

July 05, 2024

TMF Holdings Limited: Long-term rating upgraded to [ICRA]AA+ (Stable); Short-term rating reaffirmed

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 (Stable)
Long-term – Fund-based bank facilities	300.00	300.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
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 current ratings, ICRA has considered the consolidated performance of TMF Holdings limited (TMFHL) and its subsidiaries, together referred to as the TMF Group), given the strong operational and financial synergies between the companies.

The revision in the long-term ratings follows the upgrade in the long-term ratings of the ultimate parent company i.e. TML (Tata Motors Limited) to [ICRA]AA+ (Stable) from [ICRA]AA (Stable). ICRA believes that the TMF Group is strategically important to TML as the Group financed ~12% of TML's commercial vehicle (CV) sales in FY2024. 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.

ICRA takes note of the proposed a scheme of arrangement for the merger of TMFL (Tata Motors Finance Limited) with TCL (Tata Capital Limited, rated [ICRA]AAA(Stable)/[ICRA]A1+). The scheme is subject to sanction from the stock exchanges, regulators, the National Company Law Tribunal (NCLT) and the requisite approvals from other stakeholders. The merger is expected to be concluded in 9-12 months, after which TMFL will cease to exist and would operate as a division of TCL. After the completion of the transaction, TMFHL's ratings will continue to factor in the support from TML, given TML's stated intent to support the timely servicing of the standalone liabilities of TMFHL.

The ratings factor in the Group's moderate asset quality indicators with consolidated gross stage 3 (GS3) of 6.1% and net stage 3 (NS3) of 3.4% as on March 31, 2024. In this regard, ICRA takes note of the group's collection efforts to improve recoveries and undertake write-offs to reduce the GS3 and NS3 from 9.3% and 5.0% respectively as on March 31, 2023. The restructured book reduced to Rs 1,096 crore as on March 31, 2024 from Rs 3,143 crore as on March 31, 2023, thus indicating some reduction in portfolio vulnerability. Going forward, the Group's ability to improve its financial metrics and asset quality indicators from current levels will remain a key monitorable.

The Stable outlook reflects ICRA's expectation that TMFHL will continue to get support as and when required. It also reflects ICRA's expectation that the company will continue to maintain a comfortable liquidity profile.

Key rating drivers and their description

Credit strengths

Strong parentage and strategic importance to TML; supports financial flexibility – ICRA’s ratings for the TMF Group derive significant support from its current 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 ~12% of TML’s CV sales in FY2024). 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. The consolidated liquidity profile is adequate, supported by unutilised bank lines to bridge short-term mismatches in the cash flows.

ICRA takes note of the proposed scheme of arrangement for the merger of TMFL (Tata Motors Finance Limited) with TCL. The scheme is subject to sanction from the stock exchanges, regulators, the National Company Law Tribunal (NCLT) and the requisite approvals from other stakeholders. The merger is expected to be concluded in 9-12 months, after which TMFL will cease to exist and would operate as a division of TCL. After the completion of the merger, the ratings for TMFHL will continue to factor in the support from TML, given TML’s stated intent to help the timely servicing of its debt.

Established franchise and market position – 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. As on March 31, 2024, TMFL assets under management (AUM) stood at Rs. 38,353 crore consisting of new vehicle financing (66%), used vehicle financing (24%), corporate lending business (CLG; 8%) and others (2%).

Credit challenges

Moderate asset quality, albeit improving; exerting pressure on earnings profile – TMF Group’s asset quality, on a consolidated basis, remain moderate with GS3/NS3 of 6.1%/3.4% as on March 31, 2024, albeit improved from 9.3%/5.0% as on March 31, 2023. Asset quality improvement in FY2024 largely on account of the reduction in the restructured accounts due to reorientation and strengthening of the collection teams and write-offs. Restructured book reduced to Rs 1,096 crore as on March 31, 2024 from Rs 3,143 crore as on March 31, 2023.

As for profitability, compressed net interest margins (NIMs), relatively high credit cost and higher operating expenses owing to reorientation of collection efforts resulted in net loss of 117 crore on a consolidated basis in FY2024 as compared with a net loss of Rs. 1,013 crore in FY2023. 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 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.

TMFHL reported a net loss of Rs. 120 crore on a standalone basis in FY2024 compared with a net loss of Rs. 62 crore in FY2023.

Weak consolidated capitalisation profile – On a consolidated basis, the Group’s overall gearing stood at 34.6 times (reported gearing 7.1¹ times) on March 31, 2024, compared with 26.8 times (reported gearing 7.1 times) on March 31, 2023 (15.5 times (6.5 times) as on March 31, 2022), owing to erosion of net worth due to significant losses in FY2024 and FY2023. ICRA draws comfort from the parentage, providing capital and liquidity 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

¹ Rs. 3,608-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing.

parent to be forthcoming and in a timely manner to support the capitalization and hence, credit profile of the Group companies.

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

TMF Group’s liquidity profile is adequate on a consolidated basis. As on May 31, 2024, total consolidated (TMFHL+TMFL+TMFBSL) debt outflows, over the next 3 months, stood at Rs. 8,222 crore. Out of this, CC/WCDL of Rs. 2,435 crore is 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 further supported by the combined cash and liquid investments of ~Rs. 3,719 crore and unutilised bank lines of ~Rs. 2,070 crore. Moreover, TMFHL had unutilised inter-corporate deposit (ICD) lines of Rs. 1,500 crore from TML as on May 31, 2024, to meet funding gaps and future funding requirements. TMFL also had Rs. 1,840 crore of Investments in G Sec/ T bills as on May 31, 2024.

Rating sensitivities

Positive factors – The rating is underpinned by the parentage in the form of TML and could benefit in case of a positive movement in TML’s credit profile.

Negative factors – A significant change in the expectation of support from TML or a deterioration in the credit profile of TML shall negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s Credit Rating Methodology for Non-banking Finance Companies
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. <i>Details mentioned in Annexure II.</i>

About the company

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 demerger FY 2024, the NBFC business of TMFBSL (earlier known as Tata Motors Finance Limited) was transferred to TMFL (Formerly known as Tata Motors Finance Solutions Limited).

In FY2024, TMFHL (consolidated) reported a net loss of Rs. 117 crore on an asset base of Rs. 39,542 crore against a net loss of Rs. 1,013 crore on an asset base of Rs. 43,083 crore in FY2023. In FY2024, TMFHL (standalone) reported a net loss of Rs. 120 crore on an asset base of Rs. 8,939 crore against a net loss of Rs. 62 crore on an asset base of Rs. 9,408 crore in FY2023.

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). Moreover, as a Group, TML operates assembly operations at multiple locations around the globe through its subsidiaries and JVs.

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 ~70% of its consolidated turnover in FY2024, 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.

Key financial indicators (audited)

TMF Holdings Limited (standalone)	FY2022	FY2023	FY2024
	Ind AS	Ind AS	Ind AS
Total income	315	199	168
Profit after tax	54	-62	-120
Total assets	8,307	9,408	8,939
Return on average assets	0.7%	-0.7%	-1.3%
Leverage ratio (times)	1.1	1.5	1.5
ANW (CRAR)	55.2%	41.7%	35.8%

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

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

TMF Holdings Limited (consolidated)	FY2022	FY2023	FY2024
	Ind AS	Ind AS	Ind AS
Total income	4,984	5,057	5,135
Profit after tax	156	(1,013)	(117)
Total assets	46,083	43,083	39,542
Return on assets	0.3%	-2.3%	-0.3%
Gearing* (times)	15.5	26.8	34.6
Gross stage 3	9.7%	9.3%	6.1%

*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	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Date and Rating FY2025		Date and Rating in FY2024	Date and Rating in FY2023		Date and Rating in FY2022
				Jul-05-24	Jun-13-24	Jul-14-23	Mar-06-23	Dec-30-22 Oct-21-22	Feb-15-22
1	Long-term – Fund-based bank facilities	Long term	300	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)
2	Non-convertible debenture programme	Long term	1,725	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)
3	Commercial paper programme	Short term	2,500	[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	Simple
Commercial paper programme	Very Simple
Bank facilities	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, 2024

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE909H14PN3	Commercial paper programme	Mar-7-24	NA	Mar-5-25	75	[ICRA]A1+
INE909H14PN3	Commercial paper programme	Mar-11-24	NA	Mar-5-25	200	[ICRA]A1+
INE909H14PO1	Commercial paper programme	May-27-24	NA	Aug-23-24	500	[ICRA]A1+
NA^	Commercial paper programme	-	-	7-365 days	1,725	[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 (erstwhile Tata Motors Finance Solutions Limited)	Subsidiary	Full consolidation
TMF Business Services Limited	Subsidiary	Full consolidation

Source: Company data

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Branches



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