

March 13, 2024

Tata Motors Passenger Vehicles 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 - fund based/non fund based limits	2800.00	2800.00	[ICRA]AA (Stable)/[ICRA]A1+; Outstanding
Long-term/short-term – unallocated limits	300.00	300.00	[ICRA]AA (Stable)/[ICRA]A1+; Outstanding
Total	3100.00	3100.00	

*Instrument details are provided in Annexure-I

Material event

On March 04, 2024, Tata Motors Limited (TML; the parent entity of Tata Motors Passenger Vehicles Limited, or TMPVL) 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 cyclicity. 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 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 TML in 2021, TMPVL 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		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	Fund Based/Non fund based limits	Long term/Short term	2,800.00	--	[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+	-	-	-

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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