March 13, 2024

Tata Passenger Electric Mobility Limited: Update on Material Event

Summary of rating action

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

**Instrument details are provided in Annexure-I*

Material event

On March 04, 2024, Tata Motors Limited (TML, the parent entity of Tata Passenger Electric Mobility Limited, or TPEML) announced that its Board of Directors (Board) had approved the proposal of demerging TML into two separate listed companies, housing the commercial vehicles (CV) business and its related investments in one entity (CV entity) and the passenger vehicles (PV) business, including PVs, electric vehicles (EVs), Jaguar Land Rover Automotive PLC (JLR) and its related investments in another entity (PV entity). The demerger will be implemented through a National Company Law Tribunal (NCLT) scheme of arrangement and all shareholders of TML shall continue to have identical shareholding in both the listed entities.

Impact of Material Event

ICRA notes that the actual demerger would take nearly 12-15 months to complete and shall be subject to the Board's approval for the NCLT scheme of arrangement along with the necessary shareholder, creditor and regulatory approvals.

While the full details of the scheme are yet to be disclosed, ICRA expects both the resulting entities to maintain a strong credit profile even after the demerger, supported by their respective operational strengths. The CV entity shall continue to benefit from its dominant market share of ~39% in the domestic CV segment (for 9M FY2024), a strong and well diversified product portfolio and an extensive dealership-cum-service network. However, in line with the industry's characteristics, the CV entity's earnings shall remain susceptible to stiff competition and inherent cyclicality. The PV entity shall also continue to benefit from improving acceptability of its newer models with a market share of 14.6% in Q3 FY2024 and its global presence on account of JLR, which generated ~70% of TML's consolidated (excluding TMF Holdings Limited, or TMF) earnings in 9M FY2024. JLR has reported growth in volumes over the last few quarters supported by easing supply chain issues and increasing Defender, Range Rover and Range Rover Sport wholesales. Moreover, Range Rover Electric is also generating strong interest.

TML has an expected capex (including expensed and capitalized R&D) outlay of Rs. 35,000–Rs. 40,000 crore per annum. However, its liquidity profile is expected to remain adequate supported by steady cash flow generation. Moreover, ICRA expects the management's commitment to deleverage the balance sheet and maintain the overall borrowings at prudent levels to continue for both the resulting entities. Both entities are also expected to continue to enjoy exceptional financial flexibility as part of the Tata Group along with financial support from Tata Sons Private Limited (Tata Sons) (rated [ICRA]AAA (Stable)/[ICRA]A1+).

ICRA will continue to monitor the developments in this regard and their possible impact, if any, on the credit profile of TML.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities. Click here

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Passenger Cars & Utility Vehicles Corporate Credit Rating Methodology
Parent/Group support	The ratings are based on implicit support from 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 TML in 2022, TEPML 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 TML.

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, the recently acquired manufacturing facility in Sanand (erstwhile Ford plant), has also commenced production in Q4 FY2024. The plant is expected to have 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
					Mar 13, 2024	Nov 07, 2023	-	-	-
1	**Unallocated Limits**	Long term/ Short term	200.00	--	**[ICRA]AA (Stable)/ [ICRA]A1+**	[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 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 40 4547 4829
gaurav.kushwaha@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