

July 14, 2023

TMF Holdings Limited: Ratings reaffirmed; Long-term rating upgraded to [ICRA]AA; short-term rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	1,725.00	1,725.00	[ICRA]AA(Stable) upgraded from [ICRA]AA-; Outlook revised to Stable from Positive
Long-term – fund-based bank facilities	300.00	300.00	[ICRA]AA(Stable) upgraded from [ICRA]AA-; Outlook revised to Stable from Positive
Commercial paper programme	2,500.00	2,500.00	[ICRA]A1+; Reaffirmed
Total	4,525.00	4,525.00	

*Instrument details are provided in Annexure I

Rationale

While arriving at the ratings, ICRA has considered the consolidated performance of TMF Holdings limited (TMFHL) and its subsidiaries (i.e., Tata Motors Finance Limited (TMFL)¹ and Tata Motors Finance Solutions Limited (TMFSL), together referred to as the TMF Group), given the strong operational and financial synergies between the companies.

ICRA's ratings for the TMF Group derive significant support from its ultimate parentage in the form of Tata Motors Limited (TML; rated [ICRA]AA (Stable)/[ICRA]A1+). The revision in long-term ratings for TMFHL follows the revision in the long-term ratings of the ultimate parent company i.e. TML to [ICRA]AA(Stable) from [ICRA]AA-(Positive). ICRA believes that the TMF Group is strategically important to TML as the Group financed ~17% of TML's commercial vehicle (CV) sales in FY2023. The 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 its board. Further, the Group's operations benefit from its leadership position in financing TML's vehicles, the strong board oversight, and a shared brand name. The shared brand name also supports the Group's financial flexibility, and the consolidated liquidity position is supported by adequate cash and liquid investments and unutilised bank lines available at TMFL and TMFSL.

ICRA notes that the Group's asset quality remains weak with consolidated gross NPA of 9.3% and net NPA of 5.0% as on March 31, 2023. Asset quality had significantly deteriorated in Q3FY2023 due to implementation of RBI-IRACP norms, effective October 1, 2022, and higher slippage from the restructured book. In this regard, ICRA takes note of the group's collections effort to improve recoveries and write offs to reduce the NNPA. Nevertheless, given the stress in the restructured loan book, a weak capital profile and losses in FY2023, there could be a need to raise further capital. Overall, a significant change in TMFHL's shareholding pattern or a change in the expectation of support from TML or a deterioration in TML's credit profile could warrant a rating change for the TMF Group. Also, the quantum and timeliness of support from TML to the Group would be a key monitorable. Further, the ability of TMF group to improve its standalone financial metrics and asset quality indicators from current levels would be critical for improvement in the ratings going forward.

¹ As per approved scheme of arrangement, the outstanding assets and liabilities pertaining to NBFC business of TMFL are transferred to TMFSL effective from June 30, 2023

Key rating drivers and their description

Credit strengths

Strategic importance to TML and demonstrated support from parent in the form of regular capital infusions – ICRA's ratings for the TMF Group derive significant support from its ultimate parentage in the form of TML. The TMF Group's ratings are strongly linked to the stated intention of continued support from TML in a timely manner, which, in the past, has included access to capital, management and systems, and supervision by a strong board. ICRA derives comfort from the company being strategically important to its parent as a captive financier of TML's vehicles (TMFL financed ~17% of TML's CV sales in FY2023). ICRA expects TML to provide support to the TMF Group to enable it to maintain a prudent capital structure, while maintaining full ownership.

Assured business volumes on account of TML's established market position; well-established branch and distribution network – As a captive financing arm of TML, the TMF Group enjoys strong linkages and has relationships with the dealer network and the preferred financier for most of its dealer network. TML continues to have a leading market position in 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 the TMF Group and to continue maintaining full ownership of the Group. As on March 31, 2023, the Group's consolidated assets under management (AUM) stood at Rs. 41,314 crore consisting of new vehicle financing (72%), used vehicle financing (20%), and corporate lending business (CLG; 8%).

As on March 31, 2023, TMFSL had a standalone AUM of Rs. 11,020 crore consisting of used CVs (74%), CLG (25%) and others (2%).

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 March 31, 2023, the consolidated funding mix comprised bank borrowings, long term market debt and commercial paper. The consolidated liquidity profile is adequate, supported by unutilised bank lines to bridge short-term mismatches in the cash flows.

Credit challenges

Weak but improving asset quality indicators – TMF Group's asset quality indicators, on a consolidated basis, remain weak with GNPA/NNPA of 9.3%/5.0% as on March 31, 2023 as compared to 9.7%/5.8% as on March 31, 2022. While the asset quality had started improving since Q2FY2023 with the improvement in macroeconomic conditions and the reorientation and strengthening of the collection teams and write-offs, it was impacted in Q3FY2023 (GNPA/NNPA of 12.0%/7.7% as on December 31, 2022) on account of aligning of definition of stage-3 assets with IRACP norms, effective October 1, 2022, and higher slippage from the restructured book. In this regard, ICRA takes note of the group's collections effort to improve recoveries and write offs to reduce the NNPA in Q4FY2023. 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 earnings profile.

TMFSL's GNPA/NNPA, on a standalone basis, stood at 4.1%/2.8% as on March 31, 2023, compared to 7.4%/5.0% as on March 31, 2022.

Weak consolidated capitalisation profile - On a consolidated basis, the Group's overall gearing stood at 26.8 times (reported gearing 7.2² times) on March 31, 2023, compared to 15.5 times (reported gearing 6.5³ times) on March 31, 2022, owing to erosion of net worth due to significant losses in FY2023. ICRA draws comfort from the parentage, providing capital and liquidity

2 Rs. 3,608-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing. Net worth and gearing (incl. perpetual debt as equity) stood at Rs. 5,108 crore and 7.2 times, respectively, on March 31, 2023.

3 Rs. 3,248-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing. Net worth and gearing (incl. perpetual debt as equity) stood at Rs. 5,958 crore and 6.5 times, respectively, on March 31, 2022.

support to TMFHL and its subsidiaries. In this regard, given the Group's strategic importance to TML and its stated intent to support the Group, ICRA expects capital support from the ultimate parent to be forthcoming and in a timely manner to support the capitalization and hence, credit profile of the Group companies.

On a standalone basis, TMFSL's net worth was Rs. 1,988 crore (excluding perpetual debt, which is considered as equity as per Ind AS), as on March 31, 2023, with a capital adequacy ratio of 23.2% against the regulatory requirement of 15%.

Subdued profitability indicators – Compressed net interest margins (NIMs), increased credit cost due to higher slippages and significant write-offs (Rs. 2,032 crore (net of recoveries), and higher operating expenses owing to reorientation of collection efforts resulted in net loss of 1,013 crore on a consolidated basis in FY2023 as compared to net profit of Rs. 156 crore in FY2022. Going ahead, the profitability is expected to improve from current levels on the expectation of lower incremental credit cost given the improved provision cover on existing stage 3 assets and controlled slippages. The company's ability to grow their business volumes while maintaining control over slippages to improve the return indicators would be key rating monitorable.

TMFL and TMFHL reported a net loss of Rs. 1,033 crore and Rs. 62 crore, respectively, on a standalone basis in FY2023. While, TMFSL reported a net profit of Rs. 76 crore, on a standalone basis in FY2023.

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

Liquidity position: Adequate

The liquidity profile is adequate on a consolidated basis. As on April 30, 2023, total consolidated (TMFHL+TMFL+TMFSL) debt outflows, over the next three months, stood at ~Rs. 5,440 crore. Out of this, CC/WCDL of Rs. 1,190 crore and commercial paper are 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 the combined cash and liquid investments of ~Rs. 3,102 crore, unutilised bank lines of ~Rs. 5,338 crore. Moreover, TMFHL had unutilised inter-corporate deposit (ICD) lines of Rs. 1,000 crore from TML as on April 30, 2023, to meet funding gaps and future funding requirements. Apart from these, the company has Investments of Rs. 1,260 crore of G-sec/T-bill as High-quality liquid assets (HQLA) kept for Liquidity coverage ratio (LCR) requirements.

Rating sensitivities

Positive factors – While TMF group's rating is underpinned by its strategic importance to TML as the captive financier of its vehicles, sustained improvement in standalone financial and asset quality metrics of TMF coupled with improvement of credit profile of TML could warrant a rating upgrade.

Negative factors – The ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. 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 downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's credit rating methodology for non-banking finance companies Rating approach - Implicit support from parent or group Rating approach - Consolidation
Parent/Group support	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.
Consolidation/Standalone	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 II.</i>

About the company

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 the used vehicle financing business is housed under TMFSL.

In FY2023, TMFHL (consolidated) reported a net loss of Rs. 1,013 crore on an asset base of Rs. 43,082 crore against a PAT of Rs. 156 crore on an asset base of Rs. 46,083 crore in FY2022.

In FY2023, TMFHL (standalone) reported a net loss of Rs. 62 crore on an asset base of Rs. 9,408 crore against a PAT of Rs. 54 crore on an asset base of Rs. 8,307 crore in FY2022.

Tata Motors Limited

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

In June 2008, TML acquired JLR from Ford Motor Company for \$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 sport utility vehicles (SUVs) across multiple markets such as UK, Europe, North America, China and other overseas markets. Apart from JLR, which is wholly-owned by TML and generated ~65% of its consolidated turnover in FY2023, the company has also historically expanded its operations in India as well as overseas through strategic alliances, mergers and acquisitions. Some of its key subsidiaries include Tata Motors Finance Limited (vehicle financing subsidiary), Tata Technologies Limited (software firm providing IT solutions to the automotive industry), Tata Daewoo Commercial Vehicles Company Limited (CV operations in South Korea). The company also operates joint ventures (JVs) with Fiat (for PVs, engines and transmissions) and with Cummins (for engine manufacturing).

TML has six manufacturing plants in India at Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pantnagar (Uttaranchal), Dharwad (Karnataka) and Sanand (Gujarat), and Tata Passenger Electric Mobility (subsidiary of TML) has recently acquired Ford's manufacturing facility in Sanand. In addition, the company's key subsidiary, JLR, operates four principal manufacturing facilities in the UK, as well as manufacturing facilities in Brazil and Slovakia. In FY2015, JLR opened a manufacturing facility in China, through a Chinese JV. Moreover, as a Group, TML operates assembly operations at multiple locations around the globe through its subsidiaries and JVs.

Key financial indicators (audited)

TMF Holdings Limited (standalone)	FY2021	FY2022	FY2023
	Ind AS	Ind AS	Ind AS
Total income	158	315	199
PAT	-110	54	-62
*Net worth	4,127	4,031	3,825
Total assets	8,001	8,307	9,408
ANW (CRAR)	52.9%	55.2%	41.7%
Leverage ratio	0.9	1.1	1.5
Return on average assets	-1.5%	0.7%	-0.7%
Return on average net worth	-2.6%	1.3%	-1.6%

Leverage ratio=Outside liabilities/Adjusted net worth (ANW); Amount in Rs. crore

*Excluding perpetual debt; perpetual debt is classified as equity as per Ind AS. However, ICRA classifies it as borrowing

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

TMF Holdings Limited (consolidated)	FY2021	FY2022	FY2023
	Ind AS	Ind AS	Ind AS
Total income (Rs. crore)	4,882	4,984	5,057
PAT (Rs. crore)	269	156	(1,013)
*Net worth (Rs. crore)	2,608	2,710	1,500
Loan book (AUM)	42,803	44,134	41,309
Total assets (Rs. crore)	45,864	46,083	43,082
Return on assets (%)	0.6%	0.3%	-2.3%
Return on equity (%)	11.1%	5.9%	-48.1%
Gearing (times)	16.2	15.5	26.7
Gross NPA	5.2%	9.7%	9.3%
Net NPA	3.8%	5.8%	5.0%

*Perpetual debt classified as equity as per Ind AS. However, ICRA classifies it as borrowing; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	FY2024				Chronology of Rating History for the Past 3 Years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun-30-23 (Rs. crore)	Date and Rating FY2024	Date and Rating in FY2023			Date and Rating in FY2022	Date and Rating in FY2021		
				Jul-14-23	Mar-06-23	Dec-30-22	Oct-21-22	Feb-15-22	Feb-16-21	Aug-21-20	
1 Long-term – fund-based bank facilities	Long term	300	0	[ICRA]AA (Stable)	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Negative)	
2 Non-convertible debenture programme	Long term	1,725	0	[ICRA]AA (Stable)	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Negative)	
3 Commercial paper programme	Short term	2,500	1,307	[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
Non-convertible debenture	Very Simple
Commercial paper programme	Very Simple
Bank facilities	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details as on June 30, 2023

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE909H14OW7	Commercial paper programme	25-Aug-22	7.30%	24-Aug-23	125	[ICRA]A1+
INE909H14OX5	Commercial paper programme	2-Nov-22	8.19%	2-Nov-23	60	[ICRA]A1+
INE909H14OZ0	Commercial paper programme	18-Nov-22	8.19%	15-Nov-23	82	[ICRA]A1+
INE909H14PA0	Commercial paper programme	12-Jan-23	8.22%	10-Jan-24	23	[ICRA]A1+
INE909H14PB8	Commercial paper programme	15-Feb-23	8.25%	14-Feb-24	17	[ICRA]A1+
INE909H14PD4	Commercial paper programme	8-Mar-23	8.65%	7-Mar-24	150	[ICRA]A1+
INE909H14PE2	Commercial paper programme	10-Mar-23	8.65%	8-Mar-24	50	[ICRA]A1+
INE909H14PE2	Commercial paper programme	13-Mar-23	8.65%	8-Mar-24	50	[ICRA]A1+
INE909H14PF9	Commercial paper programme	14-Mar-23	8.65%	12-Mar-24	50	[ICRA]A1+
INE909H14PH5	Commercial paper programme	15-Mar-23	8.65%	14-Mar-24	100	[ICRA]A1+
INE909H14PG7	Commercial paper programme	15-Mar-23	8.65%	28-Feb-24	50	[ICRA]A1+
INE909H14PI3	Commercial paper programme	17-Mar-23	8.65%	26-Feb-24	150	[ICRA]A1+
INE909H14PJ1	Commercial paper programme	23-May-23	7.60%	22-Aug-23	400	[ICRA]A1+
NA [^]	Commercial paper programme	-	-	7-365 days	1,193	[ICRA]A1+
NA [^]	Non-convertible debentures	-	-	-	1,725	[ICRA]AA (Stable)
NA	Long-term bank facilities	NA	NA	NA	300	[ICRA]AA (Stable)

Source: Company; [^]Yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: 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 FY2023

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Sandeep Sharma
+91 22 6114 3419
sandeep.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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