

Rating Rationale

June 13, 2024 | Mumbai

TMF Business Services Limited

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

Rating Action

Total Bank Loan Facilities Rated	Rs.200 Crore
Long Term Rating	CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')

Rs.500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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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 of TMF Business Services Limited (TMFBSL) to '**CRISIL AA+/Stable**' from 'CRISIL AA/Positive'; The rating on commercial papers have been reaffirmed at 'CRISIL A1+'.

The rating upgrade is in line with the similar rating action on the outstanding ratings on the debt instruments of ultimate parent of TMFBSL, Tata Motors Limited (TML). On June 13, 2024, ratings on debt instruments of TML were upgraded to 'CRISIL AA+/Stable' from 'CRISIL AA/Positive' driven by improvement in consolidated business and financial risk profile of the company mainly led by improvement in Jaguar Land Rover (JLR) business.

CRISIL Ratings has taken note of the announcement by TML on June 04, 2024, that the Board of Directors of Tata Motors Limited (TML, rated CRISIL AA+/Stable/CRISIL A1+), Tata Capital Limited (TCL, rated CRISIL AAA/CRISIL PPMLD AAA/CRISIL AA+^/Stable/CRISIL A1+) and Tata Motor Finance Limited (TMFL, rated CRISIL AA+/CRISIL PPMLD AA+/CRISIL AA-^/Watch Positive/CRISIL A1+; wholly owned subsidiary of TMF Holdings Ltd) have approved the merger of TMFL with TCL through National Company Law Tribunal (NCLT) scheme of arrangement. The scheme is subject to sanction of the NCLT requisite approvals including those from respective shareholders and creditors of TMFL and TCL, as applicable and as may be directed by the NCLT and other regulatory/statutory approvals.

The merger is expected to take 9 to 12 months to consummate. As a consideration, TCL will issue its equity shares to the shareholders of TMFL resulting in TML effectively holding a 4.7% stake in the merged entity through TMF Holdings Ltd (TMFHL; rated CRISIL AA+/Stable/CRISIL A1+).

The merger supports the strategic objectives of both TCL and TML. Further, it will also unlock potential synergies between TCL and TMFL. For TML, the proposed merger of the non-banking financing company is in line with its stated objective of exiting non-core businesses. For TCL, the merger will aid in its strategy of higher retailisation and it would also strengthen the company's presence in commercial vehicle/passenger vehicle segments.

TMFBSL majority holding will continue to be with TML, through TMFHL. While currently there is no market debt in TMFBSL, the company will continue to be supported by TML, in case the need arises. TMFHL will continue to be 100% held by TML and will remain a NBFC-CIC.

The ratings on TMF group (TMFL, TMFHL and TMFBS) also factors in strong position in the commercial vehicle (CV) finance segment. However, these strengths are partially offset by moderate, albeit improving, asset quality of the portfolio.

[^]Perpetual instrument

Analytical Approach

CRISIL Ratings has considered the consolidated business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFBSL, given the integration of operations and commonality of management. Furthermore, CRISIL Ratings has factored in expectation of strong support to TMF group from TML, because of TMF group's strategic importance to TML, being its captive financing arm.

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 TMF group are based upon the expectation of strong support from the ultimate parent TML. This is because of the high strategic importance of TMF group to its parent, given the group being captive financing arm of parent. 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 TMFBSL.

In the past, TML has infused equity capital into TMFHL 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 to TMFL, till the merger with TCL is complete and to TMFBSL till it remains as a legal entity. TMFL's capital adequacy as on March 31, 2024, remains adequate at 20.92% as on March 31, 2024.

The adjusted net worth ratio (ANW) of TMFHL stood at 35.82% as on March 31, 2024. Further, given that TMFL, which was a key operating subsidiary of TMFHL, will be merged with TCL, TML has taken necessary Board approvals to support TMFHL in retiring its debt obligations. TML is expected to continue to support TMFHL, in maintaining its capital levels above the minimum regulatory capital adequacy requirement and in retiring its debt obligations, in a timely manner, in case required.

- **Leading position in CV finance**

TMF group is a leading commercial vehicle financier in India. Post restructuring of the TMF group entities, the entire NBFC activities in TMF group is carried out under TMFL. The Asset under management (AUM) of TMFL stood at Rs. 38353 crore as on March 31, 2024. Given the captive nature of the business, TMF has a strong partnership with dealers of TML and provide them financing support as well. Of the total AUM as on March 31, 2024, share of new vehicle financing portfolio stood at around 66%, while share of used vehicle financing portfolio stood at around 24%, corporate lending business stood at 8% and others at 2%. Over the last few years, the share of used vehicle financing for TMF group has increased from 13% in as of March 31, 2021 to 24% as of March 31, 2024.

Weakness:

- **Moderate, though improving, asset quality**

The asset quality metrics of TMFL remained moderate with Gross Stage III of 6.1% as on March 31, 2024, as against 9.3% as on March 31, 2023. The improvement is driven by reduced restructured book, along with steady collections and writeoffs.

The restructured book reduced to Rs 1096 crore as on March 31, 2024 from Rs 3143 crore and Rs 6251 crore as on March 31, 2023 and 2022 respectively.

Going forward company's ability to manage its asset quality and improve profitability will remain key monitorable.

Liquidity: Strong

TMFL's asset liability maturity (ALM) profile shows cumulative positive mismatches up to 1 year maturity buckets as on March 31, 2024. On a consolidated basis for TMF group had on book liquidity of Rs 3719 crore as on May 31, 2024, Fixed Deposits of Rs 100 crore, Inter-corporate deposits (ICDs) from TML of Rs 1500 crore and unutilized Cash Credit (CC) and Working Capital Demand Loan (WCDL) of Rs 2070 crore. This is sufficient to meet debt obligations of 4,337 crore in June and July 2024. Out of repayment of Rs 4337 crore CC/WCDL of Rs 970 crore due in June 24 and July 24 is expected to be rolled over. Additionally, TMFL has investments in T-bill/G-securities to the tune of Rs. 1840 crore.

Outlook: Stable

The rating outlook on TMFBSL is closely linked to the rating outlook on TML. CRISIL Ratings will continue to closely monitor any development that can significantly alter the extent of support by TML to TMF group.

Rating Sensitivity factors

Upward factors:

- Upgrade in the rating of TML by one notch

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 TMF group
- Sharp deterioration in the consolidated asset quality, impacting the profitability and capital level of the TMF group
- Any change in regulations or guidelines governing perpetual debt instruments which may have an adverse impact on the features of such instruments

About the Company

With the implementation of the scheme of arrangement effective June 30, 2023, TMF Business Services Limited is now housing operating lease business.

In fiscal 2024, the company reported net loss of Rs 10.8 crore on total income (net of interest expenses) of Rs 30.4 crore.

Key Financial Indicators: (TMF Business Services Limited-standalone)

As on /for the year ended		March 31, 2024*	March 31, 2023#	March 31, 2022#
Total assets	Rs crore	313.5	30,342	34,336
Total income (net of interest expenses)	Rs crore	30.4	1,621	1,788
Profit after tax (PAT)	Rs crore	-10.8	-1,033	-27
Total capital ratio	%	NA	24.0	18.7
Gross NPA	%	NA	11.3	10.3
Net NPA	%	NA	5.9	6.0

*Unaudited Numbers post demerger

#Pre demerger erstwhile Tata Motors Finance Limited's number

Financial Indicators Indicators: (TMF Holdings Limited -consolidated)

As on /for the year ended		March 31, 2024	March 31, 2023	March 31, 2022
Total assets	Rs crore	39,352	43,082	46,083
Total income	Rs crore	5,135	5057	4984
Profit after tax (PAT)	Rs crore	-117	-1013	156
Gross NPA	%	6.1	9.3	9.7
Net NPA	%	3.4	5.0	5.8

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
NA	Commercial Paper	NA	NA	7-365 days	500	Simple	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	200	NA	CRISIL AA+/Stable

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	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	200.0	CRISIL AA+/Stable	13-03-24	CRISIL AA/Positive	01-07-23	CRISIL AA/Stable	12-10-22	CRISIL AA-/Stable	12-11-21	CRISIL AA-/Stable	CRISIL AA-/Negative
			--	01-02-24	CRISIL AA/Positive	30-06-23	Withdrawn	05-08-22	CRISIL AA-/Stable	19-05-21	CRISIL AA-/Stable	--
			--	--	--	19-05-23	CRISIL AA/Stable	31-05-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	--
			--	--	--	20-04-23	CRISIL AA-/Stable	23-02-22	CRISIL AA-/Stable	--	--	--
			--	--	--	02-03-23	CRISIL AA-/Stable	--	--	--	--	--
			--	--	--	14-02-23	CRISIL AA-/Stable	--	--	--	--	--
Non-Fund Based Facilities	ST	--	--	--	--	30-06-23	Withdrawn	12-10-22	CRISIL A1+	12-11-21	CRISIL A1+	CRISIL A1+

			--		--	19-05-23	CRISIL A1+	05-08-22	CRISIL A1+	19-05-21	CRISIL A1+	--
			--		--	20-04-23	CRISIL A1+	31-05-22	CRISIL A1+	16-03-21	CRISIL A1+	--
			--		--	02-03-23	CRISIL A1+	23-02-22	CRISIL A1+		--	--
			--		--	14-02-23	CRISIL A1+		--		--	--
Commercial Paper	ST	500.0	CRISIL A1+	13-03-24	CRISIL A1+	01-07-23	CRISIL A1+	12-10-22	CRISIL A1+	12-11-21	CRISIL A1+	CRISIL A1+
			--	01-02-24	CRISIL A1+	30-06-23	Withdrawn	05-08-22	CRISIL A1+	19-05-21	CRISIL A1+	--
			--		--	19-05-23	CRISIL A1+	31-05-22	CRISIL A1+	16-03-21	CRISIL A1+	--
			--		--	20-04-23	CRISIL A1+	23-02-22	CRISIL A1+		--	--
			--		--	02-03-23	CRISIL A1+		--		--	--
			--		--	14-02-23	CRISIL A1+		--		--	--
Non Convertible Debentures	LT		--		--	30-06-23	Withdrawn	12-10-22	CRISIL AA-/Stable	12-11-21	CRISIL AA-/Stable	CRISIL AA-/Negative
			--		--	19-05-23	CRISIL AA-/Stable	05-08-22	CRISIL AA-/Stable	19-05-21	CRISIL AA-/Stable	--
			--		--	20-04-23	CRISIL AA-/Stable	31-05-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	--
			--		--	02-03-23	CRISIL AA-/Stable	23-02-22	CRISIL AA-/Stable		--	--
			--		--	14-02-23	CRISIL AA-/Stable		--		--	--
Perpetual Bonds	LT		--		--	30-06-23	Withdrawn	12-10-22	CRISIL A/Stable	12-11-21	CRISIL A/Stable	CRISIL A/Negative
			--		--	19-05-23	CRISIL A+/Stable	05-08-22	CRISIL A/Stable	19-05-21	CRISIL A/Stable	--
			--		--	20-04-23	CRISIL A/Stable	31-05-22	CRISIL A/Stable	16-03-21	CRISIL A/Stable	--
			--		--	02-03-23	CRISIL A/Stable	23-02-22	CRISIL A/Stable		--	--
			--		--	14-02-23	CRISIL A/Stable		--		--	--
Subordinated Debt	LT		--		--	30-06-23	Withdrawn	12-10-22	CRISIL AA-/Stable	12-11-21	CRISIL AA-/Stable	CRISIL AA-/Negative
			--		--	19-05-23	CRISIL AA-/Stable	05-08-22	CRISIL AA-/Stable	19-05-21	CRISIL AA-/Stable	--
			--		--	20-04-23	CRISIL AA-/Stable	31-05-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	--
			--		--	02-03-23	CRISIL AA-/Stable	23-02-22	CRISIL AA-/Stable		--	--
			--		--	14-02-23	CRISIL AA-/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	200	Not Applicable	CRISIL AA+/Stable

Criteria Details

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

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