

Tata Motors Finance Solutions Limited

September 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12,500.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	12,500.00 (₹ Twelve Thousand Five Hundred Crore Only)		
Subordinated Debentures	200.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	1,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Perpetual Bonds	100.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	1,300.00 (₹ One Thousand Three Hundred 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 Tata Motors Finance Solutions Limited (TMFSL) primarily factor in the ultimate parentage of Tata Motors Limited (TML) and the strategic importance of TMFSL for the parent, TMF Holdings Ltd (TMFHL), 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 TMFSL'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 TMFSL 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 TMFSL.

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

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.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and strategic importance for the parent

TMFSL is a wholly-owned subsidiary of TMFHL, which in turn, 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 defense vehicles. The auto finance companies (Tata Motors Finance Ltd (TMFL) and TMFSL) and the holding company, TMFHL, are critical to TML for achieving their growth projections and in creating demand in newer markets. TMFSL and TMFL 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.

TML 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 a '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. Being the finance arm of TML, the company is expected to receive continued support from TML in the coming years to maintain the capital-to-risk weighted assets ratio (CRAR) above the regulatory minimum.

Strong management and board of directors

The company's board of directors comprise eminent personalities, viz, Nasser Munjee, Varsha Purandare, Vedika Bhandarkar, PB Balaji, Shyam Mani, Alok Chadha, and Dhiman Gupta. Nasser Munjee has been 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. Varsha Purandare has been appointed as an Independent Director since September 2021. She was the Managing Director and Chief Executive Officer of SBI Capital Markets Limited (SBI Caps). Prior to this, Varsha Purandare was the Deputy Managing Director and Chief Credit and Risk Officer of the State Bank of India (SBI). She has held several positions in SBI, in India and abroad. Vedika Bhandarkar, Independent Director, is also on the board of TML. She has held various leadership positions in financial institutions. PB Balaji is the Group CFO of TML. Shyam Mani is a Non-Executive Director on the board. Shyam Mani is an eminent professional and has rich experience across various functions, including manufacturing, procurement, finance, and sales and marketing. Prior to his stint with the TMF group, he was handling the sales and marketing for the Commercial Vehicles Business Unit of TML as Vice President. Alok Chadha has been appointed as the Whole-Time Director and Key Managerial Personnel with effect from May 01, 2022. He has held various positions like Business Head and Chief Operating Officer at Tata Motors Finance. 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.

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

As on March 31, 2022, the CRAR under TMFSL stood at 20.39% (Tier-1: 20.10 %), as against 20.70% as on March 31, 2021 (Tier-1: 19.81%). As on June 30, 2022, the CRAR stood at 20.05% and Tier-1 capital stood at 19.07% as against the regulatory requirement of 15% and 10%, respectively. 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. On a standalone basis as well, the gearing has remained on a similar line as on March 31, 2022, at 4.99x as against 4.91x as on March 31, 2021. As on June 30, 2022, it stood at 4.35x.

TMFSL's funding profile is well diversified, with resources being raised from various avenues like non-convertible debentures (NCDs), subordinated debt, perpetual debt, commercial paper (CP), bank lines and direct assignments (DA). During FY22, TMFSL raised around Rs.1,336 crore through DA. The company has lines of credit from a large number of banks to meet its funding requirements.

Key rating weakness

Deterioration in asset quality

As on March 31, 2022, the gross non-performing assets (NPA) 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. On a standalone basis, TMFSL reported an increase in gross NPA to 9.40% as on June 30, 2021, from 3.52% as on March 31, 2021, due to the impact of the second COVID wave. Post opening up of the economy, collections also improved, thereby improving the gross NPA ratio to 7.38% and net NPA to 4.94% as on March 31, 2022 (as on March 31, 2021: gross NPA – 3.52% and net NPA – 2.97%). As on June 30, 2022, TMFSL reported a gross NPA ratio of 6.18% and the net NPA ratio stood at 4.56%, with a Provision Coverage Ratio (PCR) of 28%.

As per the new Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP) on NPA recognition and upgradation norms issued by the Reserve Bank of India (RBI) on November 12, 2021, the gross NPAs are expected to increase. However, 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, the consolidated return on total assets (ROTA) declined and stood at 0.34% in FY22 as against 0.65% in FY21.

On a standalone level, as on March 31, 2022, TMFSL's total loan book witnessed a growth, and consequently, the total revenue went up. The profitability of TMFSL for FY 22 was on a similar line as that of FY21 and stood at Rs.192 crore (FY21: Rs.194 crore) on account of an increase in the interest income from Rs 789 Crores in FY 21 to Rs 916 Crores in FY 22. .. Consequently, the ROTA stood at 2.06% (FY21: 2.75%) and return on net worth (RONW) stood at 12.64% (FY21: 15.62%).

During Q1FY23, the company turned profitable with a PAT of Rs.39 crore as against a loss of Rs.29 crore during Q1FY22 due to lower impairment expenses. The ROTA stood at 1.63% and RONW stood at 9.61%.

Liquidity: Adequate

As on June 30, 2022, the asset and liability management (ALM) of TMFSL had no negative cumulative mismatches in any of the short-term buckets up to one year. Being part of the Tata group, the company has the ability to mobilise funds and roll over its CP to meet any funding requirements.

As on June 30, 2022, the company had cash and liquid investments of Rs.1,051 crore, Rs.1,295 crore of unutilised cash credit (CC) or working capital demand loan (WCDL) lines and CC or WCDL lines worth Rs.420 crore is expected to get rolled over as against debt repayments of Rs.1,277 crore for the next three months.. TMFSL, being a subsidiary of TMFHL, 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**Consolidation**

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Non-Banking Financial Companies](#)

Policy on default recognition

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 centres 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 wef the close of business hours on January 31, 2017. The name of the company was changed from Sheba Properties Limited wef June 30, 2017.

Brief Financials (Rs. crore) *	Standalone (TMFSL)			Consolidated (TMFHL)		
	FY21 (A)	FY22 (A)	Q1FY23 (A)	FY21 (A)	FY22 (A)	Q1FY23 (A)
Total income	834	1,048	278	4,883	4,984	Not applicable
PAT	194	192	39	269	156	
Total tangible assets [^]	7,981	10,655	10,938	45,516	45,671	
ROTA (%)	2.75	2.06	1.63	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/Non-fund-based-Long term	-	-	-	-	8,006	CARE AA-; Stable
Fund-based/Non-fund-based-Long term-Proposed	-	-	-	-	4,494	CARE AA-; Stable
Non-convertible debentures	INE477S08068	17-Feb-20	9.45%	17-Feb-23	195	CARE AA-; Stable
Non-convertible debentures	INE477S08076	14-Oct-20	7.85%	14-Oct-22	195	CARE AA-; Stable
Non-convertible debentures	INE477S08084	18-Jan-21	7.97%	27-Dec-23	600	CARE AA-; Stable
Non-convertible debentures-Proposed	-	-	-	-	10	CARE AA-; Stable
Debt-Subordinate debt-Proposed	-	-	-	-	200	CARE AA-; Stable
Bonds-Perpetual bonds-Proposed	-	-	-	-	100	CARE A; Stable
Commercial paper	INE477S14BH0	24-May-22	6.85%	23-May-23	200	CARE A1+
Commercial paper-Proposed	-	-	-	-	2,300	CARE A1+

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	Debt-Subordinate Debt	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (06-May-22)	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)
2	Bonds-Perpetual Bonds	LT	100.00	CARE A; Stable	1)CARE A; Stable (06-May-22)	1)CARE A; Stable (07-Sep-21)	1)CARE A; Stable (31-Mar-21) 2)CARE A; Negative (16-Jul-20)	1)CARE A; Negative (27-Aug-19) 2)CARE A+; Stable (05-Jul-19)
3	Commercial Paper-Commercial Paper (Standalone)	ST	2500.00	CARE A1+	1)CARE A1+ (06-May-22)	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)
4	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA-; Stable	1)CARE AA-; Stable (06-May-22)	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)
5	Fund-based/Non-fund-based-Long Term	LT	12500.00	CARE AA-; Stable	1)CARE AA-; Stable (06-May-22)	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)

*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	Bonds-Perpetual Bonds	Highly Complex
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Debentures-Non-Convertible Debentures	Simple
4	Debt-Subordinate Debt	Complex
5	Fund-based/Non-fund-based-Long Term	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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