



September 21, 2010

ICRA assigns rating of LA+(stable) to the perpetual debt programme of of Tata Motor Finance Limited

ICRA has assigned the rating of 'LA+' (pronounced L A Plus) with Stable outlook to the Rs. 200 crore Perpetual Debt programme of Tata Motors Finance Limited (TMFL). The one notch lower rating assigned to the perpetual debt programme as compared with the LAA- rating to the other long term debt programmes of the company reflects the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms for hybrid debt capital instruments need regulatory approvals from the Reserve Bank of India for debt servicing (including principal repayments) in case the company was to report a loss and is not liable to service the debt in case the company breaches the minimum regulatory capitalization norms. ICRA has ratings outstanding of 'LAA-' (pronounced L double A minus) with Stable outlook assigned to the Subordinate Debt, Non Convertible Debentures, Long Term Fund Based Limits, Long Term Loans and Long Term Non Fund Based Limits of the company[†]. ICRA also has ratings outstanding of 'A1+' (pronounced A one Plus) to the Rs. 4,000 crore Short Term Debt/ Commercial Paper programme, the Rs. 6,037 crore Short Term Fund based limits and the Rs. 2,664 crore Short Term Loan of the company[†].

ICRA's ratings on TMFL continues to be based on the comfort derived from its parentage and TMFL's strategic importance to its parent, which ICRA views as key factors to ensure continuity of support and protection to its debt holders. ICRA has noted the infusion of Rs. 100 crore fresh equity by TML in the month of August 2010 in TMFL; ICRA expects such support to be forthcoming going forward. The rating also factors in TMFL's good growth potential in light of strong growth in vehicle sales as a result of economic recovery, increased management focus on profitability and good financial flexibility enjoyed by TMFL, which benefits its liquidity profile. Although TMFL's business is concentrated only to TML, dominant position of TML in vehicle finance market (60.7% market share in CV and 14.7% in cars as on March 31, 2010) and TMFL's flexibility to increase market share (being a captive finance company) mitigate the concentration risk to an extent. At the same time, captive finance status could also impact the asset quality and therefore the earnings of the company. Although Gross NPA% for the company could remain high (given the nature of its business) various management initiatives are likely to help the company achieving adequate risk adjusted earnings by pricing the risk appropriately and controlling credit costs through risk sharing. The Long Term ratings remain constrained on account of the company's low profitability, moderately high delinquencies, and lack of diversification in funding and income mix. Going forward, TML's credit ratings as well as TMFL's own performance would remain the key rating drivers.

Company Profile

Tata Motors Finance Limited

TMFL was established in June 2006 as a wholly owned subsidiary of Tata Motors Limited (TML) to carry on the business of financing CVs and passenger cars manufactured by TML. Earlier, the financing business was carried on through Tata Finance Limited (TFL), which was merged with TML in 2005. Following the merger the financing was done through TMF, a division of TML. While in the past business sourced through dealer channels were originated of TML's book, however since FY 2010 all fresh financing business has been originated on TMFL's books. During the financial year ended March

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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31, 2010 TMFL reported a Profit after Tax of Rs 44.2 crore on an asset base of Rs. 9473 crore (managed assets of Rs. 14,881 crore) against a Loss after Tax of Rs. 120.1 crore on a asset base of Rs. 7,001 crore (managed assets of Rs.11,835 crore) during the corresponding period in the previous financial year. During the first quarter ended June 30, 2010 TMFL reported a PAT of Rs. 23.5 crore on an asset base of Rs. 9199 crore (managed assets¹ of Rs. 14,185 crore) against a loss after tax of Rs. 36.8 crore on an asset base of Rs. 7,934 crore (managed assets of Rs. 13,812 crore) during the corresponding period in the previous financial year. As on June 30, 2010 TMFL operated from a pan-India branch network of 141 branches. Based on provisional results TMFL's capital adequacy as on Aug-10 was at a moderate level of 15.7%, while its Tier 1 Capital % was 11.4% (reported capital adequacy for the company as on Jun-10 was 15.2%, while its Tier 1 Capital % was 10.7%).

Tata Motors Limited

Tata Motors Limited (Tata Motors) is India's largest automotive company with market leadership in the CV segment and positioned as one of the top three manufacturers of passenger vehicles. The Tata Group holds a ~37% equity stake in the company. From being predominantly a CV and PV manufacturing catering to Indian markets, Tata Motors business profile underwent a significant change with the acquisition of Jaguar Land Rover (JLR) in June 2008. With the inclusion of JLR, Tata Motors' product profile range from low to high end cars and presence in Europe, US, China, Russia and Brazil. At present Currently, Tata Motors has five manufacturing plants in India at Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pant Nagar (Uttaranchal) and Dharwad (Karnataka) with installed capacity (on double shift basis) of 597,000 CVs and 388,000 for cars and UVs; three manufacturing units in the United Kingdom (for Jaguar Land Rover) and a manufacturing facility in Gunsan (South Korea) with a capacity of 20,000 CVs. During 2009-10 Tata Motors reported revenue of Rs. 34,961 crore, during the same period, its subsidiary JLR reported revenue of Rs. 49,344 crore.

Traditionally a CV manufacturer, Tata Motors entered the passenger car business in 1998-99 with the launch of an indigenously developed B segment car. During April – July 2010, Tata Motors enjoyed a 15.4%² share in the Indian PV industry through its existing platforms (Indica, Indigo, Indigo CS all on a single platform and Indica Vista on a new platform) for cars and a single platform for MUVs (Sumo and Safari). With the existing PV products, Tata Motors figures among the top three passenger vehicle manufacturers in the domestic market. The company has recently started production of Nano at its new manufacturing facility at Sanand (Gujarat).

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

1 Total Balance Sheet Assets + Principal Outstanding against assigned/securitized pools

2 Based on SIAM Data

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