November 07, 2023

Tata Passenger Electric Mobility Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term- Unallocated Limits	200.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Total	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Tata Passenger Electric Mobility Limited (TPEML/the company) takes into consideration its strong parentage, as a subsidiary of Tata Motors Limited (TML, rated [ICRA]AA(Stable)/[ICRA]A1+) who is the market leader in the domestic commercial vehicle (CV) segment while the group is one of the top three players in the domestic passenger vehicle (PV) market. Given the strategic importance of TPEML to the parent, there exists a high degree of operational, managerial and financial linkages as evidenced by presence of some common directors and oversight of central treasury team along with the associated financial flexibility by virtue of being a part of the Tata Group. The ratings also factor in the dominant position of TPEML in the domestic passenger car electric vehicle (EV) segment, with a market share of 84% during FY2023 through models like Nexon, Tiago, Tigor and Xpres-T. However, with the competitive intensity in the domestic electric car market increasing, with the entry of new players and introduction of electric variants by incumbents, TPEML's ability to maintain its market leadership position and improve on its pricing power and profitability remain to be seen.

Recently, the company had raised funds from TPG Rise, who has invested $1 billion in two tranches of $500 million each in March 2022 and January 2023 in the form of compulsorily convertible preference shares (CCPS) in the entity. Post conversion, TML's stake in TPEML will reduce to 85-89%. The infusion of adequate funds by TPG Rise (equivalent to ~Rs. 7,500 crore) has resulted in a comfortable financial risk profile for TPEML, characterised by a strong capital structure with nil external debt along with a healthy networth base and a strong liquidity profile.

ICRA, however, notes that the company's operations are currently in nascent stages, resulting in operating losses (4.9% in FY2023, 9.7% in Q1 FY2024 and 5.0% in Q2 FY2024), and the company is expected to generate sustainable profits only over the medium to long term. At the same time, the company continues to have sizeable investment requirements in the medium term towards product development, manufacturing capacities and localisation, given the rapidly evolving market. The company has outlined investments of $2 billion by FY2027, and while this would be partly funded from the investment received from TPG Rise, the company's ability to fund these investments continuously, without weakening its credit profile remains a monitorable. Further, the company's susceptibility to commodity price cycles and forex fluctuations, along with geo-political developments and regulatory interventions that may impact operations, also remain monitorables.

The Stable outlook on the long-term rating reflects ICRA's expectation that TPEML will continue to command a healthy market share in the domestic electric vehicle segment supported by new model launches and remain strategically important to TML, thus continuing to receive strong managerial and financial support over the medium term.

Key rating drivers and their description

Credit strengths

Strong parentage of the Tata Group, with high degree of operational, managerial and financial linkages, along with associated financial flexibility - TPEML was formed as a result of hiving off of TML's electric passenger vehicles unit as a separate entity. At present, the company is a wholly-owned subsidiary of TML, who is the market leader in the domestic commercial vehicle (CV) market, and among the top three players in the domestic passenger vehicle (PV) segment. While the company has received investment of $1 billion from TPG Rise in the form of CCPS, TML's stake would be in the range of 85-89% even on a fully diluted basis. Being a core part of TML's business and its growth strategy, as evidenced by presence of some common directors, overlapping operations and oversight from the central treasury team, the company benefits from the financial flexibility arising out of being a part of the Tata Motors Group. Mrs. Usha Sangwan and Mrs. Vedika Bhandarkar are the common independent directors between TML and TPEML, while Mr. P. B. Balaji, CFO of TML and Mr. Shailesh Chandra, managing director of TML's PV division are also on the Board of TPEML. These associations provide further comfort regarding the strategic importance of TPEML for the Group.

Market leader in the domestic passenger EV segment with multiple product offerings - Through its electric vehicle offerings across models like Nexon, Tiago, Xpres-T and Tigor, TPEML is the dominant market leader in the domestic PV electric vehicle segment with a market share of 84% during FY2023. Going forward, it is expected to remain the market leader in the segment, as it has a well-diversified product portfolio covering a wide range of offerings across various price points and multiple sub-segments of the passenger car market, thereby enabling it to cater to diverse consumer segments. By FY2026, the company plans to have around 10 models as part of its portfolio which would be a mix between EV powertrain versions for current models along with new model launches like Currv and Avinya.

Comfortable financial risk profile characterised by a moderate capital structure, minimal debt and healthy liquidity profile – Currently, TPEML remains a debt-free entity, excluding some portion of the funds received as CCPS from TPG Rise which are classified as hybrid instruments as per ICRA methodology, as they are convertible into a variable number of equity shares (Rs. 2,500 crore as on March 31, 2023). As on March 2023, the company's overall gearing (including lease liabilities) stood at 0.5x, while it had a surplus liquidity of Rs. 3,980.2 crore, primarily from the fund-raising from TPG Rise (in addition to surplus ICDs parked with TML to the tune of Rs.2,058.5 crore). Although the coverage indicators currently remain weak on account of operating losses generated in the nascent stage of operations, the company's minimal dependence on external borrowings and its strong liquidity profile renders strength to its overall financial risk profile.

Credit challenges

Nascent stage of operations resulting in operating losses - The company has been reporting operating losses due to its nascent stage of operation. Further, the company's operating losses expanded in Q1 FY2024 to (9.7%) from (4.6%) in FY2023 due to one-time expenses related to Indian Premier League (IPL) sponsorship costs, as well as rising lithium prices and higher Research &Development (R&D) spends in the initial product development stage. The same have reduced to (5.0%) in Q2 FY2023. However, the company is expected to breakeven at Free Cash Flow (FCF) level in the next couple of years, as it ramps up its volumes further and realises scale economies. The improvement in profitability would be supported by multiple factors like benefits from the Production Linked Incentive (PLI) scheme, increased localization, expected organic reduction in battery prices, economies of scale, in-house sourcing from Agratas etc.

Sizeable investment requirements towards product development, manufacturing capabilities and localisation, in an evolving market - Going forward, the company has capex plans of $2 billion by FY2027, most of which will pertain to new product development, as the investments in manufacturing capacity would be largely concluded in the current fiscal. The EV manufacturing is planned to be shifted to the upcoming manufacturing facility at Sanand, which is expected to be commercialized by Q4 FY2024. Given the sizeable quantum of investments to be incurred for product development and capex, the company's ability to generate sufficient accruals from operations for funding the same, and the funding mix adopted for these investments and its impact on TPEML's credit profile would be key monitorables.

Susceptible to commodity price cycles and forex fluctuations - Like other players in the domestic automotive market, TPEML's profitability remains susceptible to commodity price cycles and its ability to pass on increase in input costs to customers, without jeopardizing market share. Increases in input costs, either due to commodity price cycles, or on account of regulatory developments such as tightening safety norms, restrictions/duties on import of key components, and the company's ability to pass on the same to customers without adversely impacting its earnings or market share would remain critical to maintaining a healthy credit profile. Further, any adverse movements in the forex rates may also impact the company's profitability, given the dependence on imports for some critical components.

Exposed to geopolitical developments and regulatory interventions - The company imports significant proportion of its material requirement such as battery cells. Any changes in regulations related to import of components or supply chain disruptions, which can impact the supply of these key components, can accordingly impact TPEML's growth prospects. Further, any regulatory changes or interventions that could impact the demand and viability of the vehicles sold by TPEML also has the potential to impact the company's performance. However, in order to mitigate this risk, the company is looking to increase the localisation content in its products, which also includes cell manufacturing through group company Agratas.

Liquidity position: Strong

TPEML has a strong liquidity position characterised by free cash and cash equivalents of Rs. 3,980.2 crore as on March 31, 2023. Further, the company has also extended Inter-Corporate Deposits (ICDs) to the parent company TML to the tune of Rs. 2,058.5 crore as on March 31, 2023, which are repayable on demand and offer further support to the company's liquidity profile. Against the same, the company has no term debt outstanding. While the company has outlined sizeable investments of $2 billion in capex and product development by FY2027, for which it would require additional funding, ICRA expects the near-term investment requirements to be funded comfortably from the existing sources of liquidity.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of strengthening of the parent TML's credit profile.

Negative factors – Negative pressure on the ratings could arise in case of significant weakening of the company's market position in the domestic electric PV industry, resulting in a sustained weakening in earnings, or in case of large debt-funded capex or investments that have an adverse impact on its credit metrics and liquidity profile on a sustained basis. Any material changes in TML's credit profile or committed support from TML could also trigger a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Passenger Vehicles Manufacturers Corporate Credit Rating Methodology
Parent/Group support	The ratings are based on implicit support from Tata Motors Ltd (TML). ICRA expects TML to extend timely financial support to TPEML, should there be a need, given the strong operational, financial and managerial linkages between them.
Consolidation/Standalone	Standalone

About the company

Formed as a result of transfer of the electric passenger vehicle unit of Tata Motors Limited in 2022, Tata Electric Passenger Mobility Limited has been incorporated to design, manufacture and sell a wide range of automotive passenger electric vehicles.

The company is currently the market leader in the domestic electric passenger vehicle (e-PV) segment with a market share of 84% during FY2023. As at March 31, 2023, TPEML is a wholly owned subsidiary of Tata Motors Limited.

TPG Rise has invested $1 billion in TPEML in two tranches of $500 million each in March 2022 and January 2023 in the form of compulsorily convertible preference shares (CCPS, aggregating to Rs. 7,500 crore approximately). Accordingly, on conversion of these CCPS, the shareholding of TML in TPEML will reduce to 85-89%.

At present, the company's products are manufactured at its sister subsidiary, Tata Motors Passenger Vehicles Limited's (TMPVL, rated [ICRA]AA(Stable)/[ICRA]A1+) plant. However, post the commercialization of the recently acquired manufacturing facility in Sanand (erstwhile Ford plant), the company would also have in-house capacity to manufacture vehicles. The plant is expected to be commercialised by Q4 FY2024, with an initial manufacturing capacity of 3.2 lakh units per annum, scalable upto 4 lakh units per annum, and with manufacturing capacity fungible between EVs and ICE vehicles.

Key financial indicators (audited)

Standalone (Rs. crore)	FY2022*	FY2023
Operating income	8.6	42.0
PAT	(64.6)	(253.6)
OPBDIT/OI	-633.4%	-952.8%
PAT/OI	-748.1%	-604.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	(5.7)	(6.3)
Interest coverage (times)	(607.3)	(400.0)

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Note: For FY2022 and FY2023, the entire manufacture and sale of EVs was routed through TMPVL, and not through TPEML, hence above numbers are not representative of actual performance

Source: Company annual report and ICRA calculations

**pertains to performance from December 21, 2021 to March 31, 2022.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 07, 2023	-	-	-
1	**Unallocated Limits**	Long term/ Short term	200.00	--	**[ICRA]AA (Stable)/[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Unallocated Limits	Not Applicable

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Unallocated Limits**	NA	NA	NA	200.00	**[ICRA]AA (Stable)/[ICRA]A1+**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sruthi Thomas
+91 124 4545822
sruthi.thomas@icraindia.com

Karan Punjabi
+91 22 6169 3358
karan.punjabi@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

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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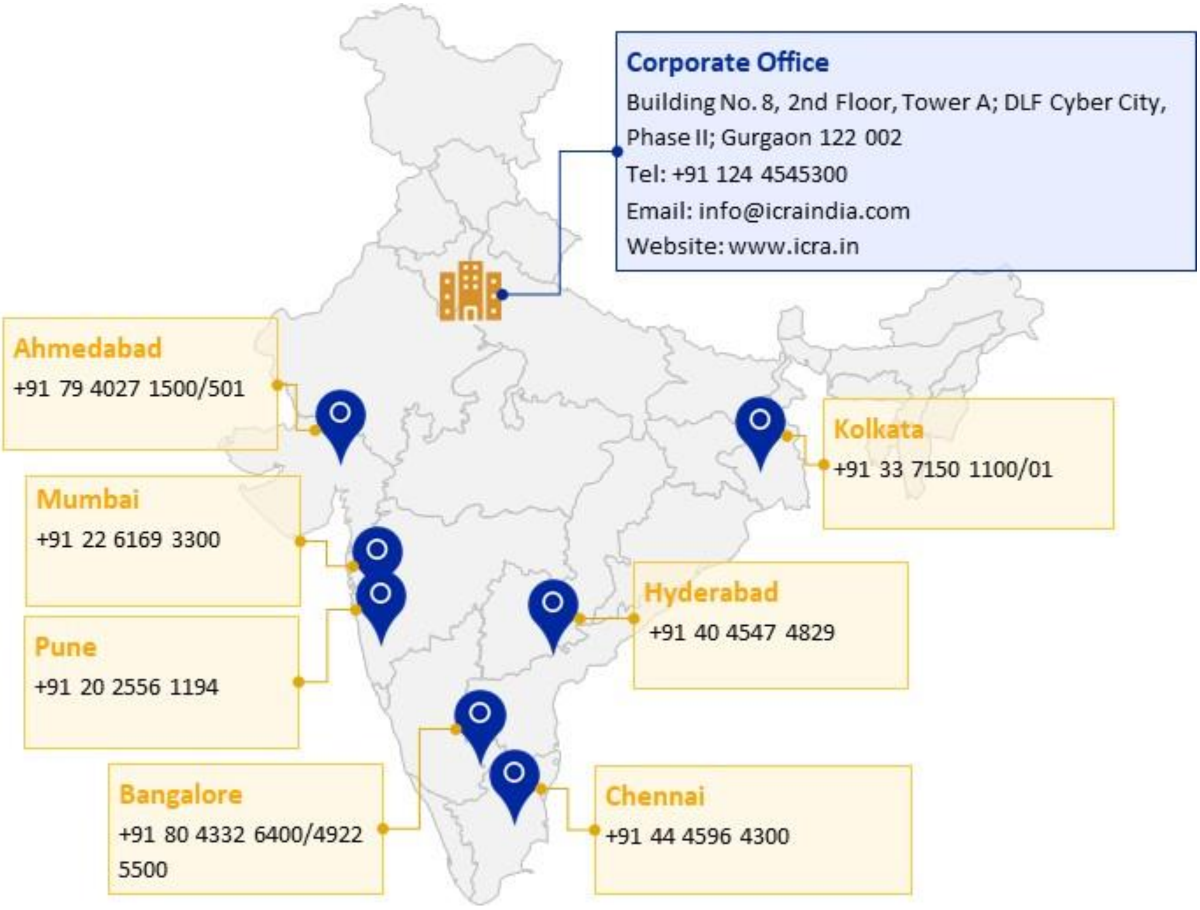

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