

Rating Rationale

August 14, 2019 | Mumbai

TMF Holdings Limited

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

Rating Action

Non Convertible Debentures Aggregating Rs.2000 Crore	CRISIL AA-/Negative (Downgraded from 'CRISIL AA/Negative')
Commercial Paper Aggregating Rs.2500 Crore	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

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

Analytical Approach

CRISIL's ratings on the debt instruments and bank facilities of TMFHL continue to be based on the expectation of strong support from TML. This is because of TMFHL's high strategic importance to TML. 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 - Details of Consolidation, 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

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. On the other hand, TMFSL is engaged in pre-owned vehicle financing business that has strong operational linkages with TML's pre-owned vehicles. TMFSL is also actively engaged 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. Accordingly, the three companies are expected to receive significant business, financial and managerial support from TML.

In the past, TML has been infusing equity capital into TMFHL (including in its earlier form as TMFL, the operating company) at regular intervals. TML has infused Rs 300 crore equity in the fourth quarter of fiscal 2018, Rs. 300 crore in in October 2018 and another Rs 300 crore in January 2019 into TMFHL. CRISIL believes that TML will continue to provide similar support through TMFHL, enabling the companies to maintain their capital adequacy above the regulatory minimum.

The three companies (TMFHL, TMFL and TMFSL) would have a high level of managerial and operational integration, where the parent extends management support through representation of its senior management on the boards of these companies. CRISIL believes TML will continue to have majority ownership in TMFL through the CIC. 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 (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.

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).

Liquidity

CRISIL's analysis of TMFHL's asset liability maturity (ALM) profile as of July 31, 2019 (CRISIL adjusted; excluding committed lines of credit) shows cumulative negative mismatches in all the maturity buckets upto 5 year bucket. With inclusion of the committed lines, there is cumulative negative mismatch in all the buckets upto 5 years excluding the first bucket of upto 30 days. 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 1647 crore as per ALM statement, in the form of commercial paper (CP). Against the same TMFHL had cash and equivalents of Rs 5 crore, investments of Rs 94 crore and sanctioned and un-utilized cash credit/WCDL limits of Rs 5 crore and unutilised limit of Rs 1000 crore from the parent TML. Further, the company also has ICD limits from TMF Group Companies.

Outlook: Negative

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

About the Company

TMFHL is the holding company for the financial services business of TMF group. Following the business restructuring of the group, the company is reconstituted as a Core Investment Company (NBFC-CIC). This has been done to have a more focused approach to cater to the TML ecosystem of buyers, dealers and vendors. It is expected that a CIC would be better able to manage the funding needs of the financial services businesses under TML. As a CIC, TMFHL would be required to maintain the ratio of group to non-group investments at 90% to 10%.

For the year ending March 31, 2019, the company's standalone net profit stood at Rs 3.7 crore on total income (net of interest expenses) of Rs 22.6 crore as per IND-AS as against loss of Rs 26.0 crore in the previous year.

Key Financial Indicators (TMFHL-Standalone)

As on / for the year ended March 31	Units	2019	2018
Total Assets	Rs crore	7100.1	6698.8
Total income (net of interest expenses)	Rs crore	22.6	-9.8
Profit after tax	Rs crore	3.7	-26.0
Capitalization	%	NA	NA
Gross NPA	%	NA	NA

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
INE909H08220	Non- Convertible Debentures	10-Jan-17	Zero coupon	10-Jan-20	250	CRISIL AA-/Negative
INE909H08238	Non- Convertible Debentures	10-Jan-17	Zero coupon	26-Mar-20	75	CRISIL AA-/Negative
INE909H08246	Non- Convertible Debentures	10-Jan-17	Zero coupon	15-Apr-20	175	CRISIL AA-/Negative
INE909H08253	Non- Convertible Debentures	25-Jan-17	Zero coupon	24-Jan-20	150	CRISIL AA-/Negative
INE909H08261	Non- Convertible Debentures	25-Jan-17	Zero coupon	12-May-20	100	CRISIL AA-/Negative
NA	Non- Convertible Debentures*	NA	NA	NA	1250	CRISIL AA-/Negative
NA	Commercial Paper*	NA	NA	7-365 days	2500	CRISIL A1+

*Rated but unutilized

Annexure - List of entities consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
Tata Motors Finance Solutions Limited	Full	Subsidiary
Tata Motors Finance Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	2500.00	CRISIL A1+	15-02-19	CRISIL A1+	19-09-18	CRISIL A1+	28-11-17	CRISIL A1+		--	--
Non Convertible Debentures	LT	2000.00 14-08-19	CRISIL AA-/Negative	15-02-19	CRISIL AA/Negative	19-09-18	CRISIL AA/Stable	28-11-17	CRISIL AA/Positive		--	--
								03-11-17	CRISIL AA/Positive			
								22-09-17	CRISIL AA/Positive			
								25-07-17	CRISIL AA/Positive			
Perpetual Bonds	LT		--		--		--	25-07-17	Withdrawn			
Short Term Debt	ST							03-11-17	CRISIL A1+		--	--
								22-09-17	CRISIL A1+			
								25-07-17	CRISIL A1+			
Subordinated Debt	LT		--		--		--	25-07-17	Withdrawn			
Fund-based Bank Facilities	LT/ST		--		--		--	25-07-17	Withdrawn			
Non Fund-based Bank Facilities	LT/ST		--		--		--	25-07-17	Withdrawn			

All amounts are in Rs.Cr.

Links to related criteria
Rating Criteria for Banks and Financial Institutions
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Group Support
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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