

February 15, 2022

## Tata Motors Finance Solutions Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Perpetual Debt Programme	100.00	100.00	[ICRA]A(stable); reaffirmed
Subordinated Debt Programme	200.00	200.00	[ICRA]AA-(stable); reaffirmed
<b>Total</b>	<b>2,800.00</b>	<b>2,800.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's ratings for Tata Motors Finance Solutions Limited (TMFSL) derives significant support from its ultimate parentage in the form of Tata Motors Limited (TML, rated [ICRA]AA-(stable)/[ICRA]A1+). TMFSL is a wholly owned subsidiary of TMF Holding Limited (TMFHL, rated at [ICRA]AA-(stable)/ [ICRA]A1+) which, in turn, is a wholly owned by TML. ICRA believes that TMFHL is strategically important to TML given that it is the holding company for the captive financiers of the group i.e. Tata Motors Finance Limited (TMFL) and Tata Motors Finance Solutions Limited (TMFSL), together referred to as TMF Group. The group's ratings are strongly linked to the stated intention of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board. Further, the group's operations benefit from its leadership position in financing Tata commercial vehicles, the strong board oversight and a shared brand name. The shared brand name also supports the financial flexibility of the group, and the consolidated liquidity position is supported by adequate cash and liquid investments and unutilised bank lines available at TMFL and TMFSL. ICRA derives comfort from the subsidiaries being strategically important to its parent as a captive financier of TML vehicles (TMFL financed ~27.4 % of TML commercial vehicle sales in 9MFY2022). ICRA notes that reported consolidated gross NPA% of 19.2 % and net NPA of 16.3% and gross stage 3% of 11.6% as on December 31, 2021) at elevated levels and the increase is higher following the recent clarification by the Reserve Bank of India (RBI) on IRAC norms and drop in collections owing to second and third wave of the pandemic, In this regard, ICRA believes that the group is reorientating collections effort to reduce NNPA towards RBI PCA norms in a graded manner by March 2023 and would also evaluate additional fresh capital to bring down the Net NPA on a steady state basis while maintaining adequate capital adequacy in order to stay out of the Prompt Corrective Action (PCA) framework for Non-Banking Financial Companies (NBFCs) which comes into effect from October 1, 2022. Thus, the continued effort by TMF to improve its collection to reduce NPA and support from TML to TMF group would be imperative to maintain prudent capital structure over the short to medium term. Overall, the group's ability to manage recoveries or mitigate losses through the enforcement of security while arresting fresh slippages and thus keeping a check on the credit costs will have a bearing on its overall earning profile. Till then, the profitability metrics for the group are expected to remain muted. Overall, a significant change in the shareholding pattern of TMFHL or a change in the expectation of support from TML or a deterioration in the credit profile of TML could warrant a rating change for TMF group. Also, the quantum and timeliness of support from TML to TMF group would be a key monitorable.

## Key rating drivers and their description

### Credit strengths

**Strategic importance to TML and demonstrated support from parent in the form of regular capital infusion** - ICRA's ratings for TMFSL derives significant support from its ultimate parentage in the form of TML. TMF group's ratings are strongly linked to the stated intention of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board. ICRA derives comfort from the entity being strategically important to its parent as a captive financier of TML's vehicles (TMFL financed ~27.4 % of TML commercial vehicle sales in 9MFY2022). ICRA expects TML to provide support to TMF group to enable it to maintain a prudent capital structure, while maintaining its full ownership. ICRA expects the support from the parent to be forthcoming to enable the group to maintain prudent capitalisation levels.

**Assured business volumes on account of TML's established market position; well-established branch and distribution network** - Being a captive financing arm of TML, TMF group enjoys strong linkages and has relationship with the dealer network and the preferred financier for most of its dealer network. TML continues to have a leading market position in commercial vehicles (CVs) in India, supported by its strong and diversified portfolio, high brand equity and well entrenched market reach. ICRA takes note of TML's stated intent to support TMF group and to continue maintain full ownership in the group. As on September 30, 2021, the consolidated asset under management (AUM) of the group stood at Rs. 42,834 crore consisting of new vehicle financing (81%), used vehicle financing (13%) and CLG (6%). As on September 30, 2021, TMFSL had a standalone AUM of 7,740 crore.

**Diverse borrowing profile** - The company enjoys good financial flexibility and has access to long term funding by virtue of being a part of the TML group, with access to funds at competitive rates of interest. As on December 31, 2021, aggregate funding mix (TMFL+TMFSL+TMFHL) comprises of long-term market debt (23%), bank borrowings (52 %), commercial paper (16 %) and securitization (4%) and others (6%). On a standalone basis, TMFSL funding mix comprises of bank borrowings (62 %), long-term market debt (17%), commercial paper (12%) and ICD (9%) as on December 31, 2021. The consolidated liquidity profile is adequate, supported by unutilised bank lines to bridge short term mismatches in cash flows.

### Credit challenges

**Weak asset quality indicators** - TMFHL's asset quality indicators on a consolidated basis weakened to gross<sup>1</sup> and net NPAs of 19.2% and 16.3% respectively on December 31, 2021 (gross stage 3% under IndAS stood at 11.6% as on December 31, 2021) compared to 5.2% and 3.8% respectively on March 31, 2021. The reported asset quality indicators is on account of the recent clarification by the Reserve Bank of India (RBI) on IRAC norms and lower collections owing to the challenges in the operating environment due to the pandemic and impact on cashflows of borrowers. ICRA takes note of the management's initiatives to augment its recovery efforts, to ensure better credit selection and recoveries from exiting NPA accounts. The GNPA/NNPA for TMFL and TMFSL on standalone basis stood at 20.8%/17.9% and 13.3%/10.6% respectively on December 31, 2021 and 5.6%/4.0% and 3.5%/3.0% respectively on March 31, 2021. However as per Ind AS, the Gross stage 3/Net stage 3 for TMFL and TMFSL as of December 31, 2021 stood at 12.5%/9.7% and 8.2%/5.5% respectively. In this regard, ICRA believes that the group would require additional fresh capital to bring down the Net NPA on a steady state basis while maintaining adequate capital adequacy in order to stay out of the Prompt Corrective Action (PCA) framework for Non-Banking Financial Companies (NBFCs) which comes into effect from October 1, 2022. TMF group has also strengthened the collection team with additional manpower and is endeavoring to bring Net Stage 3 assets below 6%. Thus, the continued effort by TMFL and support from TML to TMF group would be imperative to maintain prudent capital structure over the short to medium term. Further, the group's ability to manage recoveries or mitigate losses through its new strategies and also by the enforcement of security while arresting fresh slippages will remain key rating monitorables.

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<sup>1</sup> As per RBI's IRAC norms.

**Weak consolidated capitalisation profile** - On a consolidated basis, the group's overall gearing stood at 16.2 times (reported gearing 8.1<sup>2</sup> times) on March 31, 2021 as compared to 15.6 times (reported gearing 13.9<sup>3</sup>) times as on March 31, 2020 owing to equity infusion and decline in consolidated debt. On standalone basis, TMFSL's net worth stood at Rs. 1,636 crore on December 31, 2021 and a reported capital adequacy ratio of 18.4% (Tier-I of 17.9%) as on December 31, 2021. TMFSL's gearing remains adequate at 4.2 times as on December 31, 2021, (4.3 times on March 31, 2021). Further, ICRA draws comfort from the parentage which has been providing capital and liquidity support to TMHFL and its subsidiaries. Given the strategic importance of the group to TML stated intent to support the group, ICRA expects capital support from the ultimate parent to be forthcoming to keep the group companies adequately capitalised.

**Subdued profitability indicators; albeit improving** - Improvement in NIMs in FY2021 and decline in operating expenses in FY2020 notwithstanding increase in credit costs FY2021 from lead to improvement in higher net profit on consolidated basis for TMFHL. TMFHL on consolidated basis reported a higher net profit of Rs. 269 crore in FY2021 translating into RoA and RoE of 0.6% and 11.1%<sup>4</sup> respectively as compared to net profit of Rs. 139 crore in FY2020 translating into RoA and RoE of 0.4% and 6.6%<sup>5</sup> respectively. Going forward, profitability is expected to be subdued over the medium term given the likelihood of elevated credit costs as the group endeavours to bring down the net NPAs. It would be imperative for the operating companies to grow the business volumes profitably while maintaining control over the asset quality to be able to improve the earnings profile of the Group. In 9MFY2022, TMFL, TMFSL and TMFHL reported net profit of Rs. 132 crore, Rs. 67 crore and Rs. 67 crore respectively, on standalone basis.

TMFSL on standalone basis reported a net profit of Rs. 67 crore in 9MFY2021 translating into RoA and RoE of 1.1 % and 5.7% respectively as compared to net profit of Rs. 194 crore in FY2021 translating into RoA and RoE of 2.7% and 13.5% respectively.

**Concentration risk** - Being a captive financier, a large proportion of TMF Group's loan book is towards TML's vehicle. Consequently, TMFL has a high reliance on TML's sales velocity in order to generate business volumes thus expanding its loan book.

## Liquidity position: Adequate

The liquidity profile of TMFHL is adequate on consolidated basis. As on December 31, 2021, total consolidated (TMFHL+TMFL+TMFSL) debt outflows, over the next 3 months stood at ~Rs. 10,686 crore of which CC/WCDL of Rs. 770 crore and commercial paper is expected to be rolled over, given the good financial flexibility by virtue of being a part of the TML group. The consolidated liquidity position is supported by combined cash and liquid investments of ~Rs. 5507 crore and unutilised bank lines of ~Rs. 3825 crore and FDs/ G Sec/ T Bill Investments for liquidity backup of ~Rs. 1601 crore. Moreover, TMFHL has unutilised ICD lines of Rs 1,000 crore from TML on December 31, 2021 to meet the funding gaps and future funding requirements.

## Rating sensitivities

**Positive factors** - TMFSL's ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. A significant improvement in the credit profile of TML could warrant a rating upgrade.

**Negative factors** - TMFSL's ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. A significant change in the shareholding pattern or a change in the expectation of support from TML or a deterioration in the credit profile of TML could warrant a rating downgrade.

<sup>2</sup> Rs. 2,313 crore perpetual debt classified as equity as per Ind-AS. However, ICRA considers the perpetual debt as borrowing. *Net worth and gearing (incl. perpetual debt as equity) stood at Rs. 4,921 crore and 8.1 times respectively on March 31, 2021.*

<sup>3</sup> Rs. 250 crore perpetual debt classified as equity as per Ind-AS. However, ICRA considers the perpetual debt as borrowing. *Net worth and gearing (incl. perpetual debt as equity) stood at Rs. 2,491 crore and 13.9 times respectively on March 31, 2020.*

<sup>4</sup> Rs. 2,313 crore perpetual debt classified as equity as per Ind-AS. However, ICRA considers the perpetual debt as borrowing. *RoE (incl. perpetual debt as equity) stood at 7.3% on March 31, 2021.*

<sup>5</sup> Rs. 250 crore perpetual debt classified as equity as per Ind-AS. However, ICRA considers the perpetual debt as borrowing. *RoE (incl. perpetual debt as equity) stood at 6.2% on March 31, 2020.*

## Analytical approach

Analytical Approach	Comments
<b>Applicable Rating Methodologies</b>	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating approach - Implicit support from parent or group</a>
<b>Parent/Group Support</b>	Ultimate Parent/Investor: Tata Motors Limited TMF group's ratings are strongly linked to the expectation of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board.
<b>Consolidation/Standalone</b>	While arriving at the ratings, ICRA has considered the consolidated performance of TMFHL and its subsidiaries (TMFL and TMFSL) given the strong operational and financial synergies between the companies. <i>Details mentioned in Annexure 2.</i>

## About the company

Tata Motors Finance Solutions Ltd (TMFSL, formerly Rajasthan Leasing Private Limited) is a non-banking financial company and a 100% subsidiary of TMF Holdings Limited. TMFSL is currently in the business of doing used vehicle financing of TML's vehicles and corporate lending business.

As on September 30, 2021, TMFSL had a standalone AUM of 7,740 crore comprising of used vehicle financing (64%), corporate lending group (26%), direct assignments (8%) and others (2%). TMFSL reported a net profit of Rs. 194 crore on asset base of Rs. 8,181 crore in FY2021 as compared to Rs. 176 crore on asset base of Rs. 6,315 crore in FY2020. In 9MFY22, the company reported a net profit of Rs. 67 crore on asset base of Rs. 8,924 crore as on December 31, 2021. Net worth as on December 31, 2021 stood at Rs. 1,636 crore.

### TMF Holdings Limited

TMF Holdings Limited (TMFHL), a Core Investment Company, is the parent company of Tata Motors Finance Limited (TMFL) and Tata Motors Finance Solutions Limited (TMFSL). TMFHL is responsible for lending and investing in the Tata Motors Group companies. Following a restructuring of the TMF Group in FY 2017, the new vehicle financing business of the Group is housed in TMFL (Formerly known as Sheba Properties Limited). The existing Corporate Lending Business and used vehicle financing business is housed in TMFSL.

In FY2021, TMFHL (consolidated) reported a PAT of Rs. 269 crore on an asset base of Rs. 45,864 crore as against a PAT of Rs. 139 crore on an asset base of Rs. 37,947 crore in FY2020.

In FY2021, TMFHL (standalone) reported a net loss of Rs. 110 crore on an asset base of Rs. 8,001 crore as against a net profit of Rs. 11 crore on an asset base of Rs. 6,938 crore in FY2020. In 9MFY22, the company on standalone basis reported a net profit of Rs. 67 crore on asset base of Rs. 9,077 crore as on December 31, 2021.

### Tata Motors Limited

Incorporated in 1945, Tata Motors Limited is India's largest automobile company and the market leader in the domestic CV industry and one of the top five manufacturers of PVs in India. In the domestic CV industry, TML has one of the most diversified product portfolios with a presence spanning across light, medium and heavy duty segments of the CV industry. The company's product portfolio in the PV segment also spans passenger cars, UVs and multi-purpose vehicles (MPVs).

In June 2008, TML acquired Jaguar Land Rover from Ford Motor Company for US\$ 2.3 billion. Following the acquisition, TML's business profile underwent a significant change from being a predominantly India-centric OEM to one with presence in the premium and luxury segment cars and SUVs across multiple markets in Europe, North America, China, Russia and Brazil. Apart from JLR, which is wholly-owned by TML and contributed ~75% to its consolidated turnover in FY2018, the company has also historically expanded its operations in India as well as overseas through strategic alliances and mergers and acquisitions. Some of its key subsidiaries include Tata Motors Finance Limited (vehicle financing subsidiary), Tata Technologies Limited (a software

firm engaged in providing IT solutions to the automotive industry), Tata Daewoo Commercial Vehicles Company Limited (CV operations in South Korea) and TML Drivelines Limited (its captive auto component manufacturer). The company also operates a joint venture (JVs) with Marcopolo (for building bodies for buses and coaches) and Fiat (for PVs, engines and transmissions).

TML has six manufacturing plants in India at Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pantnagar (Uttaranchal), Dharwad (Karnataka) and Sanand (Gujarat). In addition, the company's key subsidiary, JLR, operates three manufacturing facilities and two design centres in the UK, and has also recently commenced manufacturing operations at Slovakia. In FY2013, JLR also formed a 50-50 JV with China-based Chery Automobiles to set up a manufacturing facility in China, which commenced operations from H2 FY2015. Moreover, as a Group, TML operates assembly operations at multiple locations around the globally through its subsidiaries and JVs.

### Key financial indicators (audited)

Tata Motors Finance Solutions Limited (standalone) (In Rs. Crore)	FY2019	FY2020	FY2021	9MFY2022
Total Income (Rs. crore)	605	731	834	770
PAT (Rs. crore)	99	176	194	67
Net worth (Rs. crore)	1158	1336	1529	1636
Total Assets (Rs. crore)	6949	6315	8181	8924
Return on Assets (%)	0.7%	2.7%	2.7%	1.1%
Return on Equity (%)	8.3%	14.1%	13.5%	5.7%
Gross NPA (%)	1.0%	4.6%	3.5%	13.3%
Net NPA%	0.7%	3.9%	3.0%	10.6%
Net NPA/Net worth (%)	3.5%	15.1%	13.6%	50.1%
Gearing	4.8	3.7	4.3	4.2
CRAR (%)	17.9%	20.6%	20.7%	18.4%

Source: Company, ICRA Research; All ratios as per ICRA calculations

TMF Holdings Limited (consolidated) (In Rs. Crore)	FY2019	FY2020	FY2021
Total Income (Rs. crore)	3,976	4,671	4,882
PAT (Rs. crore)	164	139	269
Net Worth (Rs. crore)	2,006	2,241	2,608
Loan Book (AUM)	35,176	35,946	42803
Total Assets (Rs. crore)	40,540	37,947	45,864
Return on Assets (%)	0.5%	0.4%	0.6%
Return on Equity (%)	9.9%	6.6%	11.1%
Gearing (times)	18.8	15.6	16.2
Gross NPA	2.6%	5.7%	5.2%
Net NPA	1.4%	4.9%	3.8%

\*Perpetual debt classified as equity as per Ind-AS. However, ICRA classifies the perpetual debt as borrowing.

Source: Company, ICRA Research; All ratios as per ICRA calculations

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	FY2022			Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount o/s (Rs. crore) as on Dec-31-21	Date and rating	Previous rating in FY2021		Date and rating in FY2020	Date and rating in FY2019		
						Feb-15-22	Feb-16-21	Aug-21-20	Aug-5-19	Feb-14-19	Oct-22-18
1	Perpetual Debt	Long Term	100.00	NIL	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (stable)	[ICRA]A+ (positive)
2	Subordinated Bonds	Long Term	200.00	100	[ICRA]AA-(stable)	[ICRA]AA-(stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA (Negative)	[ICRA]AA (stable)	[ICRA]AA (positive)
3	Commercial Paper	Short Term	2,500.00	825	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company, ICRA Research

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Perpetual Debt	Moderately Complex
Subordinated Bonds	Moderately Complex
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details as on December 31, 2021**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE477S08050	Subordinated Debt	Mar-29-19	10.70%	Mar-29-29	100.00	[ICRA]AA- (stable)
NA	Subordinate Debt*	NA	NA	NA	100.00	[ICRA]AA- (stable)
NA	Perpetual Debt*	NA	NA	NA	100.00	[ICRA]A (stable)
INE477S14BB3	Commercial Paper	Mar-8-21	NA	Mar-7-22	225.00	[ICRA]A1+
INE477S14BC1	Commercial Paper	Apr-9-21	NA	Mar-18-22	150.00	[ICRA]A1+
INE477S14BD9	Commercial Paper	Apr-9-21	NA	Mar-25-22	150.00	[ICRA]A1+
INE477S14BE7	Commercial Paper	Nov-17-21	NA	Feb-14-22	300.00	[ICRA]A1+
NA	Commercial Paper*	NA	NA	7-365 days	1,675.00	[ICRA]A1+

Source: Company; \*Yet to be placed

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
TMF Holdings Limited	Parent	Full consolidation
Tata Motors Finance Limited	Subsidiary	Full consolidation
Tata Motors Finance Solutions Limited	Subsidiary	Full consolidation

Source: annual report FY2021

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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