

Rating Rationale

August 14, 2019 | Mumbai

Tata Motors Finance Limited

Long-term rating downgraded to 'CRISIL AA-/CRISIL A/Negative'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.25000 Crore
Long Term Rating	CRISIL AA-/Negative (Downgraded from 'CRISIL AA/Negative')
Short Term Rating	CRISIL A1+ (Reaffirmed)

Non-Convertible Debentures Aggregating Rs.5605 Crore	CRISIL AA-/Negative (Downgraded from 'CRISIL AA/Negative')
Subordinated Debt Programme Aggregating Rs.1400 Crore	CRISIL AA-/Negative (Downgraded from 'CRISIL AA/Negative')
Perpetual Bonds Aggregating Rs.415 Crore	CRISIL A/Negative (Downgraded from 'CRISIL A+/Negative')
Rs.7000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

¹ crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its ratings on the long term debt instruments and long term bank facilities of Tata Motors Finance Limited (TMFL) to '**CRISIL AA-/CRISIL A/Negative**' from 'CRISIL AA/CRISIL A+/Negative' in line with the downgrade in ratings of the parent Tata Motors Limited (TML; rated 'CRISIL AA-/Negative/CRISIL A1+'). The rating on the short term bank facility and commercial paper has been reaffirmed at 'CRISIL A1+'. CRISIL ratings continue to be centrally based on the expectation of strong support from TMFL's ultimate parent TML to TMF Holdings Limited (TMFHL; rated 'CRISIL AA-/Negative/CRISIL A1+') and TMFHL's two subsidiaries Tata Motors Finance Solutions Limited (TMFSL; 'CRISIL AA-/Negative/CRISIL A1+') and TMFL. 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, albeit improving asset quality of the portfolio.

CRISIL has also withdrawn its rating on the non-convertible debentures of Rs 50 crore (See Annexure 'Details of Rating Withdrawn' for details) in line with its withdrawal policy. CRISIL has received independent confirmation that these instruments are fully redeemed.

Analytical Approach

CRISIL's ratings on the debt instruments and bank facilities of TMFL continue to be based on the expectation of strong support from TML. This is because of TMFL'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.

The ratings on the perpetual bonds additionally take into account the deeply subordinated nature of these instruments whereby TMFL is restricted from servicing these instruments if it breaches the minimum regulatory capital requirement, or if the regulator denies permission to the company to make payments of interest and principal, if it reports losses.

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 debt instruments and bank facilities of TMFL are centrally based upon the expectation of strong support from the ultimate parent TML. This is because of the high strategic importance of TMFL to TML and also latter's majority ownership in TMFL via its wholly owned subsidiary 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 three companies are expected to receive significant business, financial and managerial support from TML.

TML has infused equity capital of Rs 600 in FY 18-19. Consequently, TMHFL infused Rs 300 crore of equity into TMFL and subscribed to Rs. 370 crore of CCPS issued by TMFL and Rs. 150 crore of subordinated debt issued by TMFL in fiscal 2019. Further, in first quarter of fiscal 2020, TMFHL has infused Rs 150 crore of equity and subscribed to Rs 300 crore of subordinated debt in TMFL. The total capital ratio of TMFL was 16.1% as on June 30, 2019 (15.25% as on March 31, 2019), marginally above the regulatory requirement. However, CRISIL believes that TMFL will continue to receive support from TML through TMFHL, on need basis to maintain their capital adequacy above the regulatory minimum.

TMHFL group has 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 TMFSL. CRISIL believes TML will continue to have majority ownership in TMFL through the holding company structure. This, along with operational integration and a shared brand name, makes TML morally obligated to support TMFL.

* 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 29,947 crore as on June 30, 2019 (Rs 29,370 crore as on March 31, 2019 and Rs 21,035 crore as on March 31, 2018). As on June 30, 2019, TMFSL had a standalone portfolio of Rs 5,410 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 35,357 crore (Rs 35,175 crore as on March 31, 2019 and Rs 24,963 crore as on March 31, 2018).

Weakness:

* Moderate, albeit improving 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 and buyers (FTUs and FTBs) 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.

However in last one year, there has been significant reduction in NPA numbers. TMFL's gross NPAs have stood at 4.5% as on June 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 2.9%. TMFSL's NPA numbers have also come down sharply as TMFSL has written off its MGB portfolio with full loss cover from TML. TMFSL's GNPA's stood at 1.7% as on June 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 1.2%. Consolidated gross NPA have, therefore, also come down to 2.6 % as on March 31, 2019 (4.0% as on March 31, 2018 and 18.1% as on March 31, 2017).

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

CRISIL's analysis of TMFL's asset liability maturity (ALM) profile as of July 31, 2019 shows negative mismatch only in the 6 months to 1 year bucket (inflows include existing committed lines of credit upto 2 months). However, given the ability of the TMFHL group to raise funds and expectation of strong support from the ultimate parent TML, the negative mismatch would be manageable. As on July 31, 2019, total debt repayments coming up till October 31, 2019 were Rs 6369 crore as per ALM statement, of which Rs 5131 crore was in the form of commercial paper (CP). Against the same TMFL had collections/prepayments of Rs 2431 crore. Further, TMFL had cash and equivalents of Rs 1031 crore, investments of Rs 668 crore and sanctioned and un-utilized cash credit/WCDL limit of about Rs 1830 crore. The company also has ICD limits from TMF Group Companies.

Outlook: Negative (for bank facilities and debt instruments other than perpetual debt)

The rating outlook on TMFL is closely linked to the rating outlook on TML. CRISIL believes that TMFL 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 TMFL.

Outlook: Negative (for perpetual debt)

CRISIL believes that TMFL will be strategically important to TML and will benefit from the financial and management support extended by the latter. The ratings may be upgraded or the outlook may be revised to 'Stable' in case of a similar action in the ratings on TML. The ratings may be revised down to if TMFL's asset quality significantly weakens; thereby adversely affecting its earnings profile, or if there is pressure on its capitalisation.

About the Company

In March 2016, TMFHL acquired 100% stake in TMFL (earlier Sheba Properties Limited), a non-banking finance company registered with RBI, for Rs 405 crore from TML. As on March 31, 2016, TMFL (earlier Sheba Properties Limited) 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 scheme of arrangement effective January 2017, the entire new vehicle finance business undertaking has been transferred from TMFHL to TMFL. Post transfer, TMFL is a non-deposit taking, systemically important, non-banking financial and asset financing company and will be one of the major financiers of CVs and cars for TML's customers and channel partners. For the year ended March 31, 2019, the company reported profit after tax (PAT) of Rs 204 crore on total income (net of interest expenses) of Rs 1208 crore (basis IND AS), as against a net profit of Rs 272 crore (net of interest expenses) and total income of Rs 1028 (basis IND AS) crore in previous fiscal.

Key Financial Indicators

As on /for the year ended March 31,		2019	2018
Total Assets	Rs crore	32,917	22,809
Total income (net of interest expenses)	Rs crore	1208	1,028
Profit after tax	Rs crore	204	272
Capitalization	%	15.25%	16.56
Gross NPA	%	2.92	4.69
Net NPA	%	1.52	3.27

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	Amount (Rs crore)	Rating assigned with Outlook
INE909H07CZ9	Non convertible debentures	10-Jun-16	Zero Coupon par premium	10-Jun-21	5	CRISIL AA-/Negative
INE909H07BV0	Non convertible debentures	10-Oct-14	9.85%	10-Oct-19	55	CRISIL AA-/Negative
INE909H07BY4	Non convertible	17-Oct-14	9.85%	17-Oct-19	100	CRISIL

	debentures					AA-/Negative
INE909H07CI5	Non convertible debentures	19-Nov-15	9.10%	19-Nov-19	10	CRISIL AA-/Negative
INE909H07CT2	Non convertible debentures	13-May-16	9.20%	13-May-21	10	CRISIL AA-/Negative
INE909H07CL9	Non convertible debentures	17-Dec-15	9.25%	17-Dec-20	40	CRISIL AA-/Negative
INE909H07CP0	Non convertible debentures	07-Apr-16	9.20%	06-Apr-21	20	CRISIL AA-/Negative
INE909H07CX4	Non convertible debentures	10-Jun-16	9.20%	10-Jun-21	42	CRISIL AA-/Negative
INE909H07DF9	Non convertible debentures	28-Jun-16	9.30%	28-Jun-21	22	CRISIL AA-/Negative
INE909H07DJ1	Non convertible debentures	28-Jul-16	9.00%	28-Jul-21	1	CRISIL AA-/Negative
NA	Non convertible debentures -(Rated and unutilized)	NA	NA	NA	1,642.40	CRISIL AA-/Negative
INE909H08014	Subordinated debt	20-Jan-10	10.90%	20-Jan-20	200	CRISIL AA-/Negative
INE909H08022	Subordinated debt	25-Mar-10	10.75%	25-Mar-20	88.95	CRISIL AA-/Negative
INE909H08030	Subordinated debt	12-Apr-10	10.70%	10-Apr-20	100	CRISIL AA-/Negative
INE909H08048	Subordinated debt	28-Apr-10	10.70%	28-Apr-20	111	CRISIL AA-/Negative
INE909H08063	Subordinated debt	19-Sep-11	11.00%	17-Sep-21	75.3	CRISIL AA-/Negative
INE909H08071	Subordinated debt	02-Mar-12	11.00%	02-Mar-22	69.15	CRISIL AA-/Negative
INE909H08089	Subordinated debt	26-Mar-12	11.00%	26-Mar-22	10	CRISIL AA-/Negative
INE909H08097	Subordinated debt	22-May-12	11.00%	22-May-22	37.4	CRISIL AA-/Negative
INE909H08121	Subordinated debt	03-Aug-12	10.65%	03-Aug-22	25	CRISIL AA-/Negative
INE909H08139	Subordinated debt	28-Dec-14	10.46%	28-Dec-22	28	CRISIL AA-/Negative
INE909H08147	Subordinated debt	28-May-13	10.15%	28-May-23	55.1	CRISIL AA-/Negative
INE909H08170	Subordinated debt	24-May-13	9.85%	24-May-23	100	CRISIL AA-/Negative
INE909H08196	Subordinated debt	12-Sep-15	10.60%	12-Sep-24	25	CRISIL AA-/Negative
INE909H08204	Subordinated debt	26-Sep-14	10.35%	26-Sep-24	60	CRISIL AA-/Negative
INE909H08212	Subordinated debt	19-Dec-14	9.70%	19-Dec-24	150	CRISIL AA-/Negative
NA	Subordinated debt-(Rated and unutilized)	NA	NA	NA	265.1	CRISIL AA-/Negative
INE909H08055	Perpetual Debt	23-Nov-10	11.35%	23-Nov-20	150	CRISIL A/Negative
INE909H08105	Perpetual Debt	30-May-12	11.50%	30-May-22	26.9	CRISIL A/Negative
INE909H08113	Perpetual Debt	28-Jun-12	11.25%	28-Jun-22	73.1	CRISIL A/Negative
INE909H08162	Perpetual Debt	23-May-13	11.33%	23-May-23	22.3	CRISIL A/Negative
INE909H08154	Perpetual Debt	28-May-13	11.03%	28-May-23	52.7	CRISIL A/Negative
INE909H08188	Perpetual Debt	05-Sep-14	11.10%	05-Sep-24	50.3	CRISIL A/Negative
NA	Perpetual Debt- Rated and unutilized	NA	NA	NA	39.7	CRISIL A/Negative
NA	Commercial paper-Rated and unutilized	NA	NA	NA	7,000.00	CRISIL A1+
NA	Cash Credit and Working Capital Demand Loan**#@%^<*	NA	NA	NA	5,494.50	CRISIL AA-/Negative
NA	Long-Term Bank Facility \$*!	NA	NA	NA	11,134.51	CRISIL AA-/Negative
NA	Bank Guarantee*	NA	NA	NA	632	CRISIL A1+
NA	Proposed Long-Term Bank Loan Facility++	NA	NA	NA	7,083.99	CRISIL AA-/Negative
NA	Proposed Bank	NA	NA	NA	655	CRISIL A1+

	Guarantee++				
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** SBI's only Rs 400 crore marked as CP

#Vijaya Bank-Rs 200 Crs Only WCDL/STL

@Syndicate bank-Not interchangeable with WCDL

%IDFC First Bank's WCDL of Rs 300 crore not interchangeable with CC, however, Rs 250 Cr is fungible with BG.

^IDFC First Bank's cash credit of Rs 90 crore interchangeable with BG.

<For DBS Bank, CC Limit of Rs 25 Crs is a sublimit of WCDL Limit is Rs 200 cr

\$Secured loan from CITI bank of Rs 171 Crores is a USD 25 Million loan which is fully hedged

*Sanctioned bank facilities as on May 31, 2019 (Note- Long-Term Bank Facilities are net of repayments)

++Rated and proposed limits as on May 31, 2019

! ECB from Barclays Bank PLC & DBS Bank of USD 30 Million each has been fully hedged.

Annexure - Details of Rating Withdrawn

ISIN	Name of the Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Amount (Rs crore)
INE909H07DI3	Non convertible debentures	28-Jul-16	Zero Coupon par premium	23-Jul-19	50

Annexure - List of entities consolidated

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

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	7000.00	CRISIL A1+	05-07-19	CRISIL A1+	30-10-18	CRISIL A1+	06-12-17	CRISIL A1+		--	--
				27-04-19	CRISIL A1+	19-09-18	CRISIL A1+					
				15-02-19	CRISIL A1+	07-08-18	CRISIL A1+					
				06-02-19	CRISIL A1+	31-05-18	CRISIL A1+					
						27-04-18	CRISIL A1+					
Non Convertible Debentures	LT	1947.40 14-08-19	CRISIL AA-/Negative	05-07-19	CRISIL AA/Negative	30-10-18	CRISIL AA/Stable	06-12-17	CRISIL AA/Positive	18-10-16	CRISIL AA/Positive	CRISIL AA/Stable
				27-04-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	03-11-17	CRISIL AA/Positive	12-10-16	CRISIL AA/Positive	
				15-02-19	CRISIL AA/Negative	07-08-18	CRISIL AA/Positive	21-09-17	CRISIL AA/Positive	05-10-16	CRISIL AA/Positive	
				06-02-19	CRISIL AA/Stable	31-05-18	CRISIL AA/Positive	31-07-17	CRISIL AA/Positive	30-09-16	CRISIL AA/Stable	
						27-04-18	CRISIL AA/Positive	09-05-17	CRISIL AA/Positive	22-08-16	CRISIL AA/Stable	
								09-05-17	CRISIL AA/Positive	25-04-16	CRISIL AA/Stable	
								19-04-17	CRISIL AA/Positive	18-04-16	CRISIL AA/Stable	
								24-02-17	CRISIL AA/Positive			
				05-07-19	CRISIL A+/Negative	30-10-18	CRISIL A+/Stable	06-12-17	CRISIL A+/Positive	18-10-16	CRISIL A+/Positive	CRISIL A+/Stable
				27-04-19	CRISIL A+/Negative	19-09-18	CRISIL A+/Stable	03-11-17	CRISIL A+/Positive	12-10-16	CRISIL A+/Positive	
15-02-19	CRISIL A+/Negative	07-08-18	CRISIL A+/Positive	21-09-17	CRISIL A+/Positive	05-10-16	CRISIL A+/Positive					
06-02-19	CRISIL A+/Stable	31-05-18	CRISIL A+/Positive	31-07-17	CRISIL A+/Positive	30-09-16	CRISIL A+/Stable					
				27-04-18	CRISIL A+/Positive	09-05-17	CRISIL A+/Positive	22-08-16	CRISIL A+/Stable			
						09-05-17	CRISIL A+/Positive	25-04-16	CRISIL A+/Stable			
						19-04-17	CRISIL A+/Positive	18-04-16	CRISIL A+/Stable			
						24-02-17	CRISIL A+/Positive					
Short Term Debt	ST							03-11-17	CRISIL A1+	18-10-16	CRISIL A1+	CRISIL A1+
								21-09-17	CRISIL A1+	12-10-16	CRISIL A1+	
								31-07-17	CRISIL A1+	05-10-16	CRISIL A1+	
								09-05-17	CRISIL A1+	30-09-16	CRISIL A1+	
								09-05-17	CRISIL A1+	22-08-16	CRISIL A1+	
								19-04-17	CRISIL A1+	25-04-16	CRISIL A1+	
						24-02-17	CRISIL A1+	18-04-16	CRISIL A1+			

Subordinated Debt	LT	1400.00 14-08-19	CRISIL AA-/Negative	05-07-19	CRISIL AA/Negative	30-10-18	CRISIL AA/Stable	06-12-17	CRISIL AA/Positive	18-10-16	CRISIL AA/Positive	CRISIL AA/Stable
				27-04-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	03-11-17	CRISIL AA/Positive	12-10-16	CRISIL AA/Positive	
				15-02-19	CRISIL AA/Negative	07-08-18	CRISIL AA/Positive	21-09-17	CRISIL AA/Positive	05-10-16	CRISIL AA/Positive	
				06-02-19	CRISIL AA/Stable	31-05-18	CRISIL AA/Positive	31-07-17	CRISIL AA/Positive	30-09-16	CRISIL AA/Stable	
						27-04-18	CRISIL AA/Positive	09-05-17	CRISIL AA/Positive	22-08-16	CRISIL AA/Stable	
								09-05-17	CRISIL AA/Positive	25-04-16	CRISIL AA/Stable	
								19-04-17	CRISIL AA/Positive	18-04-16	CRISIL AA/Stable	
								24-02-17	CRISIL AA/Positive			
Fund-based Bank Facilities	LT/ST	23713.00	CRISIL AA-/Negative	05-07-19	CRISIL AA/Negative	30-10-18	CRISIL AA/Stable	06-12-17	CRISIL AA/Positive	18-10-16	CRISIL AA/Positive	CRISIL AA/Stable
				27-04-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	03-11-17	CRISIL AA/Positive	12-10-16	CRISIL AA/Positive	
				15-02-19	CRISIL AA/Negative	07-08-18	CRISIL AA/Positive	21-09-17	CRISIL AA/Positive	05-10-16	CRISIL AA/Positive	
				06-02-19	CRISIL AA/Stable	31-05-18	CRISIL AA/Positive	31-07-17	CRISIL AA/Positive	30-09-16	CRISIL AA/Stable	
						27-04-18	CRISIL AA/Positive	09-05-17	CRISIL AA/Positive	22-08-16	CRISIL AA/Stable	
								09-05-17	CRISIL AA/Positive	25-04-16	CRISIL AA/Stable	
								19-04-17	CRISIL AA/Positive	18-04-16	CRISIL AA/Stable	
								24-02-17	CRISIL AA/Positive			
Non Fund-based Bank Facilities	LT/ST	1287.00	CRISIL AA-/Negative/ CRISIL A1+	05-07-19	CRISIL AA/Negative/ CRISIL A1+	30-10-18	CRISIL A1+	06-12-17	CRISIL A1+	18-10-16	CRISIL A1+	CRISIL AA/Stable/ CRISIL A1+
				27-04-19	CRISIL AA/Negative/ CRISIL A1+	19-09-18	CRISIL A1+	03-11-17	CRISIL A1+	12-10-16	CRISIL A1+	
				15-02-19	CRISIL AA/Negative/ CRISIL A1+	07-08-18	CRISIL A1+	21-09-17	CRISIL A1+	05-10-16	CRISIL A1+	
				06-02-19	CRISIL AA/Stable/ CRISIL A1+	31-05-18	CRISIL A1+	31-07-17	CRISIL A1+	30-09-16	CRISIL A1+	
						27-04-18	CRISIL A1+	09-05-17	CRISIL A1+	22-08-16	CRISIL A1+	
								09-05-17	CRISIL A1+	25-04-16	CRISIL A1+	
								19-04-17	CRISIL A1+	18-04-16	CRISIL AA/Stable/ CRISIL A1+	
								24-02-17	CRISIL A1+			

All amounts are in Rs.Cr.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for Consolidation](#)

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