

TMF Holdings Limited (Formerly Tata Motors Finance Limited)

September 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	300.00	CARE AA-; Stable / CARE A1+ (Double A Minus ; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	300.00 (₹ Three Hundred Crore Only)		
Non-Convertible Debentures	1,250.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	1,250.00 (₹ One Thousand Two Hundred Fifty Crore Only)		
Commercial Paper	2,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	2,500.00 (₹ Two Thousand Five Hundred Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the various debt instruments and bank facilities of TMF Holdings Limited (TMFHL) primarily factor in the parentage of Tata Motors Limited (TML) and the strategic importance of TMFHL for the parent being the holding company of the captive finance arms of TML, the strong operational linkages and the demonstrated capital and management support as well as shared brand name.

The ratings further continue to consider TMFHL's adequate capitalisation levels along with the well-diversified resource profile, supported by the group's strong resource raising ability. The ratings, however, continue to remain constrained due to the deterioration in the asset quality and the moderate profitability parameters of the company.

The continued support from the parent (TML) and the improvement in the asset quality, profitability, and capitalisation parameters continue to be the key rating sensitivities. The ratings of TMFHL draw significant strength from the ratings of TML. Any change in the credit profile, resulting in a rating change of TML, will necessitate a similar rating action on the ratings of TMFHL.

Rating sensitivities

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Upward revision in the rating of the ultimate parent entity - TML

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Any negative rating action on the ultimate parent entity, TML
- Deterioration in the consolidated asset quality parameters on a sustained basis
- Significant deterioration in the overall profitability and business profile from the existing levels

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and strategic importance for the parent

TMFHL is a TATA Group company and is a wholly-owned subsidiary of TML (rated 'CARE AA-; Stable'). TML is the largest automobile manufacturer in Asia as well as the largest commercial vehicle manufacturer in India. TML offers a broad portfolio of automotive products, with commercial vehicles (CVs) ranging from sub-1 tonne to 49-tonne gross vehicle weight, trucks (including pickup trucks) to small, medium, and large buses and coaches to passenger cars and defence vehicles.

The auto finance companies (Tata Motors Finance Solutions Limited (TMFSL) and Tata Motors Finance Ltd (TMFL)) and the holding company TMFHL are critical to TML for achieving their growth projections and in creating demand in newer markets. TMFSL will be critical in expanding into newer business areas like used vehicle financing and dealer or vendor financing, and therefore, continued financial, operational, and management support from TML is expected and is a key rating sensitivity.

TMFL has been supporting TMFHL by way of equity infusion and perpetual debt to support its business and to maintain adequate capitalisation levels. During FY21 (refers to the period from April 1 to March 31), TMFHL raised Rs.1,350 crore via perpetual debt where TML has written a 'Put' option to purchase the debentures from the debenture holder at the respective exercise dates. Similarly, in FY22, TMFHL raised Rs.450 crore of perpetual debt with 'Put' option written by TML. There has been no equity infusion in FY21 & FY22 in any of the two subsidiaries by TMFHL, however, in August 2022, TMFHL infused Rs. 300 cr of equity in TMFL which will boost CRAR at TMFL level. Given the strong parentage TMFHL is expected to infuse capital as and when needed.

Strong management and board of directors

The company's board of directors consist of eminent personalities, viz., Nasser Munjee, P. S. Jayakumar, Varsha Purandare, P.B. Balaji, Shyam Mani, Dhiman Gupta and Samrat Gupta. Naseer Munjee was appointed as an Independent Chairman of the company in June 2020. He has played an instrumental role in setting up institutions like HDFC and IDFC in the past. The board appointed P. S Jayakumar as Independent Director of the company in June 2020. P.S Jayakumar was the MD & CEO of Bank of Baroda and the Co-founder and CEO of VBHC Value Budget Housing (VBHC), a leader in housing for low- and moderate-income household from 2009 onwards. The board also appointed Varsha Purandare as Independent Directors w.e.f June 16, 2021. Varsha Purandare has varied experience of 36 years in the areas of Credit, Forex, Risk, Treasury, Capital Markets, Investment Banking and Private Equity. She was the Managing Director and Chief Executive Officer of SBI Capital Markets Limited ("SBI Caps") from November 2015 up to December 2018. Besides the above, she has held several positions in SBI, in India and abroad. P. B. Balaji is the Group CFO of TML. Post superannuating as the Managing Director w.e.f March 31, 2021, Mr Shyam Mani was appointed as a the Non-Executive Director on the board w.e.f April 1, 2021. He is an eminent professional and has rich experience across various functions, including manufacturing, procurement, finance and sales and marketing. Before his stint with the TMF group, Shyam Mani was handling sales and marketing for the Commercial Vehicles Business Unit of TML as Vice President. Dhiman Gupta has been appointed as the Non-Executive Director with effect from May 24, 2022. He has over 15 years of experience in corporate finance and Mergers and Acquisitions (M&A) across various industry verticals. He is currently serving as the Vice President for TML and heading M&A, Treasury & investor relation for TML.

With effect from May 24, 2022, Samrat Gupta stepped down as Managing Directors and CEO and has been appointed as Non-Executive Director. He has over 20 years of experience in the Tata group companies and other MNCs. He is carrying rich experience in Finance, Sales, Corporate restructuring.

Strong operational linkages with TML

Being the captive financing arm of TML, it enjoys strong linkages and has relationships with the dealer network and is the preferred financier for most of its dealer network. Furthermore, the Tata group has shared its brand with its auto financing companies (TMFL and TMFSL), with TMFL branches co-located with TML dealerships

Adequate capitalisation levels along with a diversified funding profile

On a standalone basis, TMFHL reported adjusted net worth ratio of 55.24% (FY21: 52.91%) as on March 31, 2022, against minimum regulatory requirement of 30% for a Core Investment Company (CIC). On a consolidated basis, TMFHL's funding profile is well diversified with resources being raised from various avenues like banks, non-convertible debentures (NCDs), subordinated debt, perpetual debt, commercial paper (CP) and securitization. Within term loans, the borrowings are well diversified across numerous lenders. On a consolidated level, the gearing of the company has been improving year-on-year. As on March 31, 2022, the gearing improved and stood at 6.94x (8.66x as on March 31, 2021) on account of the infusion through perpetual debt as well as internal accruals during FY22. The standalone leverage ratio (reported) of TMF Holdings stood at 1.05x as on March 31, 2022 against regulatory cap of 2.5x.

Furthermore, comfort is drawn from the parent group, which has been providing capital and liquidity support to TMHFL and its subsidiaries.

Key rating weaknesses**Deterioration in asset quality**

As on March 31, 2022, the gross non-performing assets (GNPA) on a consolidated basis stood at 9.66% (net NPA: 5.75%), as against the gross NPA of 5.23% (net NPA: 3.79%) as on March 31, 2021. The asset quality was substantially impacted on account of lower collections due to the second wave of COVID-19, which had adversely impacted business across all segments. Under TMFL, gross NPA had increased to 13.77% as on June 30, 2021 from 5.61% as on March 31, 2021 and under TMFSL it increased to 9.40% as on June 30, 2021 from 3.52% as on March 31, 2021 due to the second covid wave impact. Post opening up of the economy, collections also improved thereby improving gross NPA ratio to 10.31% as on March 31, 2022 (net NPA: 5.98%) for TMFL and 7.38% (net NPA: 4.94%) for TMFSL.

As on June 30, 2022, TMFL reported gross NPA ratio of 10.33% (net NPA : 6.41%) and TMFSL reported gross NPA ratio of 6.18% (net NPA: 4.56%). .

As per the new Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP) norms on NPA recognition and upgradation issued by the Reserve Bank of India (RBI) on November 12, 2021, the gross NPAs are expected to increase, however, due to the deferment of implementation until September 2022, will give sufficient bandwidth to the NBFCs to review and reassess their collection systems and educate the borrowers on new norms which will help them improve their gross NPAs going forward. However, the trend in asset quality over the medium term remains a key monitorable.

Moderate profitability parameters

During FY22, the profitability declined on a consolidated level, with PAT at Rs.156 crore as against Rs.269 crore in FY21 mainly due to an increase in impairment expenses from Rs.974 crore in FY21 to Rs.1,278 crore in FY22. Consequently, consolidated return on average total assets (ROTA) declined and stood at 0.34% in FY22 as against 0.65% in FY21.

However, on a standalone level, TMFHL reported a PAT of Rs.54 crore during FY22 as against a loss of Rs.110 crore during FY21 as a result of increase in interest and dividend income. During Q1FY23, the loss reported stood at Rs.4 crore as against a loss of Rs.16 crore for Q1FY22.

Liquidity: Adequate

As on June 30, 2022, the asset-liability management (ALM) of TMFHL considering committed undrawn credit lines of Rs.1,005 crore had no negative cumulative mismatches in any of the short-term buckets up to one year.

As on June 30, 2022, the company had cash and liquid investments of Rs.203 crore and ICD from TML of Rs.1,000 crore as against NIL debt repayments for the next three months. TMFHL has also raised Rs 600 cr by way of NCDs in August 2022 to increase overall liquidity. Being part of the Tata Group, the company also have the strength to mobilise funds to meet any liquidity requirements. TMFHL, being a subsidiary of TML, is expected to receive support from the parent on a continuous basis and be able to mobilise funds to meet any liquidity requirements.

Analytical approach

Since TMFSL and TMFL are subsidiaries of TMFHL, CARE Ratings Limited (CARE Ratings) has taken a consolidated approach for assigning the ratings. Furthermore, TMFHL's ratings derive significant support from the company's parentage of TML.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Non-Banking Financial Companies](#)

About the company

TMFHL

TMFHL, an erstwhile asset finance company and a systemically-important non-banking financial company, is a wholly-owned subsidiary of TML (rated 'CARE AA-; Stable').

As per the scheme of arrangement (approved by the board of TMFHL during FY17 and the National Company Law Tribunal (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 or vendor financing business has been transferred to TMFSL. TMFHL has been converted into a core investment company (CIC) post the requisite approvals from the RBI vide the 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 a 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 the 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 the acquisition of JLR in June 2008, which has a presence across various geographies such as Europe, the 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 wholly-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 or vendor financing.

TMFL

TMFL is a majority-owned subsidiary of TMFHL and is a systemically important NBFC. As per the scheme of arrangement approved by the board of both companies, accepted and approved by the 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	
	FY21 (A)	FY22 (A)	FY21 (A)	FY22 (A)
Total income	158	315	4,883	4,984
PAT	-110	54	269	156
Total tangible assets [^]	8,001	8,307	45,516	45,671
ROTA (%)	-1.48	0.66	0.65	0.34

A: Audited

*As per IndAS

[^]Total assets excludes deferred tax asset and intangible assets

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-term loan	NA	-	-	-	5.00	CARE AA-; Stable/ CARE A1+
Fund-based - LT/ ST-term loan (Proposed)	-	-	-	-	295.00	CARE AA-; Stable/ CARE A1+
Debentures-Non-convertible debentures – Proposed	NA	-	-	-	1,250.00	CARE AA-; Stable
Commercial paper	INE909H14OV9	22-Aug-22	6.25%	21-Oct-22	300	CARE A1+
Commercial paper	INE909H14OW7	25-Aug-22	7.30%	24-Aug-23	125	CARE A1+
Proposed-Commercial paper	-	-	-	-	2,075	CARE A1+

The ISINs INE909H14OT3 and INE909H14OU1 have been repaid and redeemed.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	2500.00	CARE A1+	-	1)CARE A1+ (07-Sep-21)	1)CARE A1+ (31-Mar-21) 2)CARE A1+ (16-Jul-20)	1)CARE A1+ (27-Aug-19) 2)CARE A1+ (05-Jul-19)
2	Debentures-Non Convertible Debentures	LT	1250.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Sep-21)	1)CARE AA-; Stable (31-Mar-21) 2)CARE AA-; Negative (16-Jul-20)	1)CARE AA-; Negative (27-Aug-19) 2)CARE AA; Stable (05-Jul-19)
3	Fund-based - LT/ ST-Term loan	LT/ST*	300.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (07-Sep-21)	1)CARE AA-; Stable / CARE A1+ (31-Mar-21) 2)CARE AA-; Negative / CARE A1+ (16-Jul-20)	1)CARE AA-; Negative / CARE A1+ (27-Aug-19) 2)CARE AA; Stable / CARE A1+ (05-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Simple
3	Fund-based - LT/ ST-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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