

Rating Rationale

May 19, 2023 | Mumbai

Tata Motors Finance Solutions Limited

Long-term rating upgraded to 'CRISIL AA/CRISIL A+/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.12500 Crore
Long Term Rating	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')

Rs.500 Crore Perpetual Bonds	CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')
Rs.1000 Crore Perpetual Bonds	CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')
Rs.2000 Crore Non Convertible Debentures	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.1000 Crore Non Convertible Debentures	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.200 Crore Subordinated Debt	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.2500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facilities, non-convertible debentures and subordinated debt of Tata Motors Finance Solutions Limited (TMFSL) to '**CRISIL AA/Stable**' from 'CRISIL AA-/Stable'. The rating on the perpetual bonds is upgraded to '**CRISIL A+/Stable**' from 'CRISIL A/Stable'. The rating on commercial paper has been reaffirmed at CRISIL A1+.

The rating action is line with the similar action on the ultimate parent Tata Motors Limited (TML; CRISIL AA/Stable/CRISIL A1+). The ratings continue to reflect the expectation of strong support from the ultimate parent TML to TMF Holdings Limited (TMFHL; CRISIL AA/Stable/CRISIL A1+) and its subsidiaries: Tata Motors Finance Solutions Limited (TMFSL; CRISIL AA/CRISIL A+/Stable/CRISIL A1+) and Tata Motors Finance Limited (TMFL; CRISIL AA/ CRISIL A+/Stable/CRISIL A1+). The ratings also factor in the group's strong position in the commercial vehicle (CV) finance segment. However, these strengths are partially offset by moderate, albeit improving, asset quality of the portfolio.

The rating on the perpetual bonds reflects the comfortable buffer over the regulatory capital adequacy requirements, and high financial flexibility due to TMLs ownership. CRISIL Ratings believes that it will maintain a comfortable cushion going forward (see CRISIL publication 'CRISIL Criteria for Rating Hybrid Instruments Issued by NBFCs/HFCs' dated December 2022 for details on CRISIL's approach for rating such instruments).

CRISIL Ratings notes that on October 3, 2022, the board of TMFL had approved a scheme of arrangement between TMFL and TMFSL wherein as a part of the internal alignment of business, the NBFC business of TMFL will be de-merged into TMFSL on a going concern basis subject to regulatory approvals. Post the de-merger, TMFHL will continue to hold TMFSL, which will subsequently be renamed to TMFL. The demerger will be a plain share swap, and the outstanding assets and liabilities pertaining to NBFC business will be transferred to TMFSL from TMFL. TMFL subsequently, will be left with the operating lease business.

The transaction is expected to be complete in the near term, subject to necessary regulatory approvals. Post the arrangement, there will not be any change in the shareholding and interlinkages between the group and the ultimate parent, TML.

For arriving at the ratings, CRISIL Ratings combines the business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFSL, given the integration of operations and commonality of management, together referred to as the TMF Group. Consequently, the proposed transaction will not impact the credit risk profile of the group.

Analytical Approach

CRISIL Ratings on the debt instruments and bank facilities of TMFSL continue to be based on the expectation of strong support from TML. This is because of TMFSL's strong strategic importance to TML and the latter's ownership through 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 TMFSL 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**

The ratings on the debt instruments of TMFHL group are based upon the expectation of strong support from the ultimate parent TML. This is because of the high strategic importance of TMFHL group to its parent, being the captive financing arm.

CRISIL Ratings notes that on October 3, 2022, the board of TMFL had approved a scheme of arrangement between TMFL and TMFSL wherein as a part of the internal alignment of business, the NBFC business of TMFL will be de-merged into TMFSL on a going concern basis subject to regulatory approvals. Post the de-merger, TMFHL will continue to hold TMFSL, which will subsequently be renamed to TMFL. The demerger will be a plain share swap, and the outstanding assets and liabilities pertaining to NBFC business will be transferred to TMFSL from TMFL. TMFL subsequently, will be left with the operating lease business.

The transaction is expected to be complete in the near term, subject to necessary regulatory approvals. Post the arrangement, there will not be any change in the shareholding and interlinkages between the group and the ultimate parent, TML.

For arriving at the ratings, CRISIL Ratings combines the business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFSL, given the integration of operations and commonality of management, together referred to as the TMF Group. Consequently, the proposed transaction will not impact the credit risk profile of the group.

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 infused Rs 300 crore in fiscal 2018, Rs 600 crore in fiscal 2019 and Rs 150 crore in fiscal 2020. CRISIL Ratings believes TML will continue to provide similar support through TMFHL, enabling the companies to maintain their capital adequacy above the minimum requirement.

The total capital ratio of TMFL was comfortable at 24.0% as on March 31, 2023 (18.7% as on March 31, 2022). While the total capital ratio of TMFSL stood at 23.2% as on March 31, 2023 (20.4% as on March 31, 2022). CRISIL Ratings believes TMFL and TMFSL will continue to receive need-based support from TML through TMFHL, to maintain their capital adequacy above the minimum requirement.

TMFHL and its subsidiaries 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 TMFL and TMFSL. CRISIL Ratings 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 TMFHL group.

- **Leading position in CV finance**

TMF group is a leading vehicle financier in India. TMFL is among the top five CV financiers with assets under management (AUM) of Rs 30,294 crores as on March 31, 2023 (Rs. 34,993 crore as on March 31, 2022). As on March 31, 2023 TMFSL had a standalone portfolio of Rs 11,020 crore (Rs. 9141 crore as on March 31, 2022). Consolidated AUM as on March 31, 2023 stands at Rs 41,314 crore (March 31, 2022: Rs 44,134 crore).

Weakness:

- **Weak asset quality**

The asset quality metrics for TMF group were impacted owing to implementation of IRACP norms from October 2022 onwards, however in fourth quarter of fiscal 2023, the asset quality metrics have improved amidst continued strong collections and write offs. The reported gross NPA and net NPA for the TMF Group stood at 9.26% and 5.02% respectively as on March 31, 2023 (9.66% and 5.75% respectively as on March 31, 2022). The gross NPA and net NPA for TMFSL on a standalone basis stood at 4.08% and 2.82% respectively as on March 31, 2023 (7.38% and 4.94% respectively as on March 31, 2022). For TMFL the reported gross NPA and net NPA increased to 11.28% and 5.91% respectively as on March 31, 2023 (10.31% and 5.98% respectively as on March 31, 2022).

The company NNPA stood below 6% as on March 31, 2023. Further, in the fourth quarter of fiscal 2023, the collection efficiency remained above 97% for both TMFL and TMFSL. Nevertheless, given the segment company is catering to, going forward company's ability to manage its asset quality is a key monitorable. CRISIL Ratings understands that the group is committed to bringing in additional equity capital to provide cushion against the asset side risk and maintain consolidated Net NPA and capitalisation metrics well within the regulatory thresholds. The overall rating continues to factor in expectation of timely financial and capital support from TML in case of any exigency.

Liquidity: Strong

CRISIL Ratings' analysis of TMFSL's asset liability maturity (ALM) profile shows cumulative positive mismatches across all maturity buckets as on March 31, 2023. On a consolidated basis, as on March 31, 2023, the group had repayments of Rs 5,414 crore for the three months till June 2023 (of which Rs 1,320 crore of CC/WCDL limits are expected to be rolled over). Against the same, the group has the consolidated liquidity position which is supported by combined cash and liquid investments of Rs. 4639 crore and unutilised bank lines of Rs.4488(excluding cc/WCDL rollover) crore. TMFHL also has unutilised ICD lines of Rs 1,000 crore from TML on March 31, 2023. This excludes G Sec and T Bill Investments of Rs. 1225 crore kept for LCR requirements

Outlook: Stable

The rating outlook on TMFSL is closely linked to the rating outlook on TML. CRISIL Ratings believes TMF Group will be strategically important to TML, being captive financiers, and will benefit from the financial and management support extended by TML. CRISIL Ratings 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 TMF Group.

Rating Sensitivity factors

Upward factors:

- Changes in the rating outlook or ratings on TML by 1 notch or higher may lead to similar changes in the rating outlook or ratings on TMF Group

Downward factors:

- Downgrade in the rating of TML by 1 notch or higher

- Any change in the support philosophy of TML, resulting in reduced support to the TMFHL group
- Sharp deterioration in the consolidated asset quality, impacting the profitability and capital level of the TMFHL group

About the Company

TMFSL, a non-deposit-taking systematically important, non-banking finance Company is a wholly owned subsidiary of TMFHL. TMFSL focusses on pre-owned vehicle financing and extending loans to dealers and vendors within TML ecosystem. As on March 31, 2023, the company's standalone AUM stood at Rs 11,020 crore.

For the fiscal ending March 31, 2023, TMFSL reported net profit of Rs 76 crore on total income (net of interest expenses) of Rs 664 crore (basis IND AS). For FY 22 the company earned a profit of Rs 192 crore on total income (net of interest expenses) of Rs 549 crore (basis IND AS).

Key Financial Indicators

As on /for the year ended		March 31, 2023	March 31, 2022	March 31, 2021
Total assets	Rs crore	11,789	10,846	8181
Total income (net of interest expenses)	Rs crore	664	549	403
Profit after tax (PAT)	Rs crore	76	192	194
Total capital ratio	%	23.2	20.4	20.7
Gross NPA	%	4.1	7.38	3.5
Net NPA	%	2.8	4.9	3.0

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. 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)	Complexity Levels	Rating assigned with Outlook
INE477S08092	Debenture	20-May-21	3 MONTH TBILL LINK	20-May-24	195	Simple	CRISIL AA/Stable
INE477S08100	Debenture	25-Feb-22	7.48%	25-Feb-25	400	Simple	CRISIL AA/Stable
INE477S08118	Debenture	25-Feb-22	Zero Interest	21-Feb-25	100	Simple	CRISIL AA/Stable
NA	Debenture^	NA	NA	NA	1000	Simple	CRISIL AA/Stable
NA	Debenture^	NA	NA	NA	1305	Simple	CRISIL AA/Stable
INE477S08126	Perpetual Bond	22-Mar-22	8.40%	call option after 10 years	100	Highly Complex	CRISIL A+/Stable
INE477S08134	Perpetual Bond	03-Jun-22	@9.3%	call option after 10 years	200	Highly Complex	CRISIL A+/Stable
INE477S08142	Perpetual Bond	12-Jul-22	9.23%	call option after 10 years	160	Highly Complex	CRISIL A+/Stable
NA	Perpetual Bond^	NA	NA	NA	40	Highly Complex	CRISIL A+/Stable
NA	Perpetual Bonds^	NA	NA	NA	1000	Highly Complex	CRISIL A+/Stable
NA	Subordinate Debt^	NA	NA	NA	200	Complex	CRISIL AA/Stable
NA	Commercial Paper	NA	NA	7-365 days	2500	Simple	CRISIL A1+
NA	Long Term Bank Facility###	NA	NA	NA	6760	NA	CRISIL AA/Stable
NA	Cash Credit & Working Capital Demand Loan #%@\$^**	NA	NA	NA	2397	NA	CRISIL AA/Stable
NA	Proposed Long Term Bank Loan Facility*	NA	NA	NA	3343	NA	CRISIL AA-/Stable

#Sanctioned bank facilities as on March 31, 2023(net of repayments)

*Interchangeable with short-term facilities

%CITI Bank's limit of Rs 75 Crores is unsecured WCDL Limit, not inter-changeable with Cash credit.

@Bank of India is only WCDL, not interchangeable with Cash credit

^HDFC Out of Rs 700 Crs Limits, Rs 350 crs is WCDL & Rs. 350 Crs is WCL.

\$IDFC's limit of Rs 25 Crs is sublimit of WCDL/FCDL/FCNR limit of Rs 450 Crs. Further, Rs 25 Crs is FX derivative limit, which is over and above the WCDL/FCNR/FCDL limit.

\$\$ECB of USD 15 Mn from ICICI UK is fully hedged.

**IndusInd Bank CC limit of Rs 80 Crs is a Sublimit of WCDL with overall limit of Rs 200 Crs

^Yet to be issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
TMF Holdings Ltd	Full	Holding
Tata Motors Finance Ltd	Full	Co-subsiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	12500.0	CRISIL AA/Stable	20-04-23	CRISIL AA-/Stable	12-10-22	CRISIL AA-/Stable	12-11-21	CRISIL AA-/Stable	26-08-20	CRISIL AA-/Negative	CRISIL AA-/Negative
			--	02-03-23	CRISIL AA-/Stable	05-09-22	CRISIL AA-/Stable	19-05-21	CRISIL AA-/Stable	21-05-20	CRISIL AA-/Negative	--
			--	14-02-23	CRISIL AA-/Stable	05-08-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	24-01-20	CRISIL AA-/Negative	--
			--	--	--	09-06-22	CRISIL AA-/Stable	--	--	--	--	--
			--	--	--	31-05-22	CRISIL AA-/Stable	--	--	--	--	--
			--	--	--	03-03-22	CRISIL AA-/Stable	--	--	--	--	--
Commercial Paper	ST	2500.0	CRISIL A1+	20-04-23	CRISIL A1+	12-10-22	CRISIL A1+	12-11-21	CRISIL A1+	26-08-20	CRISIL A1+	CRISIL A1+
			--	02-03-23	CRISIL A1+	05-09-22	CRISIL A1+	19-05-21	CRISIL A1+	21-05-20	CRISIL A1+	--
			--	14-02-23	CRISIL A1+	05-08-22	CRISIL A1+	16-03-21	CRISIL A1+	24-01-20	CRISIL A1+	--
			--	--	--	09-06-22	CRISIL A1+	--	--	--	--	--
			--	--	--	31-05-22	CRISIL A1+	--	--	--	--	--
			--	--	--	03-03-22	CRISIL A1+	--	--	--	--	--
Non Convertible Debentures	LT	3000.0	CRISIL AA/Stable	20-04-23	CRISIL AA-/Stable	12-10-22	CRISIL AA-/Stable	12-11-21	CRISIL AA-/Stable	26-08-20	CRISIL AA-/Negative	CRISIL AA-/Negative
			--	02-03-23	CRISIL AA-/Stable	05-09-22	CRISIL AA-/Stable	19-05-21	CRISIL AA-/Stable	21-05-20	CRISIL AA-/Negative	--
			--	14-02-23	CRISIL AA-/Stable	05-08-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	24-01-20	CRISIL AA-/Negative	--
			--	--	--	09-06-22	CRISIL AA-/Stable	--	--	--	--	--
			--	--	--	31-05-22	CRISIL AA-/Stable	--	--	--	--	--
			--	--	--	03-03-22	CRISIL AA-/Stable	--	--	--	--	--
Perpetual Bonds	LT	1500.0	CRISIL A+/Stable	20-04-23	CRISIL A/Stable	12-10-22	CRISIL A/Stable	12-11-21	CRISIL A/Stable	--	--	--
			--	02-03-23	CRISIL A/Stable	05-09-22	CRISIL A/Stable	19-05-21	CRISIL A/Stable	--	--	
			--	14-02-23	CRISIL A/Stable	05-08-22	CRISIL A/Stable	--	--	--	--	
			--	--	--	09-06-22	CRISIL A/Stable	--	--	--	--	
			--	--	--	31-05-22	CRISIL A/Stable	--	--	--	--	
			--	--	--	03-03-22	CRISIL A/Stable	--	--	--	--	
Subordinated Debt	LT	200.0	CRISIL AA/Stable	20-04-23	CRISIL AA-/Stable	12-10-22	CRISIL AA-/Stable	12-11-21	CRISIL AA-/Stable	26-08-20	CRISIL AA-/Negative	CRISIL AA-/Negative
			--	02-03-23	CRISIL AA-/Stable	05-09-22	CRISIL AA-/Stable	19-05-21	CRISIL AA-/Stable	21-05-20	CRISIL AA-/Negative	--
			--	14-02-23	CRISIL AA-/Stable	05-08-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	24-01-20	CRISIL AA-/Negative	--
			--	--	--	09-06-22	CRISIL AA-/Stable	--	--	--	--	
			--	--	--	31-05-22	CRISIL AA-/Stable	--	--	--	--	
			--	--	--	03-03-22	CRISIL AA-/Stable	--	--	--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	50	ICICI Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	10	State Bank of India	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	5	Axis Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	250	Bank of India	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	450	IDFC FIRST Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	50	The South Indian Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	75	Citibank N. A.	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	50	DBS Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan	232	IndusInd Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan	900	HDFC Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	200	Punjab National Bank	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	25	Indian Bank	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan ^{#%@\$^A**}	100	Standard Chartered Bank Limited	CRISIL AA/Stable
Long Term Bank Facility ^{###}	500	IDBI Bank Limited	CRISIL AA/Stable
Long Term Bank Facility ^{###}	350	Bank of Maharashtra	CRISIL AA/Stable
Long Term Bank Facility ^{###}	370	Deutsche Bank	CRISIL AA/Stable
Long Term Bank Facility ^{###}	111	ICICI Bank Limited	CRISIL AA/Stable
Long Term Bank Facility ^{###}	101	Bank of Baroda	CRISIL AA/Stable
Long Term Bank Facility ^{###}	290	State Bank of India	CRISIL AA/Stable
Long Term Bank Facility ^{###}	250	DBS Bank India Limited	CRISIL AA/Stable
Long Term Bank Facility ^{###}	375	Bank of India	CRISIL AA/Stable
Long Term Bank Facility ^{###}	1017	ICICI Bank Limited	CRISIL AA/Stable
Long Term Bank Facility ^{###}	400	IndusInd Bank Limited	CRISIL AA/Stable
Long Term Bank Facility ^{###}	809	Indian Bank	CRISIL AA/Stable
Long Term Bank Facility ^{###}	316	Union Bank of India	CRISIL AA/Stable
Long Term Bank Facility ^{###}	550	Punjab National Bank	CRISIL AA/Stable
Long Term Bank Facility ^{###}	299	Syndicate Bank	CRISIL AA/Stable
Long Term Bank Facility ^{###}	393	UCO Bank	CRISIL AA/Stable
Long Term Bank Facility ^{###}	229	HDFC Bank Limited	CRISIL AA/Stable

Long Term Bank Facility#\$\$	400	The Jammu and Kashmir Bank Limited	CRISIL AA/Stable
Proposed Long Term Bank Loan Facility*	3343	Not Applicable	CRISIL AA/Stable

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\$\$ECB of USD 15 Mn from ICICI UK is fully hedged.

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Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
CRISILs Criteria for Consolidation

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