November 07, 2023

Tata Motors Passenger Vehicles Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term - Fund Based/Non fund based limits	2800.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Long Term/Short Term – Unallocated Limits	300.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Total	**3100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Tata Motors Passenger Vehicles Ltd (TMPVL/the company) takes into consideration its strong parentage, as a wholly-owned 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) segment. Given the strategic importance of TMPVL 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 its healthy and improving market position in the domestic PV market, as the third largest player, with a market share of 13.5% during H1 FY2024 and FY2023, as compared to 5% in FY2020. The company operates in three key sub-segments, namely compact cars (through Altroz, Tiago and Tigor models), compact utility vehicles (UVs) (through Nexon and Punch models) and the larger UV segment (through Harrier and Safari models), and has emerged as one of the top UV players in the domestic market. With the healthy acceptance of these models, presence in fast-growing segments of the market, and regular new model launches and refreshes, TMPVL has been able to steadily outpace the underlying market growth and expand its share in the growing domestic PV market. In line with the overall improvement in the domestic PV industry wherein the industry touched an all-time high of 3.9 million units in FY2023 aided by strong underlying demand and a steady supply of electronic parts, the company reported a YoY volume growth of 45% and topline growth of 49% during FY2023. ICRA however notes the competitive intensity in the domestic PV market is increasing, with new launches by incumbents and entry by new players in the market. TMPVL's ability to maintain and improve its market standing, in the face of increasing competitive intensity remains a key monitorable.

The company has put in place a strategy to focus on alternative fuel segments like Compressed Natural Gas (CNG) and Electric Vehicle (EV) powertrain models, wherein it has introduced the CNG version of the Altroz and Punch models recently, adding to the company's existing CNG offerings of Tigor and Tiago. Further, it is the market leader in the domestic EV segment with a share of over 80%. Overall as of H1 FY2024, EV contributes around 13% in the powertrain mix, CNG contributes around 14%, diesel contributes around 13% while the balance is contributed by petrol vehicles.

The ratings also factor in TMPVL's strong financial risk profile characterized by minimal dependence on external borrowings, a strong liquidity profile and healthy credit metrics. The company's capital structure and credit metrics stood healthy with an overall gearing and interest coverage of 0.4x and 12.4x as on March 2023 respectively, as against 0.5x and 4.9x as on March 31, 2022. At the same time, it has strong liquidity in the form of Rs. 541.1 crore of cash and bank balances Rs. 2,000 crore of unutilized working capital facilities, Rs. 2735 crore of inter-corporate deposits (ICDs) parked with the parent and healthy cash flow generation from operations. While the earnings have been improving over recent years, supported by the expansion in volumes, ICRA notes that the profitability remains susceptible to commodity price cycles and any adverse regulatory interventions, which cannot be completely passed on to customers. ICRA also notes that the domestic PV industry remains cyclical to some extent, dependent on the macroeconomic environment and other exogeneous factors, and TMPVL's volumes and earnings would also be susceptible to the same.

The Stable Outlook on the long-term rating reflects ICRA's expectation that TMPVL will continue to command a steady market share in the domestic passenger vehicle industry 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 - The company is a wholly-owned subsidiary of TML, who is the market leader in the domestic commercial vehicle (CV) market, while the group is amongst the top three players in the domestic passenger vehicle (PV) segment. The company was formed as a result of hiving off of TML's PV unit as a separate entity. Being a core part of TML's business and its growth strategy as evidenced by presence of common directors, overlapping operations and a common treasury team, the company benefits from the financial flexibility arising out of being a part of the Tata Motors Group. Mrs. Usha Sangwan is the common independent director between TML and TMPVL, while Mr. P. B. Balaji, CFO of TML and Mr. Shailesh Chandra are also on the Board of TMPVL. All the directors and key management personnel of TMPVL are seasoned veterans of the Tata Motors Group, having long-standing associations with the group, which provides further comfort regarding the strategic importance of TMPVL for the Group.

Improving market position in domestic PV market, supported by healthy acceptance of few key models - TMPVL is the third largest player in the domestic PV industry with a market share of 13.4% in H1 FY2024 (13.5% in FY2023), which has steadily grown over recent years mainly through new model launches, which have been accepted well in the domestic market. TMPVL majorly has a presence in the compact car segment through models like Altroz, Tiago and Tigor, in the compact UV segment through its Nexon and Punch models, and in the larger UV segment through its Harrier and Safari offerings. TMPVL's presence in fast-growing sub-segments of the domestic PV market and healthy reception for the models launched over the past few years, along with regular refreshes and new model launches, have helped it steadily expand its market share in the domestic PV market from 5% in FY2020 to 13.4% now.

Comfortable financial risk profile characterised by a healthy capital structure and credit metrics - In terms of debt and liquidity profile, apart from a government loan of Rs. 587.1 crore from the Government of Gujarat, the company is debt free while having undrawn working capital lines of Rs. 2,000 crore and free cash and liquid investments of Rs. 541 crore as on March 31, 2023. Apart from this, the company has extended Inter-Corporate Deposits (ICDs) to the tune of Rs. 2,735 crore to the parent entity, TML, as part of the group's cash pooling arrangement. These are repayable on demand and further adds to the company's liquidity buffer. Given the low reliance on external borrowings, the company's capital structure and credit metrics stood healthy with an overall gearing and interest coverage of 0.4x and 12.4x as on March 2023 respectively, while the ample liquidity and healthy cash flow generation is likely to limit the dependence on external borrowings going forward as well.

Credit challenges

Exposed to high competitive intensity and cyclicality of the domestic PV market - The Indian PV market remains highly competitive, with presence of large number of players, both Indian and foreign, and frequent model launches by incumbents and new players, to capture a larger share in the growing market. The competitive intensity has been especially increasing in the compact and mid-size utility vehicle segments, given the shift in consumer preferences from smaller cars to these segments. With more players and models vying for a share of the growing market, competition in the domestic PV market is expected to further intensify going forward. Additionally, the domestic PV industry remains cyclical to some extent, dependent on the macroeconomic environment and other exogeneous factors, and TMPVL's volumes and earnings would also be susceptible to the same. Accordingly, TMPVL's ability to maintain and expand its market share in the market in the face of increasing competitive intensity and to mitigate downturns in the market, while protecting its profitability remains critical.

Profitability susceptible to commodity price cycles and regulatory interventions - Like other players in the domestic automotive market, TMPVL'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 emission and safety norms, restrictions/duties on import of key components, and their ability to pass on the same to customers without adversely impacting their earnings or market share would remain critical to maintaining a healthy credit profile. Further, any regulatory interventions that could impact the demand and viability of the vehicles sold by TMPVL also has the potential to impact the company's performance.

Liquidity position: Strong

TMPVL had free cash and cash equivalents of Rs. 541.4 crore and undrawn working capital lines of Rs. 2,000 crore as on March 31, 2023. Additionally, ICRA expects TMPVL to generate substantial retained cash flows, upwards of Rs. 2,500 crore over the next 12 months. Further, the company has also extended ICDs to the parent company TML to the tune of Rs. 2735 crore as on March 31, 2023, which are repayable on demand and would further shore up the liquidity when received. Against the same, the company has no term debt repayments over the near term, and capex/ investments in product development of upto Rs. 3,000 crore annually which is expected to be funded comfortably from these 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 weakening of the company's market position in the domestic 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 TMPVL, 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 passenger vehicle unit of Tata Motors Limited in 2021, Tata Motors Passenger Vehicles Limited designs, manufactures and sells a wide range of automotive passenger vehicles, primarily in the Indian market. In FY2023, the company had the third highest market share in the Indian passenger vehicle market at 13.5%. TMPVL has been incorporated as a wholly owned subsidiary of TML and currently manufactures vehicles through facilities located at Sanand in Gujarat and Pimpri Chinchawad and Ranjangaon in Pune, with a total annual capacity of manufacturing 6 lakh units.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	32,710.7	48,873.1
PAT	(851.3)	612.0
OPBDIT/OI	3.2%	5.7%
PAT/OI	-2.6%	1.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.5
Total debt/OPBDIT (times)	2.8	1.0
Interest coverage (times)	4.9	12.4

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

Source: Company annual report and ICRA calculations

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	**Fund Based/Non fund based limits**	Long term/ Short term	2,800.00	--	**[ICRA]AA (Stable)/[ICRA]A1+**	-	-	-
2	**Unallocated Limits**	Long term/ Short term	300.00	--	**[ICRA]AA (Stable)/[ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term - Fund Based/Non fund based limits	Simple
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	**Long Term/Short Term - Fund Based/Non fund based limits**	NA	NA	NA	2,800.00	**[ICRA]AA (Stable)/[ICRA]A1+**
NA	**Long Term/Short Term – Unallocated Limits**	NA	NA	NA	300.00	**[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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

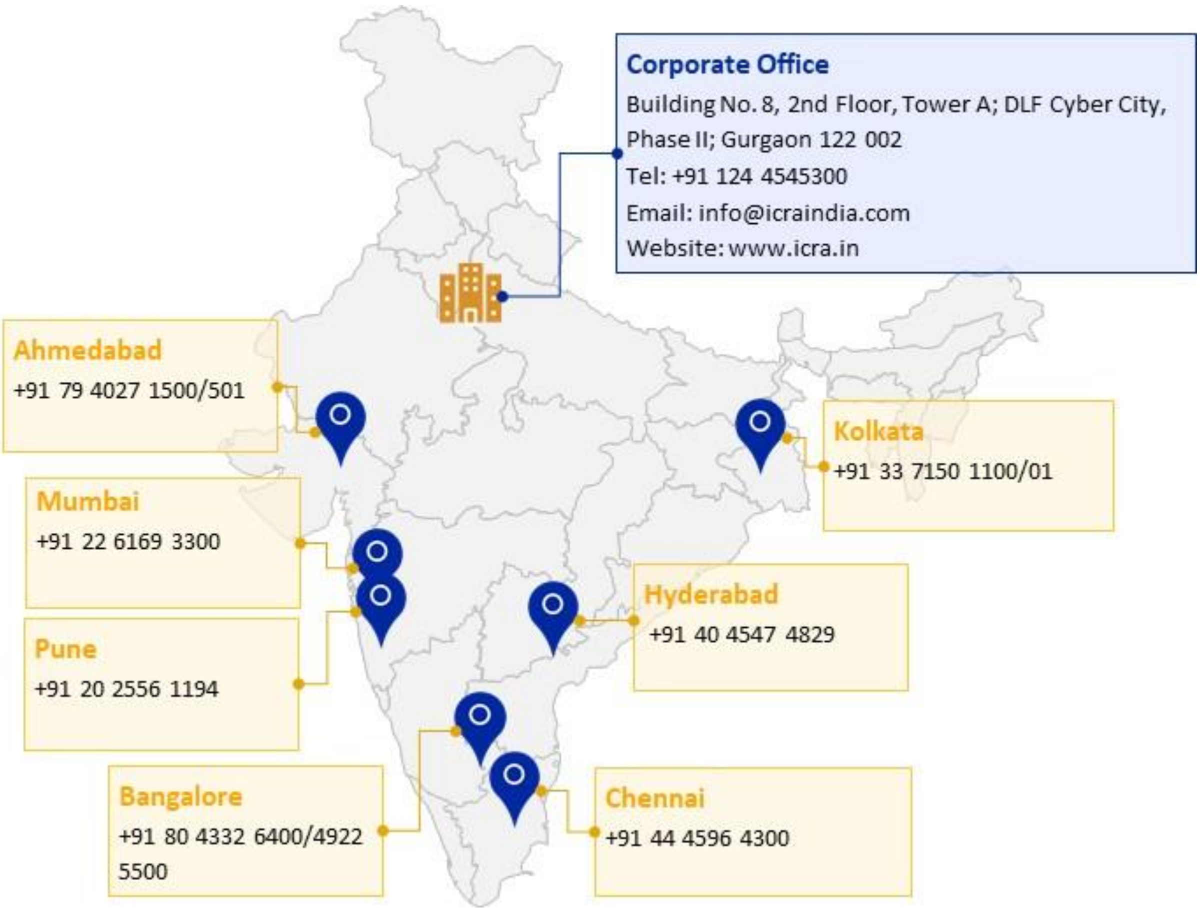
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.