

Tata Motors Finance Solutions Limited

May 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	2,000.00	2,500.00	[ICRA]A1+; assigned
Subordinate Debt Programme	200.00	200.00	[ICRA]AA (Positive); outstanding
Perpetual Debt Programme	100.00	100.00	[ICRA]A+ (Positive); outstanding
Total	2,300.00	2,800.00	

Rating action

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the enhanced commercial paper programme of Rs. 2,500 crore (enhanced from Rs. 2,000 crore) of Tata Motors Finance Solutions Limited (TMFSL)¹. ICRA also has a rating outstanding of [ICRA]AA (pronounced ICRA double A) for the Rs. 200 crore subordinate debt programme and a rating outstanding of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 100 crore perpetual debt programme of TMFSL. The outlook on the long-term ratings is positive.

Rationale

ICRA's ratings for TMFSL are based on its parentage, with TMF Holdings Limited (TMFHL, rated at [ICRA]AA(positive)/[ICRA]A1+), a subsidiary of Tata Motors Limited (TML, rated [ICRA]AA(positive)/ [ICRA]A1+), and the demonstrated support from the parent in the form of equity infusion, management and systems. TMFSL's operations benefit from the strong board oversight by TML, common treasury with Tata Motors Finance Limited (TMFL, rated [ICRA]AA(positive)/ [ICRA]A1+) and a shared brand name. ICRA notes that TMFSL is strategically important to TML given its role in dealer financing, vendor financing, channel finance business (collectively called as Corporate Lending Business) and used vehicle financing and thus expects TML to continue to support TMFSL through TMFHL to enable it to maintain a prudent capital structure, while maintaining its majority ownership. TMFSL has strong net worth and comfortable gearing, which is adequate for its size of operations. Going forward, the company is expected to further leverage TMFL's branch and customer network, and the group's management and systems as it increases its business volumes. The ratings of TMFSL however are impacted due to weak profitability.

Outlook: Positive

The rating for TMFSL draws significant strength from its ultimate parent Tata Motors Limited (rated at [ICRA]AA (positive) and [ICRA]A1+). The outlook may be revised to stable or negative if there is any change in TML's credit profile and hence ratings and the likelihood of support to TMFSL. Ability to grow the loan book while maintaining the asset quality and solvency indicators will remain a key rating sensitivity.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit strengths

Strategic importance to TML and the demonstrated support from the parent in the form of regular capital infusion – ICRA's ratings for TMFSL are based on its strong parentage, with TMFHL (rated at [ICRA]AA(positive)/[ICRA]A1+) being the holding company and the demonstrated support from the parent in the form of equity infusion, management and systems. ICRA notes that TMFSL is strategically important to TML given that its role in dealer financing, vendor financing, channel finance business and used vehicle financing ICRA expects TMFHL to continue to support TMFSL to enable it to maintain a prudent capital structure, while maintaining its majority ownership.

Good capitalisation and comfortable liquidity profile - As on March 31, 2018, TMFSL had a net worth of Rs. 1,165 crore with the capital risk adequacy ratio of 22.05%, which is adequate for the current operations level. The company also had a comfortable gearing of 3.1 times as on March 31, 2018. By virtue of being a part of the Tata Group, the company enjoys considerable financial flexibility to raise long term funding at competitive rates. ICRA also expects support from the parent to be forthcoming, as and when need arises.

Access to business volumes in the used Commercial Vehicle (CV) segment through financing of TMFL's repossessed stock- TMFSL has been focusing a large share of the incremental business in the used CV segment, including providing a market for TMFL repossessed stock in order to improve realizations. This will help in improving the consolidated group level profitability.

Credit weaknesses

Ability to profitably grow business in used CV and corporate lending (CLG) segments - During FY2018, the manufacturer guaranteed portfolio of TMFSL wherein the contracts were backed by 100% loss cover arrangement with TML were written off and the outstanding amount was receivable from TML, which was subsequently bought by TMFHL. With entire manufacturer guaranteed book written off, the portfolio declined substantially from Rs. 4,814 crore as on March 31, 2017 to Rs. 2,464 crore as on September 30, 2017 with used vehicles and CLG forms major part of the book. The portfolio increased to Rs. 3,928 crore as on March 31, 2018 with strong growth in used vehicle and corporate lending business which accounted for 48% and 52% of the portfolio respectively as on that date.

Weak profitability impacted by high credit costs; improvement in profitability expected over medium term- TMFSL reported a loss of Rs. 22.8 crore in FY2018 as against a loss of Rs. 491.1 crore in FY2017. The higher losses in FY2017 were on account of impairment of goodwill and with increased income from the corporate lending business and lower credit costs, the losses have reduced in FY2018. Going forward, the profitability is expected to improve over a medium term as the credit costs is expected to decline because entire manufacturer guaranteed book has been written off.

Moderate asset quality indicators; improvement in delinquency following write-offs- During FY2018, the manufacturer guaranteed portfolio of TMFSL wherein the contracts were backed by 100% loss cover arrangement with TML were written off and the outstanding amount was receivable from TML. In addition to write-off, the expansion of loan book has led to improvement in TMFSL's asset quality indicators with gross and net NPAs of 1.37% and 0.84% respectively as on March 31, 2018 as compared with 47.20% and 39.32% respectively as on March 31, 2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

Tata Motors Finance Solutions Limited

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, 2018 the company had a total credit book of Rs. 3,928 crore (Rs. 4,814 crore as on March 31, 2017) which majorly comprises of used vehicles and corporate lending business. For FY2018, the company reported a loss of Rs. 22.83 crore on a total asset size of Rs. 5,011.33 crore as compared with a net loss of Rs. 491.1 crore on a total asset size of Rs. 5,754.94 crore in FY2017. As on March 31, 2018, the company had a net worth of Rs. 1,165.05 crore and reported gross and net NPAs of 1.37% and 0.84% respectively.

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 FY 2017, 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.

During FY2018, TMFHL reported a standalone PAT of Rs. 18.25 crore on an asset base of Rs. 6,701 crore as against a PAT of Rs. 47.83 crore on an asset base of Rs. 5,511 crore in FY2017.

Tata Motors Limited

Incorporated in 1945, Tata Motors Limited (TML) 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 presence spanning across light, medium and heavy duty segments of the CV industry. The company's product portfolio in the PV segment also spans across passenger cars, (UVs) and multi-purpose vehicles (MPVs) segments.

In June 2008, TML acquired Jaguar Land Rover (JLR) 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) and presence across multiple markets in Europe, North America, China, Russia and Brazil. Apart from JLR which is wholly-owned by TML and contributed ~80% to its consolidated turnover in FY2017, the company has also historically expanded its operations both in India and overseas through strategic alliances and mergers and acquisitions. Some of its key subsidiaries include TMFL (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 JVs with Marcopolo (for building bodies for buses & coaches) and Fiat (for PVs, engines and transmissions).

TML has six manufacturing plants in India located at Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pantnagar (Uttaranchal), Dharwad (Karnataka) and Sanand (Gujarat) in India. In addition, the company's key subsidiary—JLR operates three manufacturing facilities and two design centres in UK. 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 in H2FY2015. JLR has also announced its plans of setting-up a manufacturing unit in Slovakia, which will gradually expand

JLR's total production capacity over the medium-term. Apart from these locations, as a Group, TML also operates assembly operations at multiple locations, globally through its subsidiaries / JVs.

For FY2017, TML (standalone) reported a net loss of Rs. 2,480.0 crore on an operating income (OI) of Rs. 44,364.0 crore, as against a profit after tax (PAT) of Rs. 234.2 crore on an OI of Rs. 42,369.8 crore for FY2016. For 9MFY2018, TML (standalone) reported a net loss of Rs. 578.7 crore on an OI of Rs. 39,083.7 crore.

For FY2017, TML (consolidated) reported a PAT of Rs. 6,063.6 crore on an OI of Rs. 269,692.5 crore, as against a PAT of Rs. 11,108.3 crore on an OI of Rs. 275,561.1 crore for FY2016. For 9MFY2018, TML (consolidated) reported a PAT of Rs. 5,482.6 crore on an OI of Rs. 203,340.1 crore.

Key Financial Indicators (Audited)

	FY 2017	FY2018
Total Income (Rs. crore)	432.30	421.16
PAT (Rs. crore)	(491.12)	(22.83)
Net worth (Rs. crore)	1,187.88	1,165.05
Total Assets (Rs. crore)	5,754.94	5,011.33
Return on Assets (%)	-8.72%	-0.42%
Return on Equity (%)	-36.83%	-1.94%
Gross NPA (%)	47.20%	1.37%
CAR (%)	22.61 %	22.05%

*Gross NPA and Net NPA as on March 31, 2017 and March 31, 2018 are recognised at 3 months OD
Source: Company; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	May 2018	FY2018 December 2017	Feb 2017	FY2017 Dec 2016	FY2016 July 2015
1 Long Term Perpetual Debt	Long Term	100.00	0.00	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (positive)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
2 Long Term-Subordinated Bonds	Long Term	200.00	0.00	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)
3 Commercial Paper	Short Term	2,500.00	0.00	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Unutilised	Subordinate Debt	NA	NA	NA	200.00	[ICRA]AA (positive)
Unutilised	Perpetual Debt	NA	NA	NA	100.00	[ICRA]A+ (positive)
NA	Commercial Paper	NA	NA	7-365 days	2,500.00	[ICRA]A1+

Source: Tata Motors Finance Solutions Limited

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About ICRA Limited:

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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

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