

August 21, 2020

Tata Motors Finance Solutions Limited: ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt Programme	200.00	200.00	[ICRA]AA-(negative); reaffirmed
Perpetual Debt Programme	100.00	100.00	[ICRA]A(negative); reaffirmed
Commercial Paper	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Total	2,800.00	2,800.00	

Rationale

ICRA's ratings for Tata Motors Finance Solutions Limited (TMFSL) derives significant support from its ultimate parentage in the form of Tata Motors Limited (TML, rated [ICRA]AA-(Negative)/[ICRA]A1+). TMFSL is a wholly owned subsidiary of TMF Holding Limited (TMFHL, rated at [ICRA]AA-(Negative)/ [ICRA]A1+) which, in turn, is a wholly owned by TML. ICRA notes that TMFHL is strategically important to TML given that it is the holding company for the captive financiers of the group i.e. Tata Motors Finance Limited (TMFL) and Tata Motors Finance Solutions Limited (TMFSL), together referred to as TMF Group. While arriving at the ratings, ICRA has considered the consolidated performance of TMFHL and its subsidiaries (TMFL and TMFSL) given the strong operational and financial synergies between the companies. The group's rating is strongly linked to the expectation of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board. Further, the group's operations benefit from the strong board oversight by TML and a shared brand name. ICRA derives comfort from the subsidiaries being strategically important to its parent as a captive financier of TML vehicles (TMFL financed ~30% of TML sales in FY2020) and the same has also been demonstrated in the form of regular capital infusions, with the latest being a Rs. 150 crore equity infusion in June 2019. ICRA expects TML to continue to support TMFHL to enable it to maintain a prudent capital structure, while maintaining its majority ownership. The consolidated liquidity position is supported by adequate cash and liquid investments and unutilised bank lines available at TMFL and TMFSL. The ratings are, however, tempered by the TMF Group's concentration on TML vehicles, weak consolidated capitalisation and earnings profile and its moderation in delinquencies. ICRA is of the view that there might some increase in delinquencies and subdued business growth given the challenges in the operating environment due to Covid-19 pandemic. Consequently, the profitability metrics for the group are expected to remain muted. Any significant deterioration in the capitalisation profile would be a key monitorable.

Key rating drivers and their description

Credit strengths

Strategic importance to TML and demonstrated support from parent in the form of regular capital infusion – ICRA's ratings for TMFSL derives significant support from its ultimate parentage in the form of TML. TMFSL is a wholly owned subsidiary of TMFHL which, in turn, is wholly owned by TML. TMFSL's ratings are strongly linked to the expectation of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board. ICRA derives comfort from the TF group being strategically important to its parent as a captive financier of TML's vehicles (TMFL financed ~30% of TML sales in FY2020) and the same has also been

demonstrated in the form of regular capital infusions, with the latest being a Rs. 150 crore equity infusion in TMFHL in June 2019. ICRA expects that TML will continue to provide support to TMF group to enable it to maintain a prudent capital structure. The current capitalisation level of TMFSL (standalone) is comfortable with a reported CRAR of 20.23% (Tier I of 17.95%) as on June 30, 2020. ICRA expects the support from the parent to be forthcoming to enable the group to maintain prudent capitalisation levels.

Assured business volumes on account of TML's established market position; well-established branch and distribution network - Being a captive financing arm of TML, TMF group enjoys strong linkages and has relationship with the dealer network and the preferred financier for most of its dealer network. TML continues to have a leading market position in commercial vehicles (CVs) in India, supported by its strong and diversified portfolio, high brand equity and well entrenched market reach. ICRA notes that TML's comprehensive plan to revive its passenger vehicle (PV) business with new model launches and in-house development of engines will lead to assured business volumes for the TMF Group. As on March 31, 2020, the consolidated asset under management (AUM) of the group stood at Rs. 35,946 crore consisting of new vehicle financing (85%), used vehicle financing (11%) and CLG (4%). As on March 31, 2020, TMFSL had a standalone AUM of Rs. 5,205 crore comprising of vehicle financing (79%), corporate lending group (21%).

Diverse borrowing profile – The company enjoys good financial flexibility and has access to long term funding by virtue of being a part of the TML group, with access to funds at competitive rates of interest. As on March 31, 2020, TMFHL's consolidated funding mix comprises of Long-term market debt (18%), bank borrowings (53%), commercial paper (17%) and securitization (12%). The share of commercial paper in the total borrowings had declined significantly during FY2020, with this gap being replaced by increased share of bank funding during the same period. As per ICRA estimates the consolidated liquidity profile is adequate, supported by unutilised bank lines to bridge short term mismatches in cash flows.

Credit challenges

Weak consolidated capitalisation profile - On a consolidated basis, the group's overall gearing declined to 15.6 times (reported gearing 13.9¹ times) on March 31, 2020 from 18.8 times as on March 31, 2019 owing to equity infusion and decline in consolidated debt. On standalone basis, TMFSL's net worth stood at Rs. 1,384 crore on June 30, 2020 and a reported capital adequacy ratio of 20.23% (Tier-I of 17.95%) as on June 30, 2020. TMFSL's gearing remains adequate at 3.8 times as on June 30, 2020. Further, ICRA draws comfort from the parent group which has been providing capital and liquidity support to TMHFL and its subsidiaries. Given the strategic importance of the group to TML as demonstrated in the form of regular capital infusions. ICRA expects capital support from the ultimate parent to be forthcoming to keep the group companies adequately capitalised.

Subdued profitability indicators - Over the last couple of years, the performance of the subsidiaries has been muted owing to a slowdown in the business growth and asset quality related challenges, which lead to higher credit costs and hence lower profitability. TMFHL on consolidated basis reported a lower net profit of Rs. 139 crore in FY2020 translating into RoA and RoE of 0.4% and 6.6%² respectively as compared to net profit of Rs. 164 crore in FY2019 translating into RoA and RoE of 0.47% and 9.92% respectively. Going forward, it would be imperative for the operating companies to

¹ Rs. 250 crore perpetual debt classified as equity as per Ind-AS. However, ICRA considers the perpetual debt as borrowing. Net worth and gearing (incl. perpetual debt) stood at Rs. 2,491 crore and 13.9 times respectively on March 31, 2020.

² Rs. 250 crore perpetual debt classified as equity as per Ind-AS. However, ICRA considers the perpetual debt as borrowing. RoE (incl. perpetual debt) stood at 6.2% on March 31, 2020.

grow the business volumes profitably while maintaining control over the asset quality to be able to improve the earnings profile of the Group. In Q1FY2021, TMFL and TMFSL reported PAT of Rs. 43 crore, Rs. 48 crore respectively, while TMFHL reported a net loss of Rs. 44 crore on standalone basis.

TMFSL on standalone basis reported a net profit of Rs. 176 crore in FY2020 translating into RoA and RoE of 2.7% and 14.1% respectively as compared to net profit of Rs. 99 crore in FY2019 translating into RoA and RoE of 1.7% and 9.0% respectively.

Weak asset quality indicators - TMFHL's asset quality indicators on a consolidated basis deteriorated with consolidated gross and net NPAs of 5.7% and 4.6% respectively on June 30, 2020 compared to 2.6% and 1.4% respectively as on March 31, 2019 (5.7% and 4.9% respectively on March 31, 2020). The rise in delinquencies was largely due to a slowdown in industrial and agricultural activity, which, in turn, impacted the cash flows of road transport operators. ICRA takes note of the management's initiatives to augment its underwriting processes and recovery efforts, to ensure better credit selection in subsidiaries. The GNPA/NNPA for TMFL and TMFSL on standalone basis increased to 5.9%/4.8% and 4.5%/3.6% respectively on June 30, 2020 from 2.9%/1.5% and 1.0%/0.7% respectively on March 31, 2019 (5.9%/5.1% and 4.6%/3.9% respectively on March 31, 2020). Going forward, the company's ability to manage its asset quality and improve its earnings would remain a key rating sensitivity.

Further, given the current economic disruption due to the Covid-19 related lockdown, there could be increased stress on the asset quality as the livelihood and cash flows of the underlying borrowers have been impacted. While the recent announcements by the Reserve Bank of India (RBI), allowing the lenders to provide a repayment moratorium to their borrowers without impacting the loan asset classification, provide temporary relief to the lenders in terms of their asset quality, ICRA expects the challenges in maintaining the asset quality to continue over the medium term. The Group's ability to control slippages would have a strong bearing on its overall financial profile and would be a key monitorable.

Concentration risk— Being a captive financier, a large proportion of TMFL's loan book is towards TML's vehicle. Consequently, TMFL has a high reliance on TML's sales velocity in order to generate business volumes thus expanding its loan book.

Liquidity Position: Adequate

The liquidity profile of TMFHL is adequate on consolidated basis (as per ICRA calculations). As at July 31, 2020, total consolidated (TMFHL+TMFL+TMFSL) outflows, over the next three months stood at ~Rs. 11,484 crore of which CC/WCDL and commercial paper constitutes ~Rs. 1,870 crore and ~Rs. 7,250 crore, respectively, majority of WCDL is expected to be rolled over, given the good financial flexibility enjoyed by the group. The consolidated liquidity position is supported by combined cash and liquid investments of ~Rs. 3,649³ crore and unutilised bank lines of ~Rs. 2,934 crore and ~Rs. 665 crore available at TMFL and TMFSL respectively on July 31, 2020. Moreover, TMFHL has unutilised ICD lines of Rs 1,000 crore from TML on July 31, 2020 to meet the funding gaps and future funding requirements. Against normal billing of around ~Rs 1,200 crore in TMFL and around Rs 200 crore in TMFSL respectively, collections (including prepayments) were around Rs 581 crore and Rs 94 crore respectively in July 2020. TMFHL has also raised Rs. 500 cr by way of Perpetual debt in Aug 2020 to further support its liquidity profile. The collections have improved in July 2020 when compared to

Including Rs. 770 crore investments in fixed deposits for liquidity backup

the previous 3 months and are expected to further support the liquidity profile. ICRA expects the support from TML to be forthcoming as and when required.

Rating sensitivities

Positive trigger – TMFSL's ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. A significant improvement in the credit profile of TML could warrant a rating upgrade.

Negative trigger – TMFSL's ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. A significant change in the shareholding pattern of TMFSL or a reduction in TML's stake in TMFHL or a change in the expectation of support from TML or a deterioration in the credit profile of TML could warrant a rating downgrade.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Ultimate Parent/Investor: Tata Motors Limited TMF group's rating is strongly linked to the expectation of continued support from TML, which, in the past, has included access to capital, management and systems and supervision by a strong board.
Consolidation / Standalone	Consolidation. <i>Details mentioned in Annexure 2</i>

About the company:

Tata Motors Finance Solutions Ltd (TMFSL, formerly Rajasthan Leasing Private Limited) is a non-banking financial company and a 100% subsidiary of TMF Holdings Limited. TMFSL is currently in the business of doing used vehicle financing of TML's vehicles and corporate lending business.

As on March 31, 2020 the company had a total portfolio of Rs. 5,205 crore (Rs. 5,805 crore as on March 31, 2019) which majorly comprises of used vehicles and corporate lending business. TMFSL reported a net profit of Rs. 176 crore on asset base of Rs. 6,315 crore in FY2020 as compared to Rs. 99 crore on asset base of Rs. 6,949 crore in FY2019. In Q1FY21, the company reported a net profit of Rs. 48 crore on asset base of Rs. 6,720 crore as on June 30, 2020. Net worth as on June 30, 2020 stood at Rs. 1,384 crore.

TMF Holdings Limited

TMF Holdings Limited (TMFHL), a Core Investment Company, is the parent company of Tata Motors Finance Limited (TMFL) and Tata Motors Finance Solutions Limited (TMFSL). TMFHL is responsible for lending and investing in the Tata Motors Group companies. Following a restructuring of the TMF Group in FY2017, the new vehicle financing business of the Group is housed in TMFL (Formerly known as Sheba Properties Limited). The existing Corporate Lending Business and used vehicle financing business is housed in TMFSL.

In FY2020, TMFHL (consolidated) reported a PAT of Rs. 139 crore on an asset base of Rs. 37,947 crore as against a PAT of Rs. 164 crore on an asset base of Rs. 40,540 crore in FY2019.

In FY2020, TMFHL (standalone) reported PAT of Rs. 11 crore on an asset base of Rs. 6,938 crore as against a net profit of Rs. 4 crore on an asset base of Rs. 7,100 crore in FY2019. In Q1FY21, the company on standalone basis reported a net loss of Rs. 44 crore on asset base of Rs. 6,791 crore as on June 30, 2020.

Tata Motors Limited

Incorporated in 1945, Tata Motors Limited is India's largest automobile company and the market leader in the domestic CV industry and one of the top five manufacturers of PVs in India. In the domestic CV industry, TML has one of the most diversified product portfolios with a presence spanning across light, medium and heavy duty segments of the CV industry. The company's product portfolio in the PV segment also spans passenger cars, UVs and multi-purpose vehicles (MPVs).

In June 2008, TML acquired Jaguar Land Rover from Ford Motor Company for US\$ 2.3 billion. Following the acquisition, TML's business profile underwent a significant change from being a predominantly India-centric OEM to one with presence in the premium and luxury segment cars and SUVs across multiple markets in Europe, North America, China, Russia and Brazil. Apart from JLR, which is wholly-owned by TML and contributed ~75% to its consolidated turnover in FY2018, the company has also historically expanded its operations in India as well as overseas through strategic alliances and mergers and acquisitions. Some of its key subsidiaries include Tata Motors Finance Limited (vehicle financing subsidiary), Tata Technologies Limited (a software firm engaged in providing IT solutions to the automotive industry), Tata Daewoo Commercial Vehicles Company Limited (CV operations in South Korea) and TML Drivelines Limited (its captive auto component manufacturer). The company also operates a joint venture (JVs) with Marcopolo (for building bodies for buses and coaches) and Fiat (for PVs, engines and transmissions).

TML has six manufacturing plants in India at Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pantnagar (Uttaranchal), Dharwad (Karnataka) and Sanand (Gujarat). In addition, the company's key subsidiary, JLR, operates three manufacturing facilities and two design centres in the UK, and has also recently commenced manufacturing operations at Slovakia. In FY2013, JLR also formed a 50-50 JV with China-based Chery Automobiles to set up a manufacturing facility in China, which commenced operations from H2 FY2015. Moreover, as a Group, TML operates assembly operations at multiple locations around the globally through its subsidiaries and JVs.

In FY2020, TML (consolidated) reported net loss of Rs. 11,975 crore on an asset base of Rs. 322,121 crore against net loss of Rs. 28,724 crore on an asset base of Rs. 307,195 crore in FY2019.

In FY2020, TML (standalone) reported a net loss of Rs. 7,290 crore on an asset base of Rs. 62,590 crore against a PAT of Rs. 2,021 crore on an asset base of Rs. 60,910 crore in FY2019.

Key financial indicators – Tata Motors Finance Solutions Limited (standalone)

Particulars	FY2018	FY2019	FY2020	Q1FY2021
Total Income (Rs. crore)	412.28	604.73	730.96	175.56
PAT (Rs. crore)	(64.47)	99.43	176.14	48.09
Net worth (Rs. crore)	1058.26	1158.21	1,335.63	1,383.72
Total Assets (Rs. crore)	4864.26	6948.87	6,315.14	6,720.06
Return on Assets (%)	NA	0.73%	2.66%	2.95%
Return on Equity (%)	NA	8.28%	14.13%	14.15%
Gross NPA (%)	1.37%	0.96%	4.58%	4.50%
Net NPA%	0.87%	0.67%	3.86%	3.63%
Net NPA/Net worth (%)	3.23%	3.50%	15.12%	14.05%
Gearing	3.4	4.8	3.7	3.8
CRAR (%)	22.05%	17.93%		

Gross NPA and Net NPA as on March 31, 2018 is recognised at 3 months OD

Source: Company

Key financial indicators – TMF Holdings Limited (consolidated)

Particulars	FY2019	FY2020
Total Income (Rs. crore)	3,975.76	4,670.64
PAT (Rs. crore)	163.97	139.48
Net Worth (Rs. crore)	2,006.12	2,240.77*
Loan Book (AUM)	35,176	35,946
Total Assets (Rs. crore)	40,540.48	37,947.15
Return on Assets (%)	0.47%	0.36%
Return on Equity (%)	9.92%	6.57%*
Gearing (times)	18.84	15.58*
Gross NPA	2.6%	5.7%
Net NPA	1.4%	4.9%

Source: Company

* Rs. 250 crore perpetual debt classified as equity as per Ind-AS. However, ICRA classifies the perpetual debt as borrowing. RoE, net worth and gearing (incl. perpetual debt) stood at 6.20%, Rs. 2,491 crore and 13.9 times respectively on March 31, 2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2020 (Rs Crore)	21-Aug-20	FY2020	FY2019			FY2018	
						5-Aug-19	14-Feb-19	22-Oct-18	31-May-18	8-Dec-17	13-Feb-17
1	Perpetual Debt	Long Term	100.00	0.00	[ICRA]A (negative)	[ICRA]A (negative)	[ICRA]A+ (negative)	[ICRA]A+ (stable)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (positive)
2	Subordinated Bonds	Long Term	200.00	100	[ICRA]AA- (negative)	[ICRA]AA- (negative)	[ICRA]AA (negative)	[ICRA]AA (stable)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)
3	Commercial Paper	Short Term	2,500.00	1,012	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details as on June 30, 2020

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE477S08050	Subordinated Debt	29-Mar-29	10.70%	29-Mar-29	100.00	[ICRA]AA-(negative)
NA	Subordinate Debt*	NA	NA	NA	100.00	[ICRA]AA-(negative)
NA	Perpetual Debt*	NA	NA	NA	100.00	[ICRA]A (negative)
NA	Commercial Paper	NA	NA	7-365 days	2,500.00	[ICRA]A1+

Source: Tata Motors Finance Solutions Limited; *yet to be placed

Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership/Relationship	Consolidation Approach
TMF Holdings Limited	Parent	Full consolidation
Tata Motors Finance Limited	Subsidiary	Full consolidation
Tata Motors Finance Solutions Limited	Subsidiary	Full consolidation

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