPA (%)	5.71 [^]	NA	15.11 [^]	13.67 [#]
ROTA (%)	0.50	0.37	1.17	(5.13)

A: Audited

[^]as per 150 dpd; [#]as per 90 dpd

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	100.00	CARE AA+; Stable / CARE A1+
Debentures-Non Convertible Debentures – Proposed	-	-	-	1250.00	CARE AA+; Stable
Commercial Paper	-	-	7-364 days	2015.00*	CARE A1+
Commercial Paper – Proposed	-	-	-	485.00	CARE A1+

*Outstanding as on November 30, 2017

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	2500.00	CARE A1+	1)CARE A1+ (04-Dec-17) 2)CARE A1+ (11-Jul-17) 3)CARE A1+ (13-Apr-17)	-	-	-
2.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (07-Jul-17) 2)CARE AA+; Stable (13-Apr-17)	-	-	-
3.	Debt-Subordinate Debt	LT	-	-	1)Withdrawn (07-Jul-17) 2)CARE AA+; Stable (13-Apr-17)	-	-	-
4.	Bonds-Perpetual Bonds	LT	-	-	1)Withdrawn (11-Jul-17) 2)CARE AA-; Stable (13-Apr-17)	-	-	-
5.	Debentures-Non Convertible Debentures	LT	1250.00	CARE AA+; Stable	1)CARE AA+; Stable (11-Jul-17)	-	-	-
6.	Fund-based - LT/ ST-Term loan	LT/ST	100.00	CARE AA+; Stable / CARE A1+	1)CARE AA+ / CARE A1+ (11-Jul-17)	-	-	-

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