

Rating Rationale

January 24, 2020 | Mumbai

Tata Motors Finance Solutions Limited

Total Bank Loan Facilities Rated	Rs.7500 Crore
Long Term Rating	CRISIL AA-/Negative

Rs.1000 Crore Non Convertible Debentures	CRISIL AA-/Negative
Rs.200 Crore Subordinated Debt	CRISIL AA-/Negative
Rs.2500 Crore Commercial Paper	CRISIL A1+

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL ratings on the bank facilities and debt instruments of Tata Motors Finance Solutions Limited (TMFSL) continue to be centrally based on the expectation of strong support from TMFSL's ultimate parent Tata Motors Limited (TML) to TMF Holdings Limited (TMFHL; rated 'CRISIL AA-/CRISIL A/Negative/CRISIL A1+') and TMFHL's two subsidiaries Tata Motors Finance Limited (TMFL; CRISIL AA-/Negative/CRISIL A1+) and TMFSL. This is because of the high strategic importance of the companies to TML. The ratings also factor in the group's strong position in commercial vehicle (CV) finance segment. However, these rating strengths are partially offset by moderate asset quality of the portfolio.

On August 14, 2019, CRISIL has downgraded its ratings on the long term debt instruments and bank facilities of Tata Motors Finance Solutions Ltd (TMFSL) to 'CRISIL AA-/Negative' from 'CRISIL AA/Negative' in line with the downgrade in ratings of the ultimate parent Tata Motors Limited (TML; rated 'CRISIL AA-/Negative/CRISIL A1+').

Analytical Approach

CRISIL's ratings on the 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. CRISIL has also combined the business and financial risk profiles of TMFHL and its subsidiaries TMFL and TMFSL, given the integration of operations and commonality of management.

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**

CRISIL's ratings on the 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 fiscal 2017; TMFHL became the holding company for the financial services business under the TML umbrella. TMFL undertakes the new vehicle financing business and is the captive financier for TML's vehicles. TMFSL is engaged in pre-owned vehicle financing business that has strong operational linkages with TML's pre-owned vehicles and in corporate lending wherein it provides both short term and long term financing to dealers and suppliers of TML. The short term financing (upto one year) is mainly provided as inventory funding, channel finance, working capital facility etc. On the other hand, the long term financing is provided in the form of term loans and structured finance. 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. TML, through 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. Further, TMFHL subscribed to subordinated debt of Rs 100 crores of TMFSL in fiscal 2019. In a distress scenario, TML is expected to provide support to TMFSL through TMFHL. The 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. Dues against the same have been settled by TMFHL in November 2017, which has been recovered from TML in a phased manner, in six quarterly instalments.

***Leading position in CV finance**

The TMF group is a leading vehicle financier in India and TMFL is among the top five CV financiers with assets under management (AUM) of Rs 31,419 crore as on September 30, 2019 (Rs 29,370 crore as on March 31, 2019 and Rs 21,035 crore as on March 31, 2018). As on September 30, 2019, TMFSL had a standalone portfolio of Rs 5,062 crore (Rs 5,805 crore as on March 31, 2019 and Rs 3,928 crore as on March 31, 2018). The consolidated assets under management (AUM) stood at Rs 36,481 crore as on September 30, 2019 (Rs 35,175 crore as on March 31, 2019 and Rs 24,963 crore as on March 31, 2018).

Weakness

***Moderate asset quality**

TMFHL's consolidated asset quality is expected to be reflective of the nature of the subsidiaries' business, which is tilted predominantly in favor of financing TML's key customer segments such as super-strategic customers, strategic customers and first time users (FTUs) of CVs. The FTU customers are generally not catered to by the traditional CV financiers as the inherent credit risk in some of the customer segments is relatively high.

In the first six months of fiscal 2020, there has been increase in gross non-performing assets (NPA) numbers. TMFL's gross NPA stood at 5.7% as on September 30, 2019 (2.9% as on March 31, 2019 and 4.7% as on March 31, 2018 and 9.8% as on March 31, 2017) while the net NPA stood at 4.4%. TMFSL's GNPA's stood at 3.3% as on September 30, 2019 (1% as on March 31, 2019 and 1.37% as on March 31, 2018 and 47.2% as on March 31, 2017) while the net NPA stood at 2.3%. TMFSL's NPA numbers have come down sharply when compared to previous fiscals as TMFSL has written off its MGB portfolio with full loss cover from TML. The increase in GNPA was primarily because of collections getting affected due to overall slowdown in economy. The management is taking all necessary steps to improve collections and recovery which is expected to improve the GNPA metrics by end of fiscal 2020.

In the past couple of years, TMFL has revised its business strategy with increasing share of strategic and super-strategic customers who are expected to have better risk profiles than FTUs. Further, curtailment of the manufacturer-guaranteed and similar schemes is expected to aid the asset quality metrics going forward.

Liquidity Strong

CRISIL's analysis of TMFSL's asset liability maturity (ALM) profile as of November 30, 2019 shows cumulative positive mismatches across all maturity buckets. As on November 30, 2019, total debt repayments coming up till end February 2020 were Rs 1,008 crore as per ALM statement of which commercial paper repayment was Rs 747 crore. The liquidity position is supported by business inflows by way of repayments /prepayments - business repayments which are around Rs 1,269 crore in the next 3 months. Further, TMFSL had cash and equivalents of Rs 538 crore, investments of Rs 219 crore and unutilised bank lines of Rs 177 crore. Additionally, TMFSL has ICD limits from TMF Group Companies.

Outlook: Negative

The rating outlook on TMFSL is closely linked to the rating outlook on TML. CRISIL believes that TMFSL will be strategically important to TML and will benefit from the financial and management support extended by TML. CRISIL will continue to closely monitor any development that can significantly alter the extent of support by TML. Changes in the rating outlook or ratings on TML may lead to similar changes in the rating outlook or ratings on TMFSL.

Rating sensitivity factors**Upward factors**

* Upgrade in the rating of Tata Motors Limited (TML) by 1 notch or higher

Downward factors

* Downgrade in rating of TML by 1 notch or higher

* Any change in support philosophy of TML resulting in reduced support to TMF Holdings Group

* Sharp deterioration in the consolidated asset quality impacting the profitability and capital level of the TMF Holdings Group.

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. End March 2019, the company's standalone AUM stood at Rs 5805 crore. As on March 31, 2019, the total borrowings stood at Rs 5,610 crore, which was mix of bank borrowings and market borrowings.

For year ending March 31, 2019, TMFSL reported net profit of Rs 99 crore on total income (net of interest expenses) of Rs 242 crore (basis IND AS) as against a loss of Rs 64 crore on total income (net of interest expenses) of Rs 124 crore ending March 2018(basis IND AS).

Key Financial Indicators - TMFSL (per Ind-AS)

As on/for the year ending March 31	Unit	2019	2018
Total Assets	Rs crore	6949	4864
Total income (net of interest expenses)	Rs crore	242	124
Profit after tax	Rs crore	99	-64
Total Capital Ratio	%	17.93	22.05
Gross NPA (as a percentage to total exposure)	%	0.9	1.4
Net NPA	%	0.7	0.8

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of the Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Amount (Rs.Cr)	Rating assigned with Outlook
NA	Debenture^	NA	NA	NA	1000	CRISIL AA-/Negative
NA	Subordinate Debt^	NA	NA	NA	200	CRISIL AA-/Negative
NA	Commercial Paper	NA	NA	7-365 days	2500	CRISIL A1+

NA	Long-Term Bank Facility#	NA	NA	NA	2614.5	CRISIL AA-/Negative
NA	Cash Credit and Working Capital Demand Loan#%#@	NA	NA	NA	1540	CRISIL AA-/Negative
NA	Proposed Long-Term Bank Loan Facility*#	NA	NA	NA	3345.5	CRISIL AA-/Negative

#sanctioned bank facilities as on 31 Dec2019(net of repayments)

* Interchangeable with short-term facilities

%CITI Bank's limit of Rs 90 Crores is unsecured WCDL Limit, not inter-changeable with Cash credit.

@Bank of India's Rs 250 crore is only WCDL, not interchangeable with Cash credit

^Yet to be issued

Annexure - List of Entities Consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
TMF Holdings Limited	Full	Holding
Tata Motors Finance Limited	Full	Co-Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017	
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating	
Commercial Paper	ST	2500.00	CRISIL A1+			29-10-19	CRISIL A1+	25-10-18	CRISIL A1+	30-11-17	CRISIL A1+	CRISIL A1+	
						14-08-19	CRISIL A1+	24-10-18	CRISIL A1+	03-11-17	CRISIL A1+		
						05-07-19	CRISIL A1+	19-09-18	CRISIL A1+	19-04-17	CRISIL A1+		
						26-04-19	CRISIL A1+	06-08-18	CRISIL A1+	02-02-17	CRISIL A1+		
						15-02-19	CRISIL A1+	25-05-18	CRISIL A1+				
						23-01-19	CRISIL A1+	25-04-18	CRISIL A1+				
Non Convertible Debentures	LT	1000.00 24-01-20	CRISIL AA-/Negative			29-10-19	CRISIL AA-/Negative	25-10-18	CRISIL AA/Stable	30-11-17	CRISIL AA/Positive	CRISIL AA/Positive	
						14-08-19	CRISIL AA-/Negative	24-10-18	CRISIL AA/Stable	03-11-17	CRISIL AA/Positive		
						05-07-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	19-04-17	CRISIL AA/Positive		
						26-04-19	CRISIL AA/Negative	06-08-18	CRISIL AA/Positive	02-02-17	CRISIL AA/Positive		
						15-02-19	CRISIL AA/Negative	25-05-18	CRISIL AA/Positive				
						23-01-19	CRISIL AA/Stable	25-04-18	CRISIL AA/Positive				
Subordinated Debt	LT	200.00 24-01-20	CRISIL AA-/Negative			29-10-19	CRISIL AA-/Negative	25-10-18	CRISIL AA/Stable	30-11-17	CRISIL AA/Positive	CRISIL AA/Positive	
						14-08-19	CRISIL AA-/Negative	24-10-18	CRISIL AA/Stable	03-11-17	CRISIL AA/Positive		
						05-07-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	19-04-17	CRISIL AA/Positive		
						26-04-19	CRISIL AA/Negative	06-08-18	CRISIL AA/Positive	02-02-17	CRISIL AA/Positive		
						15-02-19	CRISIL AA/Negative	25-05-18	CRISIL AA/Positive				
						23-01-19	CRISIL AA/Stable	25-04-18	CRISIL AA/Positive				
Fund-based Bank Facilities	LT/ST	7500.00	CRISIL AA-/Negative			29-10-19	CRISIL AA-/Negative	25-10-18	CRISIL AA/Stable	30-11-17	CRISIL AA/Positive	CRISIL AA/Positive	
						14-08-19	CRISIL AA-/Negative	24-10-18	CRISIL AA/Stable	03-11-17	CRISIL AA/Positive		
						05-07-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	19-04-17	CRISIL AA/Positive		
						26-04-19	CRISIL AA/Negative	06-08-18	CRISIL AA/Positive	02-02-17	CRISIL AA/Positive		
						15-02-19	CRISIL AA/Negative	25-05-18	CRISIL AA/Positive				
						23-01-19	CRISIL AA/Stable	25-04-18	CRISIL AA/Positive				

All amounts are in Rs.Cr.

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](#)

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