August 27, 2024

Tata Motors Passenger Vehicles 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
Long Term/Short Term - Fund Based/Non fund based limits	2800.00	2800.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Long Term/Short Term – Unallocated Limits	300.00	300.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Total	**3100.00**	**3100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade of the long-term rating of Tata Motors Passenger Vehicles Limited (TMPVL) factors in the improvement in the credit profile of its parent, Tata Motors Limited (TML, rated [ICRA]AA+ (Stable)/ [ICRA]A1+). TML Group is the market leader in the domestic commercial vehicle (CV) segment as well as one of the top three players in the domestic passenger vehicle (PV) segment. The rating upgrade has been driven by significant deleveraging for TML, supported by an improvement in its operating profit margins (OPM) and overall free cash flow generation, aided by improvement in the performance of Jaguar and Land Rover Automotive PLC (JLR) and strong performance across the domestic business segments. Further, TML's credit profile is expected to continue to strengthen with JLR likely to continue its deleveraging, supported by the sustenance of its operational performance. TML is also expected to sustain its strong performance in the domestic CV and PV industries, while the electric vehicle (EV) segment (under Tata Passenger Electric Mobility Limited) also likely to attain breakeven OPBDITA over the medium term.

The ratings also factor in the improving market share of TMPVL in the domestic PV segment, with a market share of 13.9% in FY2024 and 13.7% Q1 FY2025, against 5% in FY2020. Its key products have performed well, and Tata Punch and Tata Nexon are the market leaders in the Indian sub-compact sports utility vehicle (SUV) and compact SUV segments. Harrier – Safari, Tiago and Altroz were positioned second in the high SUV, mid-hatch and premium hatch segments, respectively, in FY2024. 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. However, with new launches by incumbents, TMPVL's ability to maintain and improve its market standing in the face of increasing competition would be monitored. In this regard, the performance of the newly launched Tata Curvv in the mid-SUV segment would also remain a monitorable. TMPVL has a strong powertrain mix supported by TML's focus on developing alternate powertrains with compact natural gas (CNG) vehicles contributing around 16% to TML's sales in FY2024.

The ratings further continue to factor in TMPVL's comfortable financial risk profile, characterised by a healthy capital structure and credit metrics. Its revenues grew by 4.1% to Rs. 50,980.9 crore and its OPM improved to 7.0% in FY2024 from 5.7% in FY2023, resulting in strong cash flow generation. This, coupled with its minimal dependence on external borrowings, helped TMPVL in maintaining healthy credit metrics and a strong liquidity profile. Its gearing and interest coverage stood at 0.3 times and 15.0 times, respectively, as on March 31, 2024, against 0.4 times and 12.4 times, respectively, as on March 31, 2023. Its liquidity is also supported by free cash and bank balances of ~Rs. 145 crore, liquid investments of Rs. 33 crore and undrawn fund-based working capital lines of Rs. 1,800 crore as on March 31, 2024, in addition to sizeable inter-corporate deposits (ICDs) of Rs. 3,643 crore parked with the parent and healthy cash flow generation from operations.

TMPVL remains susceptible to commodity price cycles and price increases due to any adverse regulatory interventions, which cannot be fully passed on to the customers. Further, intense competition and cyclicality of the domestic PV market are also credit challenges. ICRA also notes that the domestic PV industry remains cyclical to some extent and depends on the macroeconomic environment and other exogeneous factors. TMPVL's volumes and earnings would also be susceptible to the same.

ICRA has noted the planned demerger of TML into two separate listed companies having the CV business and the PV (including EV and JLR) business which was announced by TML in March 2024 and the scheme of arrangement for the same was disclosed in August 2024. The CV business would be demerged to a new listed company (to be renamed as Tata Motors Limited) and TMPVL would be merged with the existing company (TML; to be renamed as Tata Motors Passenger Vehicles Limited [TMPVL]). The merger is expected to be completed in the next 12 to 15 months and TML has provided an appointed date of July 1, 2025 for implementation of the scheme. The transaction is expected to be tax neutral for the undertakings and the shareholders and the asset ratio on the appointed date is likely to be 60:40. ICRA expects both the resulting entities to maintain a strong credit profile even after the demerger, supported by their respective operational strengths. Moreover, ICRA expects the management's commitment to deleveraging the balance sheet and maintain the overall borrowings at prudent levels to continue for both the resulting entities. Both the entities are also likely to continue to enjoy exceptional financial flexibility for being a part of the Tata Group along with financial support from Tata Sons. However, in the absence of the proforma financials of the resulting entities, ICRA has continued to evaluate TMPVL on its current structure.

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 PV industry and remain strategically important to TML and the Tata Group, and would keep receiving strong managerial and financial support.

Key rating drivers and their description

Credit strengths

Strong parentage of TML, with high degree of operational, managerial and financial support, along with associated financial flexibility – The company is a wholly-owned subsidiary of TML, which is the market leader in the domestic CV market, while the Group is among the top three players in the domestic PV segment. The company was formed following hiving off of TML's PV unit as a separate entity. As it is a core part of TML's business and growth strategy as evident from the presence of common directors, the company benefits from the financial flexibility arising for being a part of the Tata Motors Group. ICRA expects TML to extend financial support to TMPVL in case of any requirement. Mrs. Usha Sangwan is the common Independent Director of TML and TMPVL, while Mr. P. B. Balaji, CFO of TML, is also on the Board of TMPVL. The common presence of directors and key management personnel, having long associations with the Group, 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 among the top three players in the domestic PV industry with a market share of 13.9% in FY2024 and 13.7% in Q1 FY2025. Moreover, the market share has steadily grown in the recent years mainly through new model launches, which have been accepted well in the domestic market. Its key models like Tata Punch and Nexon are the market leaders in the sub-compact SUV and compact SUV segments, respectively while Harrier-Safari, Tiago and Altroz are positioned second in the high SUV, mid hatch and premium hatch segments, respectively. TMPVL's presence in the fast-growing sub-segments of the domestic PV market and healthy reception of 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. The company has recently launched Tata Curvv in the mid-SUV segment, which can support its sales on account of expanding its overall market coverage in the PV segment.

Strong financial risk profile characterised by a healthy capital structure and credit metrics – The company continues to maintain low external debt levels with no major external debt apart from a loan of Rs. 587.1 crore from the Government of Gujarat with an outstanding amount of Rs. 233.4 crore as on March 31, 2024. Further, its liquidity remains strong with undrawn working capital lines of Rs. 1,800 crore, free cash and cash equivalents of ~Rs. 145 crore and liquid investments of Rs. 33 crore. The company has also extended ICDs to the tune of Rs. 3,643 crore to the parent entity, TML, as a 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 0.3 times and 15.0 times, respectively as on March 31, 2024. Ample liquidity and healthy cash flow generation are likely to limit dependence on external borrowings, going forward as well.

Credit challenges

Exposed to intense competition and cyclicality of the domestic PV market – The Indian PV market remains highly competitive, with presence of a 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 competition 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, and depends on the macroeconomic environment and other exogeneous factors. TMPVL's volumes and earnings would also be susceptible to the same. Accordingly, TMPVL's ability to maintain and expand its share in the market in the face of increasing competition and to mitigate downturns in the market, while protecting its profitability, remain critical.

Profitability susceptible to commodity price cycles and regulatory interventions – Similar to its peers, TMPVL's profitability remains susceptible to commodity price cycles and its ability to pass on the increase in input costs to customers, without jeopardising market share. Moreover, the PV industry also remains dependent on the economic activity to a certain extent and TML is also exposed to competition in the segment. Thus, increase 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 the company's ability to pass on the same to customers without adversely impacting its earnings or market share would remain critical for maintaining a healthy credit profile. Further, any regulatory intervention that could impact 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. 145 crore, liquid investments of Rs. 33 crore and undrawn lines of Rs. 1,800 crore as on March 31, 2024. Additionally, ICRA expects TMPVL to generate substantial retained cash flows in the range of Rs. 3,000-4,000 crore over the next 12 months. Further, the company has also extended ICDs to TML, which stood at Rs. 3,643 crore as on March 31, 2024, and are callable on demand, as and when required. The company has no term debt repayments in the near term, and capex/ investments in product development of around Rs. 3,000-4,000 crore per annum, which is expected to be funded from these existing sources of liquidity.

Rating sensitivities

Positive factors – The long-term rating could be upgraded in case of a further improvement in the parent's (TML) credit profile.

Negative factors – Pressure on the ratings could arise in case of material 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 change in TML's credit profile or committed support from TML could also trigger a downward revision in the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Passenger Cars & Utility Vehicles
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

TMPVL was formed as a result of transfer of the passenger vehicle unit of Tata Motors Limited in 2021. TMPVL designs, manufactures and sells a wide range of automotive passenger vehicles, primarily in the Indian market. In Q1 FY2025, the company had a market share of 13.7% in the domestic PV market and was among the top three players in the industry. TMPVL has been incorporated as a wholly-owned subsidiary of TML and currently manufactures vehicles in facilities located at Sanand (Gujarat), Pimpri Chinchawad and Ranjangaon (Maharashtra).

Key financial indicators (audited)

TMPVL – Standalone	FY2023	FY2024
Operating income	48,873.1	50,980.9
PAT	612.0	1,404.0
OPBDIT/OI	5.7%	7.0%
PAT/OI	1.3%	2.8%
Total outside liabilities/Tangible net worth (times)	1.5	1.2
Total debt/OPBDIT (times)	1.0	0.7
Interest coverage (times)	12.4	15.0

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

Source: Company annual report; all figures are as per ICRA 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 & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				August 27, 2024	March 13, 2024	Nov 07, 2023	-	-
1	**Fund Based/Non fund based limits**	Long term/ Short term	2,800.00	**[ICRA]AA+(Stable)/ [ICRA]A1+**	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	-
2	**Unallocated Limits**	Long term/ Short term	300.00	**[ICRA]AA+(Stable)/ [ICRA]A1+**	[ICRA]AA (Stable)/[ICRA]A1+	[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

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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.

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