August 27, 2024

Tata Passenger Electric Mobility 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 fund based working capital limits	-	50.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Short-term non-fund based working capital limits	-	65.00	[ICRA]A1+; reaffirmed
Long-term/ short-term- Unallocated Limits	200.00	85.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA(Stable)/ [ICRA]A1+; reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade of the long-term rating of Tata Passenger Electric Mobility Limited (TPEML) 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 TML's significant deleveraging, supported by increase in its operating profit margin (OPM) and overall free cash flow generation on the back of 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 likely to maintain its strong performance in the domestic CV and PV businesses, while the electric vehicle (EV) segment (under Tata Passenger Electric Mobility Limited) is also expected to attain breakeven OPBDITA over the medium term.

The ratings also factor in the dominant position of the company in the domestic electric vehicles (EV) industry with a market share of 71% in FY2024 and 67% in Q1 FY2025 despite the increasing competition in the segment. This has been supported by a strong performance of its models including Nexon, Punch, Xpres-T, Tigor and Tiago. The EV market, despite having a small share of the overall domestic PV market, has been growing at a healthy rate over the past few years, with a volume growth of around 90% in FY2024. However, industry volumes declined 8% in Q1 FY2025 on account of various factors including the expiry of the subsidies for the fleet vehicles under the scheme for faster adoption and manufacturing of hybrid and electric vehicles (FAME-II), which also impacted the sales of TPEML's Xpres-T model. However, the growth of the EV industry is expected to remain healthy over the medium term. However, with rising competition in the domestic EV market, with the entry of new players and introduction of electric variants by incumbents, TPEML's ability to maintain its market leadership position and improve its pricing power and profitability would remain under monitoring.

Sizeable infusion of funds by TPG Rise (~Rs. 7,500 crore) in March 2022 and January 2023 resulted in a comfortable financial risk profile for TPEML, characterised by a strong capital structure with nil external debt along with a healthy net worth base and a strong liquidity profile. However, TPEML's operations continue to report operating losses on account of the relatively nascent stage of the business and significant investment towards new product development. TPEML reported revenues of Rs. 9,930.8 crore in FY2024 with an operating loss of Rs. 706.0 crore. While the revenues are expected to continue to rise at a healthy rate, supported by the growing volumes in the EV industry, the company is likely to attain operating level breakeven over the near term. The company continues to have sizeable investment requirements towards product development, manufacturing capacities and localisation, given the rapidly evolving market. It has envisaged investments of Rs. 16,000-18,000 crore between FY2025 and FY2030. While funding for the said investments continues to be monitored, ICRA expects it to be largely funded through the funds received from TPG Rise, dividends from JLR and internal accruals. Further, the company's susceptibility to commodity price cycles, geo-political developments and regulatory interventions that may impact operations, would also be tracked.

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, for which the scheme of arrangement 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 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, it is expected that the management's commitment to deleverage the balance sheet and maintain the overall borrowings at prudent levels would continue for both the resulting entities. Both the entities are also expected to continue to enjoy exceptional financial flexibility for being a part of the Tata Group along with financial support from Tata Sons.

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 EV segment, supported by new model launches and remain strategically important to TML, thus 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 – TPEML was formed as a result of hiving off of TML's electric passenger vehicles unit as a separate entity and is a wholly-owned subsidiary of TML. TML Group is the market leader in the domestic CV market, and among the top three players in the domestic PV segment. While the company has received investment of $1 billion from TPG Rise in the form of compulsorily convertible preference shares (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 evident from the presence of some 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 TPEML when needed. Mrs. Usha Sangwan and Mrs. Vedika Bhandarkar are the common independent directors between TML and TPEML, while Mr. P. B. Balaji, CFO of TML, is also on the Board of TPEML. The common presence of directors and key management personnel, having long-standing associations with the group, provides further comfort about the strategic importance of TPEML for the Group.

Market leader in the domestic passenger EV segment with multiple product offerings – TPEML has maintained a leading share in the domestic EV market with a share of 71% and 67% in FY2024 and Q1 FY2025, respectively. This has been supported by its offering across segments like sports utility vehicles (SUVs; through Punch and Nexon), Sedans (through Tigor and Expres-T which is a fleet vehicle) and hatchbacks (through Tiago). the performance of which would be monitored. TPEML is expected to remain the market leader in the segment as it has a diversified product portfolio covering a wide range of offerings across various price points and multiple sub-segments of the passenger car market, enabling it to cater to diverse consumer segments. By FY2026, the company plans to have around 10 models as a part of its portfolio, which would be a mix between EV powertrain versions for current models along with new model launches like Sierra 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.

2,547.9 crore as on March 31, 2024). As on March 31, 2024, the company's overall gearing (including lease liabilities) stood at 0.5 times, while it had a strong liquidity, supported by cash and cash equivalents of ~Rs. 2,150 crore and liquid investments of ~Rs. 360 crore in addition to inter corporate deposits (ICDs) of Rs. 2,197.0 crore extended to its parent, which are repayable on demand. Although the coverage indicators currently remain weak on account of operating losses generated as a result of the nascent stage of operations, the company's minimal dependence on external borrowings and its strong liquidity profile render 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 operations and higher research & development (R&D) spends in the initial product development stage. It reported an OPM of -7.1% in FY2024 and -7.3% in Q1 FY2025. However, the company is expected to achieve breakeven at the OPBDITA level over the medium term as it ramps up its volumes further and realises economies of scale. The improvement in profitability would be supported by multiple factors like benefits from the Production Linked Incentive (PLI) scheme, increased localisation, 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 – The company has envisaged investments of upto Rs. 16,000 crore to Rs. 18,000 crore between FY2025 and FY2030, largely towards new product development. The new manufacturing facility at Sanand was commissioned in January 2024. 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, the funding mix adopted for these investments and its impact on TPEML's credit profile would be key monitorables. However, ICRA expects a significant part of the investments to be funded from the existing investment from TPG Rise, internal accruals and dividends from JLR.

Susceptible to commodity price cycles – Like other players in the domestic automotive market, TPEML's profitability remains susceptible to commodity price cycles and its ability to pass on the increase in input costs to customers, without jeopardising its 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 the customers without adversely impacting its earnings or market share would remain important for maintaining a healthy credit profile.

Exposed to geopolitical developments and regulatory interventions – The company imports a significant portion of its raw material requirement such as key aggregates in battery, motors and power electronics. Any change in regulations related to import of components or supply chain disruptions, which can impact the supply of these key components, can impact TPEML's growth prospects and profitability. 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, 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. 2,150 crore and liquid investments of ~Rs. 360 crore as on March 31, 2024. Further, the company has also extended ICDs to TML, which stood at Rs. 2,197.0 crore as on March 31, 2024, and are callable on demand, as and when required. Against the same, the company has no term debt outstanding. While the company has outlined sizeable investments of Rs. 16,000-18,000 crore in capex and product development between FY2025 and FY2030, 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 long-term rating could be upgraded in case of a further improvement in the parent, TML's credit profile.

Negative factors – 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 TPEML's 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 rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Passenger Cars and Utility Vehicles 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

TPEML was formed in 2022 as a result of transfer of the electric passenger vehicle unit of Tata Motors Limited in 2022. It was 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 67% during Q1 FY2025. As of March 31, 2024, 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 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, TMPVL and in the manufacturing facility in Sanand, Gujarat (commissioned in January 2024). The plant has an initial manufacturing capacity of 3 lakh units per annum, scalable up to 4.2 lakh units per annum, with manufacturing capacity fungible between EVs and internal combustion engine (ICE) vehicles.

Key financial indicators (audited)

TPEML - Standalone (Rs. crore)	FY2023	FY2024
Operating income	42.0	9,930.8
PAT	(253.6)	(453.7)
OPBDIT/OI	-952.8%	-7.1%
PAT/OI	-604.0%	-4.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.9
Total debt/OPBDIT (times)	(6.3)	(3.7)
Interest coverage (times)	(400.0)	(70.1)

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

Note: For FY2023, the entire manufacturing 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

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 Working capital limits**	Long term	50.00	**[ICRA]AA+ (Stable)**	-	-	-	-
2	**Non fund based working capital limits**	Short term	65.00	**[ICRA]A1+**	-	-	-	-
3	**Unallocated Limits**	Long term/ Short term	85.00	**[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 fund based working capital limits	Simple
Short term non fund based working capital limits	Very 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 fund based working capital limits**	NA	NA	NA	50.00	[ICRA]AA+ (Stable)
NA	**Short term non fund based working capital limits**	NA	NA	NA	65.00	[ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	85.00	[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

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

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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

Branches